FHA

FEDERAL HOUSING ADMINISTRATION

ANNUAL MANAGEMENT REPORT

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

FISCAL YEAR 2014

FHA'S MISSION

To contribute to sustainable communities by facilitating the financing of homes, rental housing and healthcare facilities and providing quality affordable housing options in a manner that mitigates taxpayer risks and protects consumers.

Your Door to FHA HOMEOWNERSHIP

This report is divided into four sections:

- *A **Message from the Commissioner*** is a letter from the Assistant Secretary for Housing that highlights FHA's mission, vision, achievements for the year and communicates the direction and priorities of the organization.

- ***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 financial management legislation.

- The ***Principal Financial Statements*** includes Financial Statements and Notes to the Financial Statements.

- ***Auditor's Report*** on the Federal Housing Administration's (FHA) fiscal year 2014 financial statements, internal controls and compliance with laws and regulations.

A MESSAGE FROM THE COMMISSIONER

November 17, 2014

TO THE CONGRESS OF THE UNITED STATES, MEMBERS OF THE HOUSING INDUSTRY AND THE AMERICAN PUBLIC:

This year, FHA marked 80 years of serving its dual mission. By making affordable credit available to responsible borrowers over the last 80 years, FHA has helped build a strong and vital middle class. By continuing to provide mortgage insurance during tough economic times, FHA has helped our economy weather the worst recession since the Great Depression. Through its Single Family, Multifamily, and Healthcare programs, FHA has helped ensure that there are appropriate, affordable, sustainable housing choices in communities across the nation. Whether it's making the dream of homeownership a reality, ensuring that affordable rental housing provides a ladder to opportunity, or making sure that communities can create or preserve necessary healthcare facilities – FHA has been there.

FHA's dual mission of access and stabilization continues to play an important role in the nation's ongoing recovery from the recent economic crisis. To preserve that ability, FHA has worked hard to respond effectively to the crisis and made difficult choices in order to strengthen the program. These aggressive policy actions and improvements were the driving force behind Fiscal Year 2014's many achievements.

Fiscal Year Overview

FHA played a critical role in the housing recovery, insuring more than 780 thousand single family forward mortgages totaling $135.2 billion. Of those, more than 81 percent were for first-time homebuyers, and around a third were for minority borrowers. Since its inception, FHA has insured more than 40 million single family mortgages and in the last five years alone has helped more than 3.9 million families purchase a home. FHA's aggressive efforts to support and strengthen the Mutual Mortgage Insurance (MMI) Fund have been successful for the second year in a row. The Fund is now positive, and in two years has gained $21 billion in value. During FY 2014, FHA also outlined strategies in its *Blueprint for Access* to help address the serious lack of access to affordable credit that prospective borrowers now face.

In FY 2014, demand for FHA's Multifamily and Healthcare programs remained strong. This year, FHA endorsed 1,016 multifamily apartment loans totaling nearly $9.9 billion and 50 Risk Sharing loans totaling more than $606 million. In the face of an unprecedented rental affordability crisis, this activity not only created additional units, but helped many multifamily owners refinance into more sustainable loans – preserving existing units across the country. Sustaining this high volume was made possible by the ongoing Multifamily For Tomorrow transformation initiative, which builds on efficiencies and best practices from the last few years. FHA's Healthcare programs endorsed close to $8.8 billion in insurance for hospitals and residential care facilities that increased access to quality health care in many communities. Healthcare also embraced a number of continuous improvement processes, including LEAN processing, to introduce more efficiency to their business model.

Single Family Portfolio Performance

Building off FY2013's $15 billion improvement in the value of the MMI fund, FY2014 saw an additional improvement of $6 billion – or a 129 percent improvement in just two years. The MMI Fund's capital reserve ratio is now .41 percent – demonstrating that this turnaround is well underway. This significant accomplishment is also reflected in the performance of the MMI Fund's portfolio. Since the height of the crisis, we have seen a:

- 30 percent drop in serious delinquency rates;
- 63 percent reduction in foreclosure starts; and a
- 68 percent improvement in recovery rates.

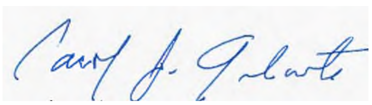
These improvements are the direct result of the actions that FHA has taken over the past five years. In many cases, these were difficult decisions to make – including raising insurance premiums and tightening credit policies. FHA also took steps to improve its loss mitigation procedures, expand alternative disposition programs – like the Distressed Asset Stabilization Program (DASP) – and improve risk management. These actions benefit FHA and borrowers alike. FHA's Annual Report to Congress, containing the independent actuary's valuation of the Fund, details how all these steps have contributed to this substantial improvement in portfolio performance and economic value. Looking forward, FHA is sharpening its focus on the ongoing tight credit market and finding ways to improve access for our traditional borrowers.

Access to Credit

Despite the ongoing recovery, the overall size of the mortgage market is much smaller than healthy historical levels. Despite the important role that FHA plays in expanding access, too many responsible families still find it difficult to get a loan. With FHA firmly on the right track, it is time to refocus on responsibly expanding access to credit. In May of FY 2014, FHA released its *Blueprint for Access*, which outlined a number of initiatives that FHA is already implementing to make it easier for qualified borrowers to get a loan. By using housing counseling, improved quality assurance, and better risk management practices, FHA can responsibly ensure that more qualified borrowers can get loans and better protect and strengthen the Fund.

Homeowners Armed with Knowledge will provide an incentive for borrowers to get housing counseling, giving them the resources they need to make responsible decisions while reducing risk to FHA. Clarifying our policies and updating the way we identify and respond to loan defects allows FHA to be more certain that the loans it insures meet our standards and that lenders understand our requirements. Moving forward, FHA will continue to execute on policies that have supported both the turnaround in the Fund and those that expand access for the underserved.

Finally, I want to thank the entire Office of Housing staff for their hard work and dedication. It is their commitment that enabled us to improve the health of the MMI Fund, and most importantly, better serve the American people. As I leave FHA, I am confident that not only is the Fund in a stronger position than when I became Commissioner, but that the FHA and HUD staff are well positioned to continue in our mission of improving the health of the Fund and supporting the housing needs of hard-working families.



Carol J. Galante
Former Assistant Secretary for Housing-Federal Housing Commissioner

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MANAGEMENT'S DISCUSSION AND ANALYSIS

FEDERAL HOUSING ADMINISTRATION AT A GLANCE

PURPOSE AND HISTORY:

On June 26, 2014, the Federal Housing Administration (FHA) celebrated 80 years of providing mortgage insurance for Single Family, Multifamily, and Healthcare loans made by FHA-approved lenders throughout the United States and its territories. As a wholly owned government corporation, the FHA is a critical part of the U.S. economy, helping first-time homebuyers and low-income borrowers access long term low down payment loans.

CELEBRATING 80 YEARS OF FHA

"Your Partner in Opportunity"

FHA has a rich and diverse history of providing opportunities for home ownership and supporting the housing market during periods of instability. During the Great Depression, the failure of the banking system created serious instability in the housing market, resulting in high rates of foreclosure and fewer home loans issued. In response, The National Housing Act of 1934 created the FHA and provided a framework for a comprehensive national homeownership platform, bridging the gap between lenders and homeowners to support affordable homeownership. The FHA was integrated into the United States Department of Housing and Urban Development (HUD) in 1965.

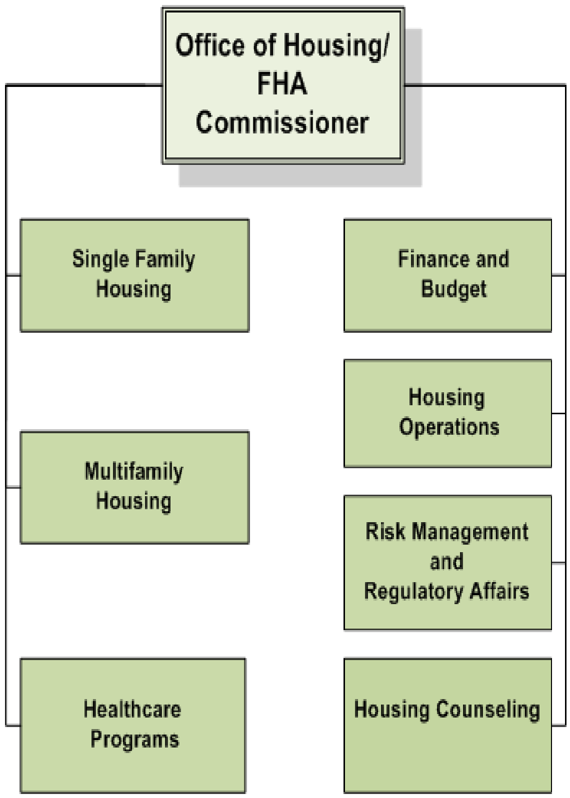
During its 80 year history FHA has made significant contributions to the nation's housing market. The agency pioneered the 30-year mortgage, which was very innovative during the 1930s, and has served as a catalyst for healthy communities and economic development ever since. FHA has been a champion of opportunity for Americans, financing homeownership for veterans and families of soldiers returning home from World War II; spurring the production of millions of privately-owned apartments for vulnerable communities, the elderly and low-income individuals; and keeping cash-strapped properties afloat during the energy and inflation crisis of the 1970s. After the recent recession, FHA implemented valuable foreclosure prevention and refinance programs such as the Home Affordable Modification Program (HAMP) and Home Affordable Refinance. These programs were designed to prevent qualified homeowners from defaulting on their loans, and avoid foreclosure by refinancing loans into affordable fixed-rate mortgages. Today, FHA continues to serve the nation by stabilizing the housing market, promoting sound, sustainable and affordable housing and assisting homeowners at risk of foreclosure to stay in their homes.

MISSION AND ORGANIZATIONAL STRUCTURE

FHA's mission is to contribute to sustainable communities in support of the housing market and broader economy by facilitating the finance of single family and multifamily housing, healthcare facilities, and providing quality affordable housing options in a manner that mitigates taxpayers' risks and protects consumers. Another important component of FHA's mission is to stabilize the credit markets in times of economic disruption, which the FHA has done on many occasions throughout its 80-year history.

FHA's headquarters is located in Washington, D.C. with field offices throughout the country. The Assistant Secretary for Housing/FHA Commissioner sets the direction for the agency to achieve its mission. The adjacent organizational chart depicts the Office of Housing and FHA's program areas.

FHA Functional Organizational Chart



The FHA administers mortgage insurance through its Single Family, Multifamily and Healthcare insurance programs. For each of its programs, FHA assesses risks, collects insurance premiums, pays claims, and predicts future liabilities. These programs are supported by the Housing Operations, The Office of Risk Management and Regulatory Affairs, and Office of Housing Counseling, working collaboratively to leverage its data, evaluation, performance and financial systems to meet the agency's mission. The Office of Finance and Budget provides critical financial and budgetary oversight and is responsible for all FHA insured programs' accounting records, the preparation of the FHA annual audit, timely and accurate financial management reports, all Housing/FHA budget formulation and execution activities, and the sale and disposition of FHA's mortgage assets.

Today, FHA continues its 80 year mission in support of the housing market and broader economy. With moderate economic growth and return of private capital to the market, FHA continues to reemphasize its focus on serving its historic target population through its mortgage insurance programs.

ROLE AND RESPONSIBILITY

The FHA is the largest issuer of mortgage insurance in the world. Since its inception in 1934, FHA has insured over 40 million single family homes and 44,993 thousand multifamily and healthcare project mortgages.

FHA has played a key countercyclical role during fluctuations in the economy, moving in the opposite direction of the overall economic cycle, expanding when the economy was weakening, and contracting while the economy was strengthening. FHA has demonstrated its vital countercyclical role during the recent recession. While other sources of finance retreated from the market, FHA continued to insure loans, making sure that middle-class families could still buy a home, preventing a more devastating market crisis and further decreases in home prices.

FHA continues to work with the President and Congress to provide effective programs that support its mission and mitigate risk. As the agency transitions to its new Strategic Plan for fiscal year 2014 through 2018, FHA's focus is on the following three priorities:

ESTABLISHING A SUSTAINABLE HOUSING FINANCE SYSTEM

As a result of the housing crisis, the American people turned to Congress and the Administration for leadership and action in restoring our nation's housing market. FHA, in collaboration with Congress and other stakeholder groups, played a critical role in the federal recovery by supporting mortgage finance reform legislation. To achieve its strategic objectives, the FHA supports a legislative framework to end the government-sponsored enterprises (GSE) as we know them and takes action to minimize tax payers' risks. FHA will operate to complement private credit enhancements while still maintaining its countercyclical role. Additionally, FHA will work to shape the regulatory landscape through rulemaking to enhance access to financing for creditworthy borrowers and promote the revival of the private label mortgage sector, enhancing safety mechanisms for both consumers and investors.

ENSURE ACCESS TO SUSTAINABLE HOUSING FINANCE

As the economy recovers, creditworthy borrowers in underserved communities continue to have difficulty accessing affordable mortgage financing. Homeowners with seriously delinquent and underwater loans find it difficult to sell or refinance their home. In 2014, FHA continued to help homeowners through its Short Refinance Program, which allows delinquent borrowers to refinance their mortgage if they have successfully completed a trial payment plan. Additionally, FHA is continuing to build on existing reforms that support safe lending practices, and is taking steps to establish clear quality assurance policies that help safeguard lenders from unanticipated consequences when making loans.

FHA is committed to finding ways to responsibly increase access to mortgage credit for underserved borrowers. As part of its *Blueprint for Access*, FHA is helping to make responsible homeownership accessible and sustainable for American families through a two pronged approach of quality assurance and housing counseling. The *Blueprint* outlines a number of quality assurance efforts that provide clarity and transparency to FHA-approved lenders. These initiatives include updating and overhauling the *Single Family Handbook* and introducing a supplemental lender performance metric. They will encourage lenders to reduce or eliminate the overlays that restrict credit access because they can be more certain of their own risk. FHA is also launching the Homeowners Armed With Knowledge (HAWK) program. This initiative would allow first-time homebuyers who commit to housing counseling to qualify for reduced premiums, ensuring that families have the tools to be successful homeowners. HAWK will help increase access to credit for first-time homebuyers underserved by the current mortgage market.

RESTORE FHA's FINANCIAL HEALTH

A strong FHA is critical to the recovery of the housing market and our economy at large. In fiscal year 2014, FHA continued to strengthen its book of business through policy reforms that minimize losses on its existing portfolio. FHA's improved Loss Mitigation Waterfall Program continues to produce positive results as deeper levels of assistance are now available sooner in the process, leading to more sustainable solutions. The Loss Mitigation Waterfall Program has significantly increased home retention and reduced the claims against the Mutual Mortgage Insurance Fund.

Other initiatives that focus on improving recoveries to the Fund, like the Distressed Asset Sales Program (DASP), have provided important support. Since 2012, largely due to the DASP program, overall losses on defaulted assets have declined by 11 percent.

Today, the fiscal health of FHA is stronger than it has been in years thanks to appropriately pricing its products and maximizing recoveries. As the overall economy continues to recover, it is clear that efforts undertaken by the Administration have put FHA in a much more favorable position moving forward. These initiatives will ensure FHA remains a champion for Americans for the next 80 years.

PERFORMANCE GOALS AND OBJECTIVES

HUD Strategic Plan

The Government Performance and Results Act require Federal agencies to develop multiyear strategic plans that include program goals and performance measures; the results of which are reported to the public. In April 2014, HUD released its new Fiscal Year 2014 – 2018 Strategic Plan which further defines and expands HUD's strategy for the future. This ambitious plan is the roadmap for HUD to achieve specific, measureable goals. In addition, it defines areas of accountability and actions needed to transform HUD and reemphasize its mission "***to create strong, sustainable, inclusive communities and quality, affordable homes for all*.**" FHA is responsible for achieving substantial portions of the Fiscal Year 2014 through 2018 Strategic Plan and will contribute to achieving each of the goals and sub goals listed below.

Strategic Goal 1: Strengthen the Nation's Housing Market to Bolster the Economy and Protect Consumers
1A. Establish a sustainable housing finance system that provides support during market disruptions, with a properly defined role for the U.S. Government. 1B. Ensure equal access to sustainable housing financing and achieve a more balance housing market, particularly in underserved communities. 1C. Restore the Federal Housing Administration's financial health, while supporting the housing market recovery and access to mortgage financing.
Strategic Goal 2: Meet the Need for Quality Affordable Rental Homes
2A. Ensure sustainable investments in affordable rental housing. 2B. Preserve quality affordable rental housing, where it is needed most, by simplifying and aligning the delivery of rental housing programs.
Strategic Goal 3: Use Housing as a Platform to Improve Quality of Life
3A. End homelessness for Veterans, people experiencing chronic homelessness, families, youth and children. 3B. Promote advancements in economic prosperity for residents of HUD-assisted housing. 3C. Promote the health and housing stability of vulnerable populations.
Strategic Goal 4: Build Strong, Resilient and Inclusive Communities
4A. Reduce housing discrimination, affirmatively further housing through HUD programs, and promote diverse, inclusive communities. 4B. Increase the health and safety of homes and embed comprehensive housing energy efficiency and healthy housing criteria across HUD programs. 4C. Support the recovery of communities from disasters by promoting community resilience, developing state and local capacity, and ensuring a coordinated federal response that reduces risk and produces a more resilient built environment. 4D. Strengthen the communities' economic health, resilience and access to opportunity.

Fiscal Years 2014-2015 Agency Priority Goals

From the outcome measures that support the HUD strategic goals and sub goals, the Secretary identified three Agency Priority Goals (APGs) to focus on during fiscal years 2013 and 2014. These APGs were identified by their respective outcome measure in the HUD Strategic Plan. FHA is the key supporting office for Strategic Goal 1, sub goal 1A, Establishing Sustainable Housing Finance, sub goal 1B, Ensuring Credit Access and sub goal 1C, Restoring FHA's Financial Health. FHA also contributes to the Department's energy efficiency goal APG 13 by increasing the health and safety of homes and embeds comprehensive housing energy efficiency and healthy housing criteria across all HUD programs through Strategic Goal 4, sub goal 4B.

FHA-assisted homeowners avoid foreclosure through its programs as well as through third-party lender loss mitigation initiatives. This goal also projected that additional homeowners would be assisted through joint HUD-Treasury programs. FHA programs facilitated the development and preservation of affordable housing to support the Department's Rental Assistance APG. The Rental Assistance Demonstration Program (RAD) leverages FHA insured financing and strengthens public and other HUD-assisted housing. FHA's multifamily program also expanded the supply of affordable rental homes as we struggle with a rental housing affordability crisis. FHA's PowerSaver and Energy Efficient mortgages were estimated to support up to 3,249 homeowners in conducting energy efficiency retrofits to their homes.

Performance Reporting

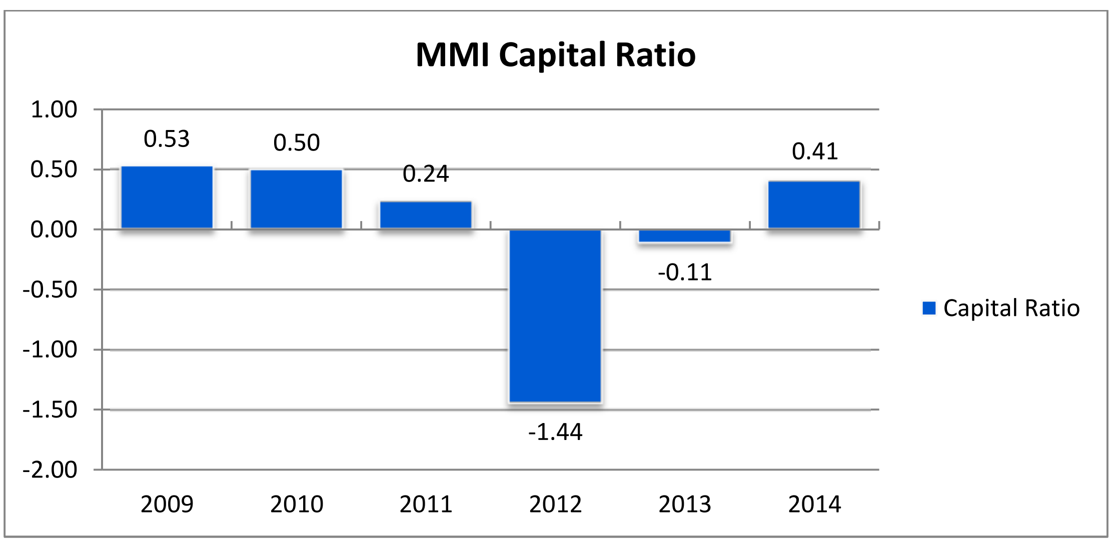
FHA developed a comprehensive Management Action Plan to address a substantial number of the strategic goals and sub goals. The significant targets and achievements for each of FHA's program goals are presented in the following sections. Targets and actual achievements for each goal are reported as of June 30, 2014. Targets and actual achievements as of September 30, 2014 will be reported in HUD's Annual Performance Report (APR), published in February 2015.

MMI Capital Ratio

In the National Affordable Housing Act of 1990, Congress introduced a capital-ratio requirement for gauging the financial status of FHA's Mutual Mortgage Insurance (MMI) Fund (12 USC 1711(f)(4)). Today, the MMI Fund encompasses nearly all of FHA's single family business including, since 2009, reverse mortgages insured through FHA's Home Equity Conversion Mortgage (HECM) program. The capital ratio compares the "economic net worth" of the MMI Fund to the dollar balance of active, insured loans, at a point in time. Economic net worth 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 Fund's actual capital resources as of September 30, 2014, with the net present value of future cash flows from outstanding books of business as calculated in the Annual Actuarial Review.

Capital resources of the MMI Fund are in two types of accounts: Financing Accounts and a Capital Reserve account. Funds in the Financing Accounts cover expected losses over the life of each insurance cohort, while Capital Reserve balances are accumulated for unanticipated losses.

The financial crisis and economic recession that began in fiscal year (FY) 2008 resulted in declines in the capital ratio, resulting in a negative estimated position at the end of FYs 2012 and 2013. This year, the capital ratio, as calculated based on the independent actuary's report, has improved from negative 0.11 percent to positive 0.41 percent. The nearly $6.4 billion improvement in economic value this year came from a $13.8 billion increase in single family forward loans, offset by a $7.4 billion decrease in HECM loans. Single-family forward loans benefited from lower loss rates on insurance claims and improved execution of alternative disposition programs. New loan guarantees in FY 2015 are expected to provide an additional $10.3 billion in net revenues, according to the independent actuarial estimates. Continued, strong expected net revenues from new books-of-business result in an actuarial forecast of the MMI Fund reaching the two percent capital ratio in FY 2016.



Note: The fiscal year 2009 - 2014 ratio calculations use amortized insurance in force (outstanding balances) and include HECM loans.

The MMI Fund's positive value reflects actions taken over the past five years to increase both the revenues and credit quality in FHA's more recent books, while containing losses from the legacy portfolio. By restructuring pricing, FHA more closely aligned pricing with risk, which promotes sustainable lending. FHA also increased the value of the Fund by reducing the impact of poor performance of legacy loans insured during the recession. The actuary projected over $50 billion in claims from seriously delinquent loans in the FY 2013 review. In response, FHA made it a focus for FY 2014 to further reduce loss severities associated with the legacy book. FHA delivered on this commitment, in large part through execution of an overall asset management strategy aimed first at increasing the success rate of modification programs designed to keep borrowers in their homes. This was primarily accomplished by enhancing existing loss mitigation tools such as short sales, modification programs, and streamlined refinancing. If these remedies proved unsuccessful, FHA expanded the use of existing initiatives such as the Distressed Asset Stabilization Program (DASP) and Third Party Sales (TPS) to minimize losses to the MMI Fund.

The portfolio valuation underlying the statutory capital ratio calculation is performed by an independent actuarial contractor, using FHA data and applying an independent economic forecast. That valuation is subject to uncertainty both from future economic conditions and from borrower behavioral patterns that may differ from underlying assumptions built into forecasting equations. The particular portfolio value used for the capital ratio estimate is a statistical (arithmetic) mean across 100 potential economic paths. Using the mean value provides some measure of reserving against adverse outcomes.

HUD will continue to look for ways to reduce overall risk to the MMI Fund capital position while also ensuring that FHA continues to serve its role of providing access to housing credit for low and moderate income households across the nation.

<u>Note on Forward-Looking Information Presented</u>

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.” 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.

FHA PROGRAMS

Office of Single Family Housing

FHA supports affordable homeownership by making loans more readily available through its Single Family Housing mortgage insurance programs. These programs insure mortgage lenders against losses from default, enabling those lenders to provide mortgage financing on favorable terms to homebuyers. FHA's Single Family mortgage insurance programs make substantial contributions to the rate of sustainable homeownership nationwide. These programs are the most visible evidence of FHA's success in providing homeownership and refinancing opportunities for all Americans.

"Single Family's priorities remain managing the long term viability of the Mutual Mortgage Insurance Fund; maintaining the FHA mission to serve the underserved and first-time homebuyer by providing affordable housing options; and providing liquidity in the counter-cyclical role that supports the housing market."

Kathleen Zadareky
Deputy Assistant Secretary for
Single Family Housing

FHA works to strengthen the nation's housing market, to bolster the economy and to protect and educate consumers through the process of buying, refinancing or renting a home. For fiscal year 2014, FHA endorsed 786 thousand single family, forward (non-HECM) mortgages totaling $135.2 billion. FHA's purchase business continues to primarily support first-time homebuyers. In fiscal year 2014, 81.2 percent of FHA purchase-loan endorsements were for first-time homebuyers, which is a 2.5 percent increase in percentage points from fiscal fiscal year 2013.

While FHA's current loan limits remain high historically, in fiscal year 2014, new, lower, loan limits went into effect January 1. The lower loan limits were orginally scheduled to take effect in January of 2009, however due to continuing strains in credit markets, Congress delayed implementation several times. FHA has continued in its mission to support underserved borrowers, while also improving the quality of the portfolio.

Single Family Forward Insurance Profile

The following table reflects FHA's single family forward insurance profile in fiscal years 2014 and 2013:

Table 1: SF Forward Insurance

	FY 2014		FY 2013		Percentage
	Number	Percent	Number	Percent	Change
Total Insurance-In-Force	7,787,092		7,810,422		(0.3%)
Total Forward Endorsements	786,353		1,344,856		(41.5%)
Average Loan Amount	$171,954		$178,545		(3.7 %)
First Time Home Buyers	483,050	81.2%	553,080	78.7%	(12.7%)
Minority Borrowers	216,738	32.3%	235,823	28.3%	(8.1%)
Low/Moderate Income	389,391	57.8%	490,443	58.6%	(20.6%)
Average FICO Score	682		693		(1.6%)

Note: Data reflects number of endorsements (not dollar amount), unless preceded by a dollar sign. The First Time Home Buyers percentage is based on the total purchase loans for the year; the minority borrowers' percentage is based on the total of all FHA loans for the year; the Low/Moderate Income percentage is based on all FHA fully-underwritten loans.

FHA has the authority to establish and collect a single up-front mortgage insurance premium, as well as annual premiums. The up-front premium may be financed into the mortgage. The maximum mortgage amount that FHA will insure is based on the median home prices for the county or Metropolitan Statistical Area (MSA) in which the property is located, as well as certain minimum and maximum amounts. The current minimum limit (floor) for a one-unit property is $271,050 while the current maximum limit (ceiling) for a one-unit property is $625,500. Higher maximum limits exist for one-to-four unit properties in Alaska, Hawaii, Guam and the Virgin Islands. The area loan limits change annually based on median home prices and may go up or down. These limits apply to all forward mortgage programs insured by FHA under Section 203.

Highlighted—First-time Homebuyers

With the help of HUD, and the city of Ogden Utah, a young family fulfilled a lifelong dream by purchasing their first home. These first-time homebuyers had a family income of 84 percent of Area Median Income. Ogden City had acquired the home through FHA's Asset Control Area (ACA) program. The home underwent substantial rehabilitation through the efforts of Ogden City and had been

First-time Homebuyers Ogden, Utah

returned to near-new condition before its resale. Ogden City's improvements also helped to ensure that the new homeowners wouldn't face any burdensome home repair expenses in the near future.

As this family closed on their first home, Ogden City was also celebrating an accomplishment - the operation of its ACA program. This home sale is both a new home for a deserving family and a stabilizing force for a neighborhood in need of revitalization.

Single Family Housing Programs

FHA offers a variety of loan programs to meet a wide range of borrower needs. FHA mortgages are attractive to lenders because they can be packaged into mortgage-backed securities, which are guaranteed by the Government National Mortgage Association and backed by the full faith and credit of the United States Government.

The following table shows loan volume by program for fiscal years 2014 and 2013.

Section of Act	FHA Primary Programs	FY 2014	FY 2013	Percentage Change
203(b)	**One-to-Four Family Home Mortgage Insurance**	**771,733**	**1,326,013**	**41.8%**
	Purchases	581,387	685,198	15.1%
	Refinance	190,346	640,815	70.3%
203(k)	**Rehabilitation Loan**	**14,620**	**18,840**	**22.4%**
255	**Home Equity Conversion Mortgages**	**51,617**	**59,918**	**13.9%**
	HECM Standard	48,793	55,728	12.5%
	HECM Saver	2,824	4,190	32.5%

Note: Data reflects number of loans (not dollar amount)

A more in-depth discussion of the programs highlighted below illustrates the important role FHA plays in providing options to meet a variety of borrower needs.

Additional details on these and other Single Family FHA insured mortgage programs are available on HUD's website at ***http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/insured***.

Section 203(b): Mortgage Insurance for One-to-Four Family Homes

The Section 203(b) is FHA's primary program for insuring the financing of new or existing one-to-four family dwellings, including manufactured homes and individual condominium units. Section 203(b) is the largest of FHA's Single Family programs, covering 97.6 percent of total Single Family Insurance-in-Force and 98.1 percent of fiscal year 2014 insurance issued excluding HECM. Homebuyers may obtain FHA-insured mortgages from FHA-approved lenders to purchase homes, including condominium units, with low down payments. The borrower's down payment requirement may be as little as 3.5 percent for purchases. By insuring approved lenders against losses, FHA encourages them to provide affordable access to capital in the home mortgage market. FHA insures loans made by private financial institutions with terms for up to 30 years.

The program is open to individuals who meet FHA eligibility criteria such as residency requirements; down payment (equity) requirements, including mortgage debt to income and total debt-to-income requirements; credit history eligibility; and property and appraisal requirements. Although the program is generally limited to primary residences, under certain circumstances, a borrower may use Section 203(b) financing for a secondary residence. The program is also available for use on a limited basis by non-profit or governmental entities.

Highlighted— Real Estate Owned (REO) Property

In Waterbury, CT a couple was expecting their first child and wanted to purchase a home. They were very interested in the possibility of purchasing a FHA home. During their search they found the listing for a FHA home right in Waterbury. Excited, they contacted the listing agent who was very knowledgeable about the FHA market and clearly explained the process. When the agent showed the home to the family they fell in love with it and realized all the potential it had to offer. After purchasing it, they made improvements by refinishing the beautiful hardwood flooring and adding new kitchen counters. The decorative flag flying from their front porch is a sure sign of the pride they have in their new home.

Real Estate Owned Property Waterbury, Connecticut

Section 203(k): Rehabilitation Loan

Section 203(k) is FHA's Single Family program designed to finance both the acquisition costs and the cost of property improvements into one mortgage loan. The program offers both purchase and refinance options and may be utilized to make repairs necessary to meet minimum property standards, or to increase functional utility. It is available in both Standard and Streamline forms based on the amount of money needed to make desired or necessary improvements and the complexity of improvements to be financed. This program serves as a vital tool in the revitalization of aging housing stock.

Highlighted—Section 203(k) Financing Program

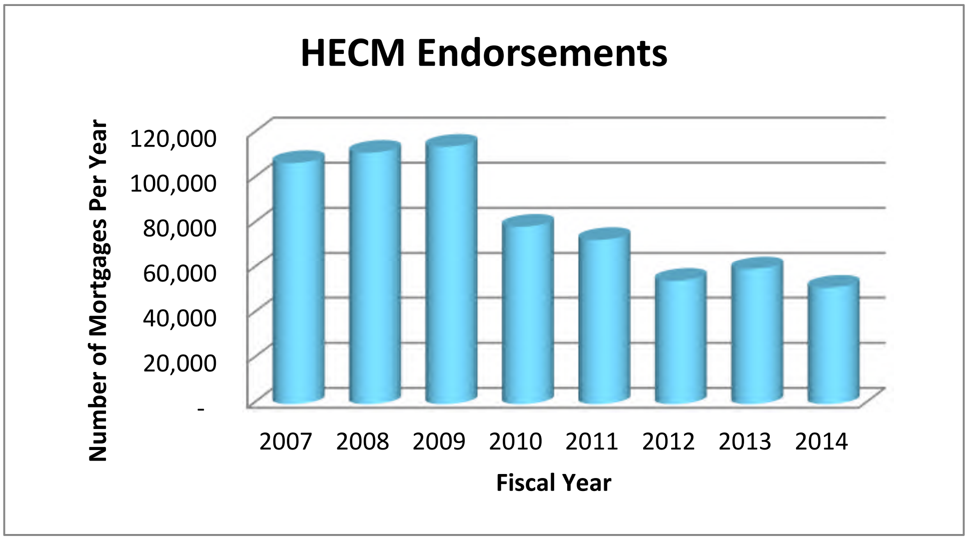
Section 203(k) Financing Program Mammoth, Arizona

In Mammoth, AZ, a single father was severely injured in a hit and run bicycle accident. The accident left him legally blind and disabled. As a father of a young son, he was worried that he would never have the opportunity to own a home and offer that security to his son. We recently had the pleasure of assisting this family. By using a 203(k) loan to purchase a FHA Home, this single father was able to ensure that he purchased an affordable home and had the opportunity to install the kind of adaptive features that would fit his needs. Even better, his total monthly payment is less than the cost of renting.

Section 255: Home Equity Conversion Mortgages (HECM)

FHA was the first entity to promote and insure reverse mortgages on a national scale. The HECM program provides eligible homeowners, 62 years of age and older, access to the equity in their property. The program provides homeowners with a number of payment options including lump sum payment of mortgage proceeds, term or tenure monthly payments, line of credit or a combination thereof. There is a significant need for programs that support seniors' ability to access equity in their homes as a way to age in their home.

Since the program's inception in 1989, FHA has endorsed 890,693 HECM loans. Initially, the number of reverse mortgages insured by FHA increased from 2005 to 2009. Since then, endorsements have declined from a high of 114,640 to an estimated 51,617 in fiscal year 2014. This decline in production reflects market pressures and FHA policy changes that better manage risk and ensure the program is sustainable for seniors.



In recent years the HECM program subjected the MMI Fund to increased risk as a result of the program design and the volatility of home prices. Factors contributing to this increased risk include the impact of the recession and the housing crisis; shift from a predominately adjustable interest rate mortgage with mortgagors electing to receive payments over time using a line of credit or modified tenure/term payment options to a fixed interest rate mortgage where mortgagors draw down all funds at the time of loan closing; younger mortgagors with higher amounts of property indebtedness; and increasing property charge defaults. These and other factors have caused higher payouts of insurance claims.

Leveraging the Reverse Mortgage Stabilization Act of 2013 which amended Section 255(h) of the National Housing Act, as well as its other authorities, FHA continued to address risk issues related to the HECM program. Fiscal year 2014 policy efforts included additional requirements for Fixed Rate products and updating the Financial Assessment and Property Charge Set Aside Policies that was originally published in 2013, taking in to consideration comments received in response to the Federal Register Notice. Policy announcements also responded to continued litigation risk related to Non-Borrowing Spouse issues, development of additional servicing system enhancements and updates on loss mitigation and due and payable policies.

FHA will continue to develop and implement origination and servicing policies that will reduce risks to the FHA MMIF and support the continued availability of this important product to seniors.

Title I & Title II: *Manufactured Housing and Property Improvement*

FHA offers mortgage insurance and loan programs for manufactured housing under both Title I and Title II sections of the National Housing Act. Title II loans are available for manufactured homes placed on a permanent foundation that are classified as real estate under Section 203. Title I loans are available for financing manufactured homes that are to be secured solely by the dwelling; these are also referred to as "chattel" loans, and the homes are classified as personal property. Title I loans are also available for property improvements and can be either first or second lien mortgages, as well as unsecured loans, to finance the cost of the improvements.

While FHA is aware of the contraction of available financing for homebuyers wishing to purchase manufactured homes, FHA does not have the authority to mandate loan products a lender may offer. Historically, manufactured housing has not performed as well as conventional construction housing, especially as it relates to the retained value of the collateral. Due to the ongoing decline in the housing market, many lenders have implemented more restrictive credit guidelines in an effort to help manage and mitigate risk, limiting the availability of financing for manufactured housing.

Volumes by fiscal year are as shown in the table below:

Table 3: Title I and Title II Endorsements Counts

Loan Type	FY 2014	FY 2013	FY 2012
Title I Manufactured Homes	464	612	655
Title I Property Improvement	5,548	6,097	7,050
Title I Total	**6,012**	**6,709**	**7,705**
Title II Manufactured Housing	19,323	24,191	20,479

FHA Single Family Energy Efficiency Strategy

FHA is currently looking into ways that energy efficiency can support FHA's affordability mission and is working to integrate energy efficiency measures into existing programs. FHA is currently partnering with the Department of Energy to more accurately rate the energy efficiency of a home and take advantage of automated services that would allow energy efficiency programs to utilize property level data to streamline the process.

Title I: FHA PowerSaver

FHA's PowerSaver program offers low-cost loans for energy-saving home improvements. This pilot program was implemented in fiscal year 2011 under Title I with all loans being guaranteed by FHA. Credit-worthy homeowners can borrow up to $25,000 to make improvements based on a list of proven measures developed by FHA and the U.S. Department of Energy. Unlike FHA's core insurance program for mortgages in first-lien position, PowerSaver insures a lien positioned in first or second place and insures loans without a lien, provided the loan amount is less than $7,500. The volume of PowerSaver loans has been less than anticipated. The program faces challenges with lack of liquidity options. In fiscal year 2014, FHA endorsed 255 loans under PowerSaver Title I, for $2.6 million and 165 loans for $23 million under PowerSaver 203(k).

The FHA PowerSaver program was originally scheduled to expire on May 2, 2013; however, the program has been extended to May 4, 2015 per a Federal Register Notice that was published on February 12, 2013.

Section 513: Energy Efficient Mortgages (EEM) (First-trust mortgages only)

FHA's Energy Efficient Mortgages program helps homeowners save money on utility bills by enabling them to finance the cost of adding energy efficiency features to new or existing housing as part of their FHA insured home purchase or refinancing mortgage. During fiscal year 2014, FHA insured 347 Energy Efficient Mortgages, totaling $77.6 million. The volume of EEM loans has declined in recent years. This program is being reviewed to determine if improvements can be made to expand originations as part of the Department's commitment to energy efficient initiatives.

Performance Goals and Objectives

The Office of Single Family Housing is responsible for critical activities within the HUD Strategic Plan. Listed below are the Management Action Plan target activities that address the Office of Single Family Housing's Sub Goals.

<table>
<tr><th colspan="3">Performance Goals and Objectives</th></tr>
<tr><td colspan="3">Strategic Goal (G1) Strengthen the Nation's Housing Market to Bolster the Economy and Protect Consumers</td></tr>
<tr><td colspan="3">G1 Sub Goal

1C Restore the Federal Housing Administration's financial health, while supporting the housing market recovery and access to mortgage financing.</td></tr>
<tr><td rowspan="6">FY 2014 Data</td><td>Target</td><td>Achieve greater than 44% for Single Family's Recovery Rate for All Dispositions (For example: Note sales, Pre-Foreclosure Sales, REO conveyance and other third party Sales.</td></tr>
<tr><td>Achievements</td><td>As of June 30, 2014, SF achieved a recovery rate for all dispositions of 50.1%, thus surpassing the goal.</td></tr>
<tr><td>Target</td><td>Achieve or reduce the re-default rate of modification recipients within the first 6 months to 8.2% or less. Achieving 8.2% by the end of fiscal year 2014.</td></tr>
<tr><td>Achievements</td><td>As of June 30, 2014, the re-default rate was 6.64% for loan modification recipients, thus surpassing the goal.</td></tr>
<tr><td>Target</td><td>Achieve greater than 20% of permanent loss mitigation actions for 90 days or more per delinquent loans. This is the percentage of loss mitigation actions taken as a percentage of serious delinquencies.</td></tr>
<tr><td>Achievements</td><td>As of June 30, 2014 there were 226,431 permanent loss mitigation actions and an average of 576,055 loans that were for 90 days or more per delinquent, which reflects a 39.3% increase.</td></tr>
<tr><td colspan="3">Strategic Goal (G4) Build Strong, Resilient and Inclusive Communities</td></tr>
<tr><td colspan="3">G4 Sub Goal

4B Increase the health and safety of homes and embed comprehensive housing energy efficiency and healthy housing criteria across HUD programs.</td></tr>
<tr><td rowspan="2">FY 2014 Data</td><td>Target</td><td>Achieve 225 PowerSaver endorsements in fiscal year 2014.</td></tr>
<tr><td>Achievements</td><td>As of June 30, 2014, FHA endorsed 255 loans under PowerSaver Title I and 165 loans under PowerSaver 203(k).</td></tr>
</table>

	Target	Achieve 450 Energy Efficient Mortgage (EEM) endorsements in fiscal year 2014.
	Achievements	As of June 30, 2014, FHA endorsed 347 EEM loans. The EEM volumes have declined in recent years. FHA found that borrowers were using PowerSaver 203(k) under Title II to finance their energy-saving home improvements.
	G4 Sub Goal 4D Strengthen the communities' economic health, resilience and access to opportunity.	
	Target	Conduct 39 Single Family REO workshops/meetings to promote acquisition and reuse of foreclose properties in NSP areas for fiscal year 2014-2015.
	Achievements	As of June 30, 2014, Single Family conducted 126 REO workshops/meetings in NSP areas, thus surpassing the goal.

Management Initiatives and Program Improvements

FHA continues to advance policies and implement initiatives to ensure that its programs serve target communities while maintaining strong financial viability. These initiatives include:

Updated Single Family Handbook

FHA is developing a new Single Family Housing Policy Handbook to serve as the single source for all Single Family Housing policy. The goal of the handbook is to be a single authoritative source of policy that uses clear, consistent and more direct language that aligns the flow of the handbook to the mortgage process and makes it easier to understands and implement policy change. It will replace dozens of FHA Handbooks, hundreds of mortgagee letters and housing notices, as well as other sources of policy information. The new handbook is being published in sections, which will be consolidated. The first section, Origination Through Post-Closing/Endorsement has been published with an effective date of June 15, 2015. Additional sections such as Doing Business with FHA; Quality Control, Oversight and Compliance; and Servicing are well underway.

Mortgage Insurance for Condominiums

In fiscal year 2014, the condominium home ownership market represented 3.0 percent of all 203(b) endorsements and 2.8 percent of all HECM endorsements. Condominium purchases provide affordable home ownership opportunities for first-time homebuyers and individuals who may not otherwise be able to secure financing. FHA monitors the performance of the condominium portfolio to determine if the current policy guidelines are effective in reducing risk to the MMI Fund. The performance of the insured condominium portfolio remains consistent and while it is a small percentage of the total FHA-insured portfolio, its performance is better than other property types. In fiscal year 2015, FHA will issue a proposed rule to formalize condominium policy guidelines with an opportunity for comment on the proposed regulatory content by industry partners, stakeholders, the public, and other interested parties.

FHA Support of Refinancing Options

FHA continues to support policies to enable borrowers to refinance during this period of low interest rates.

- **FHA Short Refinance Program**

  On March 26, 2010, HUD and the Department of the Treasury announced enhancements to the existing Making Home Affordable Program and FHA refinance program. This program is designed for borrowers who owe more on their conventional mortgages than the value of their homes. The borrowers were given the opportunity to refinance into affordable FHA loans. This program requires the lender or investor to write-off the unpaid principal balance of the original first lien mortgage by at least ten percent. Participation is not mandatory and its adoption by mortgagees has been limited because of issues related to forgiving principal and restrictions placed by investors on this, and other loss mitigation programs. The program was set to expire on December 31, 2014; the Department announced its intention to offer an extension of the program and more details are forthcoming. Since the inception of this program, FHA endorsed 4,964 Short Refinance mortgages for $763 million.

- **FHA Streamlined Refinance Program**

  FHA's Streamline Refinance program, which has been available since 1986, provides existing FHA borrowers with the opportunity to refinance their current loan while requiring limited documentation. In 2012, this program was further enhanced when FHA significantly reduced the mortgage insurance premiums charged in connection with the refinance of a previous FHA insured loan that was endorsed on or before May 31, 2009. In fiscal year 2014, FHA endorsed 115,000 mortgages for $16.3 billion under the Streamlined Refinance Program. Of these loans 99,725 for $13.4 billion were insured with reduced mortgage insurance premiums, representing 86.7 percent of all Streamline refinances.

Expansion of Single Family Loss Mitigation Tools

As a result of FHA's updated loss mitigation guidance published via Mortgagee Letter 2012-22, thousands of additional FHA homeowners facing financial difficulties were able to remain in their homes and FHA's losses to the Mutual Mortgage Insurance Funds were substantially reduced. Specifically, from fiscal year 2013 through August 31, 2014, 556,563 struggling FHA borrowers received early loss mitigation intervention to keep them in their homes. During this same time, 278,567 borrowers received an FHA Home Affordable Modification loan, which targets a 20% percent payment reduction. In circumstances where retention of homeownership was not viable, from fiscal year 2013 through August 31, 2014, 62,557 distressed borrowers were offered a graceful exit from their homes through FHA's Streamlined or Standard Pre-foreclosure Sales and Deeds in Lieu of Foreclosure Programs that was updated via the publication of Mortgagee Letter 2013-23.

Single Family Real Estate Owned Disposition Activity

FHA acquires single family properties through conveyance claims. FHA utilizes its third generation of Management and Marketing (M&M III) Contractors to sell Single Family Real Estate Owned (REO) properties to nonprofits, local governments, new owners, and investors. The M&M III disposition construct, which streamlines operations to capitalize on the expertise of M&M contractors, provides flexibility to meet changing market conditions impacting REO sales transactions. The performance measurements for M&M III contracts, which became effective in fiscal year 2011, have helped to significantly reduce risk to FHA, reduce losses to the MMI Fund, and decrease holding times. For example, from fiscal year 2013 through August 31, 2014, FHA experienced a decrease of 51.1% Days to List a REO property and a decrease of 34.4% Days a REO property remained in inventory.

As a result of the housing market crash, during FY 2010 through FY 2013, FHA acquired an average of 100,979 properties during each 12 month period. However, as a result of its improved efficiencies under the M&M III five-year contract endeavor and the implementation of companion M&M Contract Monitoring Plans and Scorecards used primarily by FHA Homeownership staff responsible for overseeing M&M contractors, FHA had an historical low inventory of 18,945 REO properties as of August 31, 2014 and the MMI Fund experienced a savings of $1.5 billion from M&M III REO disposition activity.

Single Family Notes Inventory

Single Family notes are assigned to the Secretary when FHA pays a claim to a lender, prior to foreclosure, and takes possession of the mortgage notes for servicing. As of September 30, 2014 Secretary-held notes totaled 123.2 billion. This total includes the principal limit of HECM insured loans outstanding for which HUD holds a second Note and Mortgage, assigned HECM first mortgages, partial claim notes on FHA-insured forward mortgages, and other Notes held by HUD in connection with various forward mortgage programs. Partial claim notes are created when a lender advances funds on behalf of FHA-insured homeowners in an amount necessary to reinstate a delinquent loan. Upon acceptance of the advance, the borrower executes a promissory note, creating a secondary mortgage payable to HUD. This promissory note or "partial claim" is not due and payable until the borrower pays off the first mortgage or no longer owns the property. Outstanding Single Family Notes partial claims increased by 91 percent from 168,394 notes at the end of fiscal year 2013, to 321,532 at the end of fiscal year 2014. The increase is primarily due to the FHA Home Affordable Modification Program (HAMP), which combines a partial claim with a loan modification. Single Family Notes assigned through HECM comprised $5.08 billion of the total Secretary-held mortgage notes inventory through June 30, 2014.

Single Family Loan Sales

FHA continued Single Family loan sales under the Distressed Asset Stabilization Program (DASP) which sells defaulted FHA-insured loans through a competitive auction to qualified bidders. The goal of the program is to maximize returns to the FHA Insurance Funds while providing another disposition alternative for defaulted single family mortgages, rather than having these assets conveyed to HUD as foreclosed properties. By developing the infrastructure to market and sell these non-performing loans in bulk, the agency is positioned to benefit from today's unique market dynamics where investor demand is very high.

The DASP sales are part of a broader effort to reduce losses and increase recoveries to the Mutual Mortgage Insurance (MMI) Fund. In fiscal year 2014, FHA conducted four sales of defaulted Secretary-held assets. In these sales, HUD offered 66,819 loans with an unpaid principal balance of $11.5 billion. Since 2012, largely due to the DASP program, overall losses on defaulted assets have declined by 11 percent; and loan sales bids have improved from average of approximately 50 percent of the collateral's value to more than 70 percent. By reducing claim expenses and improving recoveries, FHA is able to rebuild its reserves at a time when the MMI Fund is still recovering from the impact of the mortgage crisis.

DASP Loan Sales FY2014		
Month	**Loans Offered**	**$UPB (billions)**
October	8,172	$1.24
December	17,593	$3.50
June	26,671	$4.58
September	14,023	$2.13
Total	**66,819**	**$11.45**

Risk Management

FHA continues to enhance its risk management framework and strengthen its lender network by implementing new policies, refining existing processes, and developing additional technological capacity. These enhancements will protect the health of the FHA insurance fund as the market continues to recover as well as make FHA more efficient and effective in serving its mission.

- ***Lender Approval and Recertification**.* FHA implemented new net worth and financial reporting requirements for lenders renewing their FHA approval in fiscal year 2014. To ensure that FHA partners with lenders that are sufficiently capitalized, FHA now requires additional net worth based upon the amount of FHA lending activity performed by a lender in the preceding fiscal year. Additionally, permanent streamlined financial reporting requirements took effect for small supervised lenders when executing their annual lender recertification, making it easier and less costly to report financial information while providing FHA with the information required to fully evaluate the health of these smaller partners.

- ***Lender Electronic Assessment Portal 3.0.*** Fiscal Year 2014 also marked the release of version 3.0 of the Lender Electronic Assessment Portal (LEAP). As part of the FHA Transformation Initiative, LEAP was first introduced nearly two years ago and has since allowed hundreds of lenders to obtain FHA approval. The latest iteration of LEAP consolidates all FHA lender approval and recertification business processes on a single state-of-the-art platform and replaces outdated legacy systems. This provides lenders with a consolidated, institution-level view and enables approved lenders to more easily renew their approval annually by completing all elements of their recertification and paying their fees through a single portal. In addition, LEAP will enhance FHA's ability to measure a lender's financial stability and take appropriate action should lenders fail to meet FHA's standards.

- ***Lender Self-Reporting Guidance****.* Via the publication of Mortgagee Letter 2013-41, "Lender Self-Reporting Requirements," FHA updated and clarified its requirements for self-reporting violations of FHA lending requirements by mortgagees. This guidance resulted in a 27.1 percent increase of lenders self-reporting when compared to the prior fiscal year.

- ***Quality Assurance Framework*****.** As part of FHA's "Blueprint for Access", in 2014, FHA worked to develop and implement portions of a new Quality Assurance Framework. Through this initiative, FHA will institute a new methodology for evaluating manufacturing defects in FHA-insured loans. The new criteria will be more descriptive—identifying a limited number of specific defects, their related causes, and levels of severity. Additionally, a new sampling methodology is being considered that will broaden the universe of sampled loans to include random sampling of performing loans in addition to the current risk-based sampling methodology. Finally, a new supplemental performance metric has been developed. This metric will be utilized in conjunction with the Lender Compare Ratio to provide a more comprehensive view of lender performance measured against FHA's target business mix and risk tolerance. All of these quality assurance steps provide FHA with important information to better identify and mitigate risk

- ***Lender Outreach****.* In June of 2013, the Office of Lender Activities and Program Compliance began publishing publicly its new newsletter, "Lender Insight." The newsletter was created to offer insight to lenders about what FHA is seeing in lender approval, recertification, monitoring and compliance, and enforcement actions. Each issue contains core information designed to help lenders better understand the trends FHA is observing, and is intended for lenders to use in order to improve quality control and risk management practices, and alleviate many of the common problems FHA encounters early on in the process before FHA intervention is necessary. June 2014 marked the one year anniversary of Lender Insight and the publication of its fifth issue.

- ***Quality Assurance Meetings***. In fiscal year 2014, FHA also instituted quarterly quality assurance meetings with its largest lenders. These meetings provide lenders with the most up to date information on their performance and loan quality trends, offering much appreciated feedback and guidance from FHA. Through June 2014, 19 such meetings have been held with FHA's largest business partners.

Office of Multifamily Housing

FHA's Office of Multifamily Housing Programs (MHPs) provides insurance to approved lenders to facilitate the construction, rehabilitation, repair, refinancing, and purchase of multifamily housing projects such as apartment rentals and cooperatives. FHA also offers risk sharing on loans originated by state Housing Finance Agencies (HFAs), Freddie Mac and Fannie Mae for multifamily rental properties. During fiscal year 2014, FHA initially endorsed 1,016 multifamily apartment loans totaling $9.86 billion and 50 Risk Sharing loans totaling $606.2 million (Table 1). In fiscal year 2014, FHA continued the Green Preservation Plus initiative, a partnership with Fannie Mae and Government Sponsored Entities (GSEs) to increase energy efficient upgrades in older affordable properties; and started a partnership with Treasury's Federal Finance Bank to help increase the number of affordable units created.

"The Office of Multifamily Housing Programs provides liquidity to the marketplace with FHA insurance and creates and preserves affordable housing through the provision of long-term rental assistance contracts."

Benjamin T. Metcalf
Deputy Assistant Secretary for
Multifamily Housing Programs

FHA Multifamily insurance programs offer non-recourse financing with high loan-to-value ratios and favorable debt service coverage for a variety of housing loans. FHA's broad range of programs and non-recourse favorable loan terms induce developers to produce needed housing and provide consumers with a wide array of shelter options for all life stages. Multifamily's most popular programs are described briefly below.

Multifamily Housing Programs

Sections 213, 220, 221(d)(4) and 231: New Construction and Substantial Rehabilitation Programs

FHA's MHP provide mortgage insurance on loans to facilitate new construction or substantial rehabilitation of rental housing apartments and cooperatives. The principal difference between these programs is the type of housing being developed. Section 213 is for cooperatives while Section 220 is for rental housing in urban renewal or concentrated revitalization areas. Section 221(d)(4) program supports standard rental apartments for moderate-income families while Section 231 is for the creation of housing for seniors age 62 or older. Although all these programs offer market-rate loans, they can also be combined with federal and state housing initiatives such as Low Income Housing Tax Credits (LIHTC), tax exempt bonds, and rental subsidies for low and moderate income families.

Highlighted—Choice Neighborhoods

Woodledge/Morrant Bay, the site targeted for redevelopment as part of Boston's Quincy Corridor Transformation Plan, is a Section 8, Multifamily-insured, scattered-site project in the Dorchester neighborhood; it will be renamed Quincy Heights. Dorchester Bay Economic Development Corporation (DBEDC) is the sponsor of the development. The $20.5 million redevelopment will include the renovation of 102 units; the demolition of two buildings; and the new construction of 49 replacement units on three adjacent parcels to be acquired by the owner, the Quincy Heights Limited Partnership. The development will be built to Enterprise Green Communities standards of design and energy efficiency. Through ongoing Project-Based Section 8 subsidies the units will remain affordable and the Partnership has agreed to maintain affordability levels for a 40-year term.

Construction underway at Quincy Heights, Boston

In addition to the affordable housing component of Boston's Quincy Corridor Transformation Plan, a portion of the Critical Community Improvements funds are being used for an innovative economic development project. DBEDC has partnered with Crop Circle Kitchen to redevelop the vacant, two acre, 36,000 square foot former Pearl Meats Factory building into a multi-tenant food production facility that fills a gap in the availability of small-scale food manufacturing space in the city, and offers new opportunities for fledgling entrepreneurs to start and expand their businesses. Small-scale food production businesses are able to rent this fully-equipped, licensed commercial kitchen; storage space is also available to rent. Business owners also receive technical assistance in areas such as recipe development, bookkeeping, marketing, product sourcing, and bulk purchasing. A Choice Neighborhoods Critical Community Improvement grant was used to help leverage the remaining funds for this project. The new CCK Pearl food processing facility opened in June 2014. Crop Circle Kitchen has received an estimated 100 inquiries and approximately 15 businesses are currently operating in the new kitchen space.

The new kitchen space at CCK Pearl

Sections 223(f) and 223(a)(7): Purchase/Refinancing Program of Existing Multifamily Housing Projects

Section 223(f) is FHA's Multifamily program that insures loans for the purchase or refinancing of existing rental properties financed with conventional or FHA loans. The program allows for the financing of long-term mortgages by Government National Mortgage Association ("Ginnie Mae") Mortgage Backed Securities. The flexibility for purchase in the secondary mortgage market improves the availability of loan funds and permits more favorable interest rates.

The FHA Section 223(a)(7) mortgage insurance program offers a streamlined refinancing option for multifamily properties already insured by FHA. In addition to expedited processing, the Section 223(a)(7) program can reduce debt service and free up operating income to property owners for other project needs.

Section 542(b) and 542(c): Multifamily Mortgage Risk-Sharing Program

Under these programs, FHA shares risk on loans originated, underwritten and serviced by Fannie Mae and Freddie Mac in the case of 542(b) or state Housing Finance Agencies under 542(c). FHA assumes a loss percentage on these loans and pays the agencies when they dispose of the defaulted loans. Most often FHA assumes a 50 percent loss risk, but the actual percentage varies depending on the terms of each risk sharing arrangement. By absorbing part of the loss, FHA provides an incentive for these agencies to fund multifamily housing, all of which must be affordable per the definition given for LIHTCs; 20 percent of units are affordable at 50 percent of Area Median Income (AMI) or 40 percent of units are available at 60 percent of AMI.

Table 1: Multifamily Endorsements by Program

Section of the Act	**Endorsements for Fiscal Year 2014**		
	Dollars (millions)	**Percentage**	**# of Mortgages**
Section 221(d)(4):New Construction and Substantial Rehabilitation Program	**$2,316**	**16%**	**172**
Sections 223(f) and 223(a)(7): Purchase/Refinancing Program	**$7,548**	**79%**	**844**
Section 542(b) and 542(c): Risk-Sharing with QPEs & HFAs	**$606**	**5%**	**50**
Totals	**$10,470**	**100%**	**1,066**

***Percentages are based on the total mortgages endorsed.**

The Multifamily endorsements shown in Table 1 are based on available data for initially endorsed projects in the Development Application Processing (DAP) system. DAP is used to track and monitor Multifamily basic FHA and Risk Share loan applications. ***Additional details on these and other Multifamily loan programs are available at http://www.hud.gov/offices/hsg/mfh/progdesc/progdesc.cfm.***

OFFICE OF PRODUCTION

FHA's Multifamily Office of Production provides direction and oversight for FHA mortgage insurance and risk sharing loan origination. During fiscal year 2014, the Office of MHP Production endorsed 1,066 loans. The initial endorsements of FHA-insured and Risk Sharing Apartment loans totaled $10.5 billion and covered 156,574 units, which continues to support thousands of private sector jobs in the construction, property management, service provision, and administrative fields.

Demand for FHA multifamily programs remains strong, reflective of the countercyclical role the Agency plays in the market; however, demand is at a lower level of volume this year than during the peak impact of the credit crisis from 2010 to 2013. The most direct factor can be attributed to aggressive pricing by the GSEs. The FHA has increased its focus on affordable lending, while continuing to provide financing for borrowers who want the stability of long-term, fully-amortizing debt.

Additionally, FHA supports special initiatives directed towards the elderly and underserved areas with high concentrations of low-income families. For instance, in fiscal year 2013, MHP issued a request for comments on an initiative that would expand the Risk Share Program to allow Community Development Financial Institutions (CDFIs) and other mission-oriented lenders to utilize the Risk Sharing Program. This would increase the flow of credit to small multifamily properties, and to demonstrate the effectiveness of providing Federal credit enhancement for refinancing and rehabilitation of such housing. In fiscal year 2015, MHP expects to implement the program with these lenders.

Highlighted—Downtown Renewal and Energy Efficiency

The historic Pizitz Building before renovation

The Pizitz Building had a Firm Commitment approved by the National Loan Committee in July 2014. The building, in the Downtown Retail and Theatre Historic District in Birmingham Alabama, was originally constructed in 1923 and housed the Pizitz Department store. The Section 220 mortgage will assist in funding a redevelopment that will include additional funding from a Section 108 Loan, a Streetscape Grant from the City of Birmingham and Federal Historic Tax Credit, State Historic Tax Credit, and New Market Tax Credit Equity. The new building will include income restricted units, and incorporate Energy Star appliances and Green Building technologies. The redevelopment of the currently vacant building will have a transformative effect on this area of Birmingham through the upgraded retail, commercial, and residential space.

Performance Goals and Objectives

FHA is responsible for completing critical activities under the HUD Strategic Plan. The Management Action Plan below list target activities that address Multifamily Housing Programs' (MHP's) Sub Goals.

<table>
<tr><th colspan="3">Performance Goals and Objectives</th></tr>
<tr><td colspan="3">Strategic Goal 1 (G1): Strengthen the Nation's Housing Market to Bolster the Economy and Protect Consumers.</td></tr>
<tr><td colspan="3">G1 Sub Goals

1B Ensure equal access to sustainable housing financing and achieve a more balanced housing market, particularly in underserved communities.</td></tr>
<tr><td rowspan="2">FY 2014 Data</td><td>Target</td><td>Ensure a 15% reduction of properties rated troubled that pose a high risk of financial default or non-compliance with HUD business agreements.</td></tr>
<tr><td>Achievements</td><td>As of June 30, 2014, Multifamily reported a reduction of 71% properties rated troubled that pose a high risk of financial default or non-compliance with HUD business agreements.</td></tr>
<tr><td colspan="3">Strategic Goal 2 (G2): Meet the Need for Quality Affordable Rental Homes</td></tr>
<tr><td colspan="3">G2 Sub Goals

2B Preserve quality affordable rental housing, where it is needed most, by simplifying and aligning the delivery of rental housing programs.</td></tr>
<tr><td rowspan="2">FY 2014 Data</td><td>Target</td><td>Provide 26,291 Low Income Housing Tax Credit / Tax Exempt (LIHTC/TE) developed units for fiscal years 2014.</td></tr>
<tr><td>Achievements</td><td>As of June 30, 2014, Multifamily completed 30,053 LIHTC/TE units, thus surpassing the target as a result of increased Multifamily activity.</td></tr>
</table>

Management Initiatives and Tools for Multifamily Production

The Office of MHP has enhanced policies and implemented initiatives in an effort to continue serving the community while maintaining financial viability. The initiatives are:

- ***Multifamily Accelerated Processing.*** MAP is the primary tool used by the Office of MHP to expedite and manage the development process. MAP allows approved lenders to perform most of the underwriting activities that were once performed by HUD staff and submit an underwriting summary and recommendation to HUD. Currently, 97 lenders are approved to process loans under MAP. Participating MAP lenders are required to perform yearly internal control reviews of a sampling of the MAP loans endorsed by HUD. If the reviews disclose weaknesses in processing procedures, FHA's Lender Quality and Monitoring Division (LQMD) works with the lender to improve internal control procedures and ensures that lender's staff receives training on the new processes. In addition, LQMD conducts annual in-depth reviews of loans processed by MAP lenders to provide assurance on the general loan quality. During fiscal year 2014, LQMD performed reviews on the 22 top MAP lenders, who are responsible for 84 percent of MAP lending volume. The MAP Guide implements various underwriting changes and updates to relevant processing standards. Guide is scheduled for another update in fiscal year 2015. The updates incorporate all Mortgagee Letters, Housing notices, administrative guidance and changes based on operation experience.

- ***Credit Risk Management.*** FHA created a loan committee approval structure for the purpose of aligning Hub and Program Center loan commitment authority with the management of credit risks and to ensure the integrity and stability of the FHA Insurance Fund. This credit risk process provides a method to ensure oversight of Hub and Program Center commitment authority and to ensure consistency in underwriting throughout the nation, as well as to provide a platform to share best practices.

OFFICE OF RECAPITALIZATION

FHA's Multifamily Office of Recapitalization (Recap) is responsible for the preservation and recapitalization of federally assisted affordable housing. Recap oversees and processes financial transactions to ensure the long-term physical and financial viability of affordable rental housing. In conducting the business of preserving affordable housing, Recap is responsible for ensuring compliance with relevant laws and statutes. The following programs are administered by Recap:

Mark-to-Market (M2M) preserves affordability and availability of low-income Multifamily rental properties with federally insured programs. The purpose of M2M is to reduce rents to market levels by restructuring existing debt to levels supportable by these rents. The Green Initiative is also available through this program to assist owners in rehabilitating their properties in the most sustainable way feasible. In fiscal year 2014, Recap processed 37 projects in M2M. Twenty-one of these properties, with 1,626 units, were full debt restructurings and 14 projects, with 1,255 units, were completed as rent restructurings. Of the 21 full debt restructurings, 17 project owners with 1,063 units have elected to participate in M2M's Green Initiative program. The remaining two projects were completed under the American Opportunity Tax Credit program.

Rental Assistance Demonstration (RAD) allows proven financing tools to be applied to at-risk public and assisted housing. RAD is a central part of the Department's rental housing preservation strategy, which works to preserve the nation's stock of deeply affordable rental housing, promote efficiency within and among HUD programs, and build strong, stable communities. As of September 30, 2014, 68 RAD first component applications were closed, covering 6,048 units and representing $319.8 million in new investment. An additional 7,662 units have been converted through the RAD second component.

Section 236 Preservation serves as a centralized processing model for the majority of Section 236 preservation activity through the Office of Recapitalization. Section 236 property owners and purchasers no longer submit applications to the Multifamily Regional Center or Satellite Office. This modification of HUD's current Section 236 transaction procedures is designed to streamline how Section 236 prepayment applications and related requests are processed, and to assign dedicated staff to oversee the complex work involved in these transactions.

Highlighted—Rental Assistance Demonstration

Lexington Housing Authority-North Carolina

The Lexington Housing Authority (LHA) in North Carolina is converting all of its public housing units to long-term Section 8 rental assistance through RAD. Although the LHA has maintained its properties well, persistent cutbacks in the Capital Fund program have created an extensive capital needs backlog. RAD presented the LHA with an option to raise the private debt and equity necessary to finance these substantial repairs. Without RAD, the LHA feared it would lose one of its properties, which would seriously impede its ability to meet the affordable housing needs of Lexington's low-income residents.

The LHA submitted applications for all three of its projects with the goal of accessing the financing necessary for substantial rehabilitation of their public housing units. For each project, the LHA will be combining Section 8 Project-Based Rental Assistance through RAD with tax-exempt bond financing, FHA mortgage insurance and Low-Income Housing Tax Credits. Through RAD, LHA will have the funding and stability necessary to make significant repairs that are responsive to the needs of their residents.

OFFICE OF ASSET MANAGEMENT AND PORTFOLIO OVERSIGHT

As of September 30, 2014, FHA's Multifamily insured portfolio totaled 10,669 mortgages with a total outstanding principal balance of approximately $69.5 billion.

Management Initiatives and Tools for Asset Management and Portfolio Oversight

FHA's Multifamily Office of Asset Management and Portfolio Oversight (OAMPO) has significantly improved the accuracy and timeliness of its processes in recent years through automation and workload streamlining. Better management information and updated systems have allowed FHA to make improvements in the physical condition of its Multifamily portfolio and the lives of residents. The following highlights some of the achievements made during the year:

- ***Portfolio Assessment****:* OAMPO established a risk rating methodology for the assessment of the insured and non-insured properties in the Multifamily portfolio. All properties have been rated and those properties that have a risk rating that indicates troubled or potentially trouble have been evaluated multiple times. The quality of the risk ratings has steadily improved as the project managers have become more familiar with the methodology and regularly apply it.

- ***Counterparty Oversight***: In January 2014, the Lender Quality Monitoring Division (LQMD) was transferred to OAMPO to create a comprehensive approach to the management of lenders and servicers and their respective portfolio of properties. In conjunction with the transfer, changes were implemented to the lender review process that expanded the scope of the review and incorporated trend and peer group analyses. In addition, OAMPO is developing a lender and servicer rating methodology that recognizes the business model of the counterparty, its financial condition, and its portfolio performance and combines the trend and peer group analytics from the lender review process to support relationship management.

- ***Civil Money Penalties (CMPs) Pilot for Owners*****:** The Civil Money Penalties (CMP) Pilot Program launched as a joint collaboration between the Departmental Enforcement Center, Real Estate Assessment Center (REAC), Office of General Counsel, and Multifamily Asset Management in late 2013. The CMP pilot targeted Multifamily owners with properties in poor physical condition and assessed civil money penalties in order to compel them to improve the condition of their properties. As a result of participation, multiple owners improved their properties physical conditions, which lead to improved REAC scores or settlement agreements. The findings of the CMP Pilot were used to help draft a new physical inspection protocol under Section 230 of the 2014 Appropriations Act. The protocol is currently being review and will be issued in fiscal year 2015.

- ***Improved Counterparty Involvement***: OAMPO , in conjunction with the Office of MHP, released a Mortgagee Letter allowing lender and servicers to voluntarily administer the non-critical repair escrow accounts for new 223(a)(7) and 223(f) transactions. Several lenders and servicers have already applied and been granted delegation authority regarding non-critical repair escrow account administration.

- ***Property Disposition***: In fiscal year 2014, FHA sold 13 properties, closing eight Multifamily properties to successful bidders. Gross proceeds on the closed properties totaled $7.4 million, which represent a 27 percent rate of return for FHA based upon the UPB. FHA took action to prevent three foreclosures; Hill Homes, a cooperative ownership property where FHA assisted the homeowners in retaining the property and provided guidance on how repairs could be accomplished; and Willow Run II and Terrace, where FHA facilitated sales by the existing owner that allowed FHA to recoup 100 percent of the potential FHA insurance claim in lieu of foreclosing. Moreover, in fiscal year 2014 FHA experienced a large number of Owners/Developers who purchased, refinanced, redeveloped, or revitalized previously sold properties with active Foreclosure Sale Use Agreements/Deeds. This demonstrates FHA's property disposition programs' success and continuing commitment to preserving the long-term viability of affordable multifamily housing assets. In addition, FHA administered $72.4 million in active Upfront Grants on redevelopment or rehabilitation activities, creating or restoring affordable housing assets for nine post-sale properties.

Management Initiatives and Program Improvements

MHP initiated a process to review and streamline application processing to be more efficient and to better handle an increased loan volume. This process includes a partial electronic delivery of loan applications and an effort to reengineer MHP's entire business process and update the information technology platform to better manage the insurance fund and meet the future needs of the industry.

Multifamily Transformation

The Office of Multifamily Housing continues to move forward with the Multifamily for Tomorrow (MFT) transformation initiative. Through this initiative, the Office of Multifamily Housing will modernize and improve its business model for partners and stakeholders, cultivate an exceptional environment for employees, and realize significant savings.

In the aftermath of the 2008 financial crisis, the nature of the business for the Office of Multifamily Housing changed drastically. The work both increased in volume and grew in complexity at a time when the Federal budget climate became more challenging. As the work volumes increased, the number of staff available to perform the work continued to decrease. As Multifamily worked to adjust to these challenges, it became clear that Multifamily would have to identify ways to accomplish more work with fewer resources.

Significant improvements were made through *Breaking Ground* in Production and *Sustaining our Investments* in OAMPO; however, challenges remained across the country, including geographic fragmentation, workload imbalances, inconsistent customer service, and operational practices that do not effectively manage risk or utilize the talent of employees.

MFT was announced in April of 2013 and includes the following four components, designed to meet ongoing challenges including increasing volumes, staff attrition, an increasing focus on risk management, and the need for efficiency in the current budgetary environment:

- ***National Workload Sharing*** to evenly distribute the Production and OAMPO workload across the country. This will mitigate pressure on staff and reduce wait time and backlogs for customers.

- ***The Underwriter Model in Production*** to increase the efficiency of processing applications, provide improved customer service, and better manage risk. Applications will be segmented according to risk and complexity and assigned to the appropriate underwriter. The underwriter will manage the end-to-end review of the application, drawing in technical experts, such as Construction Analysts and Appraisers.

- ***The Account Executive Model in Asset Management*** to improve risk management and increase efficiency through alignment of the portfolio based on staff expertise. Three specialized roles were created. Account Executives will manage non-troubled assets, Senior Account Executives will manage more complex and potentially troubled assets, and Asset Resolution Specialists will manage the most complex, risky, or troubled assets.

- ***Streamlining*** the organizational structure in headquarters and the field to enhance communication, consistency, and accountability, and to streamline the decision-making process.
  - In Headquarters, Multifamily is realigning its headquarters organizational structure into four offices: the Office of Production, the Office of Asset Management and Portfolio Oversight, the Office of Recapitalization, and the Office of Field Support and Operations. These changes will reduce duplication and provide better support and service to the field and to our external stakeholders.
  - In the field, Multifamily is moving from 17 Hubs to a 5-region field structure. Over the next two years, MFT will be implemented through 5 separate waves that correspond with each of the following new regions, plus an additional wave for headquarters. The completion of each wave will result in the establishment of a new Multifamily region functioning with all four elements of the new Multifamily business model. Based on directions received from Congress, OAMPO employees will continue to operate in existing locations nationwide.

In fiscal year 2014, the four components were implemented in Headquarters and the Southwest region. MFT will continue its transformative efforts in fiscal year 2015.

Risk Management

The Office of MHP imbedded risk management in all of its programs and processes. Borrower mortgage credit analysis became central to FHA's underwriting standards. MHP revised program underwriting standards, created both National and Hub loan committees to review and approve loans, and produced new loan closing documents. Working with risk management staff, they developed new credit policies and held monthly reviews of the portfolio performance and of the new production data. In an effort to improve its overall risk management, the Office of MHP is revising lender/underwriter qualifications to further minimize the Department's risk. During fiscal year 2014, Multifamily continued to introduce initiatives with a goal of managing risk within its programs, given the current state of the housing market. The improvements from this issuance increased the net worth requirements for FHA-approved lenders, thereby ensuring that FHA lenders are sufficiently capitalized.

In addition, Multifamily uses a Multifamily Risk of Claim (MROC) scoring algorithm to measure credit risk and the probability of a loan claiming. A risk management assessment is conducted monthly to review portfolio performance by lender and by loan, for each geographic area, in an effort to determine trends in defaults and delinquency, application sharing and areas of concerns.


HOSPITAL

Office of Healthcare Programs

The Office of Healthcare Programs (OHP) administers programs that enable low cost financing of health care facility projects and improve access to quality health care by reducing the cost of capital.

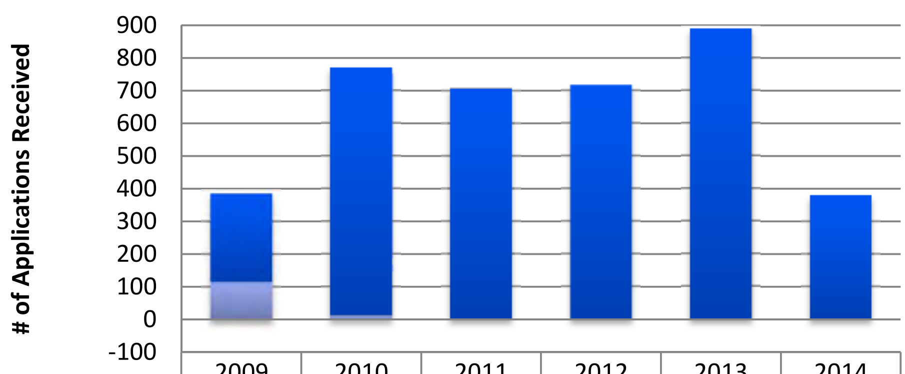
Section 232: Mortgage Insurance for Residential Care Facilities

The Residential Care Facilities program insures loans to finance the construction, substantial rehabilitation, acquisition or refinancing of healthcare facilities. Eligible facilities include nursing homes, intermediate care facilities, board and care homes, and assisted living facilities. During fiscal year 2014, OHP issued 508 commitments totaling $8.77 billion for 53,969 units. At the end of fiscal year 2014, the portfolio contained 3,125 loans with an unpaid principal balance of $23.1 billion. As evidenced by the chart below, since fiscal year 2009, industry demand for the program has remained relatively high; 379 applications were received in fiscal year 2014.

"FHA's Healthcare Programs are filling a gap that exists in the current market. By encouraging private lending and reducing the cost of capital for healthcare facilities, the programs work to decrease healthcare costs, increase access to quality care, and build healthy communities."

Roger Miller
Deputy Assistant Secretary
for Healthcare Programs

Residential Care Application Volume

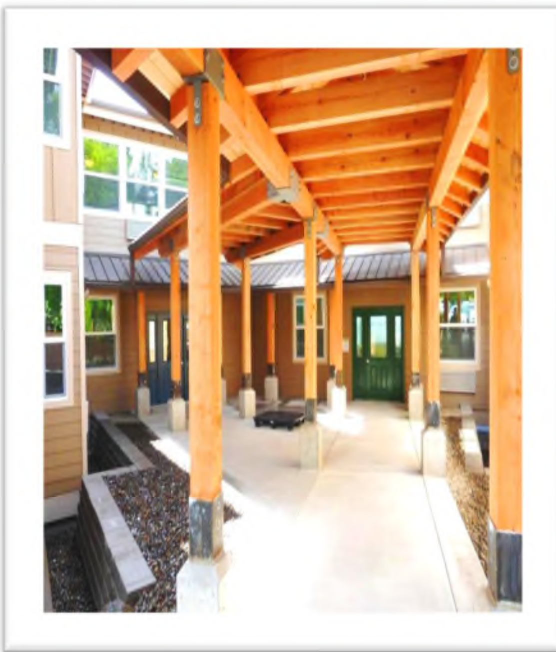


	2009	2010	2011	2012	2013	2014
OHP	271	758	708	716	888	379
MultiFamily	114	10	0	0	0	0

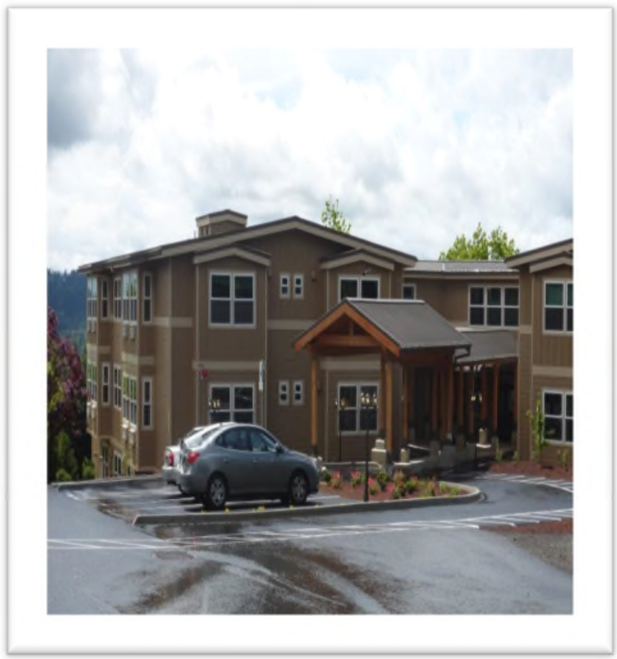
The following success stories highlight some of FHA's achievements and ongoing improvement projects recognized through the OHP during fiscal year 2014:

Highlighted— Section 232 Project - Oatfield Estates II

Oatfield Estates II, located in Milwaukie, Oregon, was provided a $4.1 million FHA-insured loan for the construction of 20 memory care and four acute Assisted Living units. The facility opened in June 2014, and highlights innovation in new construction and resident services. The project's construction approach consisted of setting factory-assembled building modules in place on concrete foundations and "stitching" them together. Final building finishes and site work were added to produce a complete project.



Oatfield Estates II - Construction



Oatfield Estates II - Completed

At Oatfield Estates II, proprietary software allows staff to monitor numerous resident wellness factors and movement electronically. Data is collected and used to analyze the health and activities of residents. Residents' health statistics and living patterns can be viewed by family members through a secure website that is accessible 24 hours a day. These technology features are combined with resident life-enhancing facility design and amenities that include spacious lawns, old growth trees, walking paths that lead to a year-round garden clubhouse, a chicken coop, and over an acre of on-site organic garden beds—part of a horticultural therapy program. The facility's unique care has attracted media attention, including national television coverage.

Highlighted—Section 232 Project-Willow Gardens

Willow Gardens, located in New Rochelle, NY was approved for a $12 million substantial rehabilitation loan in fiscal year 2014. The loan will be used to rehabilitate two floors of an existing vacant building to house 41 memory care units. The project will also leverage a $2.5 million HEAL (Health Care Efficiency and Affordability Law) grant from the State of New York.

Willow Garden, New Rochelle, New York

The third and fourth floors of the building will also be rehabbed to accommodate a HUD Section 202 grant project for 32 subsidized independent living units. Both projects are being developed by United Hebrew, a non-profit, non-sectarian organization that currently owns and operates a multi-service senior living campus in New Rochelle. Through that campus, community-based programs and services, United Hebrew works with over 600 clients daily.

The Section 232 project alone is projected to contribute over $26 million from construction activities and $11 million in ongoing operations to the local economy. The project is an excellent example of how FHA mortgage insurance, state grant funds, and the HUD Section 202 grant program can work together to create a viable, multi-use property to serve a broad range of needs for the local community.

OFFICE OF RESIDENTIAL CARE FACILITIES (ORCF) ACCOMPLISHMENTS

Published Section 232 Program Handbook

The Section 232 Program had long lacked a comprehensive handbook to guide the industry. Section 232 policies were dispersed among many different publications spanning many years. This year ORCF published a comprehensive guide to the Section 232 Program covering all aspects of production and asset management. Published in May, the handbook sets forth various policies and protocols, including those reflected in the Final Rule of September 7, 2012 (the "Accountability Rule"), as well as various documents, in mortgagee letters, and in other publications. The Handbook became effective September 1, 2014.

Published Mortgagee Letter on Section 232 Portfolios and Master Leases

Many owners and operators have interests in more than one facility and wish to obtain FHA financing. Insuring multiple facilities in a portfolio can concentrate risk; accordingly, ORCF has long taken steps to manage such concentrations. ORCF published Mortgagee Letter 14-06, "Portfolio and Master Lease Guidance" setting forth FHA's policy with respect to operational, financial and legal information needed for a portfolio review. This mortgagee letter also provided formal guidance on the use of master leases, which allow ORCF to manage portfolio risk by making cash flow available from performing facilities to other facilities in a portfolio when needed to meet debt service requirements.

Economic Impact of 232 New Construction/Substantial Rehabilitation Projects

In addition to providing important healthcare facilities, FHA construction and rehabilitation projects have a significant economic impact on local communities, including a substantial impact on employment. In fiscal year 2014, the Section 232 Program insured 32 projects in 18 states creating over 6,497 full-time equivalent construction jobs with a total construction economic impact of $904 million. Once the projects are fully built, the residential healthcare facilities will create over 3,504 full-time equivalent jobs in healthcare and related fields and provide a total annual economic impact of $449.5 million to the local communities.

Section 242: Mortgage Insurance for Hospitals

Mortgage insurance for hospitals provides access to affordable financing for capital projects, including new construction or modernization and refinancing. Clients range from small rural hospitals to major medical centers. Hospitals with FHA-insured loans serve as community anchors, providing jobs as well as health care services. FHA currently has 112-active hospital loans with unpaid principal balances totaling $8.5 billion. In fiscal year 2014, FHA issued or approved seven insurance commitments and loan modifications totaling $508 million.

Highlighted— Section 242 Project - Coosa Valley Medical Center

Coosa Valley Medical Center (CVMC) is a non-profit hospital serving Sylacauga, AL and the surrounding communities. CVMC is an acute care facility, which provides emergency, outpatient, and obstetric services. CVMC also provides nursing home care, a transitional care unit, and senior behavioral care.

Coosa Valley Medical Center-Sylacauga, Alabama

Recently, the hospital added a new tower, the third major addition since the initial facility opened in 1945. The FHA-insured mortgage loan for $51.3 million was used to refinance existing capital debt and purchase a small amount of equipment and related construction. By refinancing at the current market rate, CVMC financing will experience a material reduction in interest expense, with an estimated $8.2 million of total debt service savings over the life of the loan. This is a remarkable institution that has transitioned over the course of seventy years to provide critical services to a rural community.

Highlighted— Section 242 Project - St. Francis Hospital

St. Francis Hospital (SFH) is a nonprofit, acute care hospital, servicing Columbus, GA and the surrounding area. SFH provides 24-hour emergency care, invasive cardiology, vascular surgery, and orthopedic services. With a new state of the art facility, SFH is also a leading provider of obstetric care. In 2013, the hospital became an affiliate of the Mayo Clinic Care Network, which ensures access to specialty physicians for clinical diagnoses and offers additional patient referrals.

St. Francis Hospital Inc. – Columbus, Georgia

In 2011, SFH was approved for a FHA-insurance mortgage in the amount of $210 million. With the funds from the mortgage, SFH built a new clinical services tower, a new medical office building, and a new central energy plant, significantly renovated existing buildings, and refinanced $50 million in debt. In 2013, SFH requested an increase to the original FHA-insured mortgage insurance in order to support obstetric service expansion construction, purchase additional parcels of land for parking and construction of a garage, purchase equipment across the enterprise, and support IT upgrades. The additional $29.9 million mortgage insurance increase was issued in May 2014 and brought the total FHA-insured mortgage to $239.9 million.

Economic Impact of 242 Mortgage Insurance for Hospitals

Like Section 232 projects, FHA's hospital construction and rehabilitation projects have a significant economic impact on local communities. The Section 242 Program's construction projects are projected to create 2,107 jobs during construction, with $688 million of overall economic benefit following construction; fiscal year 2014 projects are estimated to generate annual economic activity of $77 million and 417 new jobs.

Performance Goals and Objectives

FHA's Office of Healthcare Programs is responsible for critical activities within the HUD Strategic Plan. Listed below are the Management Action Plan goals.

Performance Goals and Objectives		
Strategic Goal 2 (G2): Meet the Need for Quality Affordable Rental Homes		
G2 Sub Goal **2B** Preserve quality affordable rental housing, where it is needed most, by simplifying and aligning the delivery of rental housing programs		
Fiscal Year 2014	**Target**	Achieve sufficient initially endorsed Section 232 Residential Care Facility mortgages to preserve 750 occupied affordable assisted living facility dwelling units per year for Medicaid-eligible tenants in fiscal years 2014 and 2015.
	Achievements	As of June 30, 2014 OHP preserved 809 occupied affordable assisted living facility dwelling units, thus exceeding the target number of units.
Strategic Goal 3 (G3): Use Housing as a Platform to Improve Quality of Life		
G3 Sub Goal **3C** Promote the health and housing stability of vulnerable population		
Fiscal Year 2014	**Target**	Increase the average Centers for Medicare/Medicaid Services (CMS) quality rating of the FHA Residential Care Facility portfolio by issuing skilled nursing home commitments with an average CMS rating of 2.2 or higher.
	Achievements	As of June 30, 2014 the average quality CMS rating for new commitments issued for skilled nursing homes was 3.1 percent, substantially exceeding the performance goal.
Strategic Goal 4 (G4): Build Strong, Resilient and Inclusive Communities		
G4 Sub Goal **4D** Strengthen communities' economic health, resilience and access to opportunity.		
	Target	Enable hospitals to obtain affordable access to capital and provide needed healthcare to communities by processing 9 Section 242 mortgage insurance applications to approval or denial.
	Achievements	As of June 30, 2014, FHA processed 5 Section 242 hospital applications to approval or denial. This target was achieved as of the end of fiscal year 2014.

Risk Management

With an outstanding portfolio balance of $31.6 billion, managing risk has become a more important component of the OHP programs. OHP mitigates risk upfront during the underwriting process, after loan closing, through the identification and monitoring of troubled properties, and through actions to reduce claim payments.

OHP is working to improve underwriting standards and to ensure consistent applications while reducing processing time. Utilization of Lean Processing in the Section 232 program has improved business practices by standardizing nationwide submission and underwriting. This process has allowed for greater focus on the creditworthiness of the operator and its principals.

Proactive asset management also plays an important role in risk management and loss prevention. OHP Account Executives are assigned to manage each lender portfolio and turnaround teams; working in conjunction with credit risk officers from the Office of Risk Management and Regulatory Affairs (ORMRA) to address and resolve problems early. Approaches to loss prevention include working with state agencies on early notification of potential adverse action; expediting refinancing; working with lenders who have identified potential owners, operators or equity providers; 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.

Additionally, OHP is developing standard policies for the overall asset management and loss mitigation process. Specifics include reviewing underwriting standards for the Section 242 program and revising Section 232 regulatory agreements and other closing documents to protect HUD's interest. New and updated handbooks for both programs have been published to provide guidance to lenders, HUD staff, and other program constituents. OHP is implementing improved information technology solutions to better manage portfolio risks and monitor healthcare facilities.

Office of Housing Counseling

The Housing Counseling Program is authorized by Section 106 of the Housing and Urban Development Act of 1968, as amended by the Dodd-Frank Act, to provide or contract with organizations to offer counseling to tenants and homeowners seeking to improve their housing conditions. Approximately 2,400 HUD-approved agencies currently provide these services. Although Housing Counseling activities are not funded through FHA resources, they have a significant impact on FHA programs.

"The mission of HUD's Office of Housing Counseling is to provide individuals and families with the knowledge they need to obtain, sustain, and improve their housing. We will accomplish this mission by supporting a strong national network of HUD-approved housing counseling agencies and counselors."

Sarah Gerecke
Deputy Assistant Secretary for
Office of Housing Counseling

HUD awards grants annually to HUD-approved housing counseling agencies through a competitive process. In fiscal year 2014, HUD awarded over $40 million in housing counseling grants to 292 agencies. More than $38 million in grants were allocated to support the full spectrum of housing counseling services, including homeless, rental, pre-purchase, post-purchase, reverse mortgage, and foreclosure prevention counseling. The remaining $2 million was awarded to provide counselors with training to effectively assist families with their housing needs.

The Office of Housing Counseling is proud to work with federal colleagues not only within HUD but also at other agencies to make sure that housing counseling addresses the needs of our constituents, especially veterans. The Office of Housing Counseling has assisted the Consumer Financial Protection Bureau in its outreach efforts, and worked closely with the Treasury Department to incorporate housing counseling into the foreclosure prevention efforts of the Administration's Make Home Affordable program.

Performance Goals and Objectives

The Office of Housing Counseling is responsible for critical activities within the HUD Strategic Plan. The Management Action Plan target activities that address Office of Housing Counseling' (OHC) Sub Goals are listed below.

<table>
<tr><th colspan="3">Performance Goals and Objectives</th></tr>
<tr><td colspan="3">Strategic Goal 1: Strengthen the Nation's Housing Market to Bolster the Economy and Protect Consumers</td></tr>
<tr><td colspan="3">G1 Sub Goal
1B Ensure equal access to sustainable housing financing and achieve a more balance housing market, particularly in underserved communities.</td></tr>
<tr><td rowspan="2">Fiscal Year 2014</td><td>Target</td><td>Track 1.5 million clients counseled through the HUD Housing Counseling program in fiscal year 2014.</td></tr>
<tr><td>Achievements</td><td>As of June 30, 2014, FHA tracked 995,616 client households that received counseling from HUD-Approved Housing Counseling Program. The OHC fell short of this ambitious goal because funding for the industry – both HUD and non-HUD sources – has declined significantly in recent years. This decline in funding, accompanied by increases in costs, limits the capacity of housing counseling agencies, and has even caused numerous counseling agencies to go out of business.</td></tr>
</table>

Highlighted: From Homelessness to Homeownership

Homelessness to Homeownership

FHA has seen tangible results on how its housing counseling programs have helped homeless veterans obtain affordable housing. A veteran dedicated himself to serving in the U.S. Army only to return home to Hawaii to find family conflicts and limited employment options. Faced with this reality, he soon became homeless as he continued to wait for his lease award on Hawaiian Home Lands. Fortunately, he was able to secure a room at the Kumuhonua Transitional Shelter on Oahu. While residing at the shelter he was introduced to Hawaiian Community Assets (HCA) a HUD certified housing counseling agency and began working with his dedicated counselor. He enrolled into the credit counseling program, and secured employment with the U.S. Army. His participation in the HCA program was very beneficial; he significantly increased his credit score, reduced his debt and was able to qualify for grant funds that served as a down payment on a home. As a result of participating in the HCA's Homebuyer Education Program, he was able to realize his longtime dream of homeownership.

Office of Risk Management and Regulatory Affairs

In 2010, FHA received Congressional approval to establish the Office of Risk Management and Regulatory Affairs (ORMRA) and create the position of Deputy Assistant Secretary for Risk Management and Regulatory Affairs, which reports directly to the Assistant Secretary for Housing – FHA Commissioner. The office functions within the Office of Housing to assess and manage program area risks for Single Family Housing, Multifamily Housing, and the Office of Healthcare Programs. Additionally within ORMRA, the Office of Manufactured Housing creates and enforces the national construction and safety standards for manufactured homes.

"Risk management is about understanding and explaining our risk well enough to enable the FHA's leadership to make informed choices as we set out to achieve our mission."

Frank Vetrano
Deputy Assistant Secretary for
Office of Risk Management and
Regulatory Affairs

ORMRA spearheaded FHA's aggressive and decisive actions to improve the health and trajectory of the MMI Fund, while ensuring continued access to mortgage credit for American families. Pricing and credit policies are now aligned to promote sustainable lending by strengthening pricing to systematically contribute to a capital cushion at all risk levels supporting the FHA mission. These changes combined with prudent risk limits have yielded substantial improvements in the quality of new loans endorsed by FHA.

In addition to aligning pricing and credit policies, the second key strategy to increasing the value of the Fund is to reduce the impact of poorly performing legacy loans that were the result of the recession. Expanded use of REO alternatives such as Note Sales and Claims without Conveyance of Title (CWCOT) has significantly reduced losses on distressed assets. FHA is positioned to increase focus on access to credit as a result of these key strategic credit initiatives in the aftermath of the recent crisis.

Finally, ORMRA has increasingly worked to coordinate efforts with program offices to better support the individual functions of Single Family, Multifamily and Healthcare programs. This is done by managing individual risk-focused credit committees for each of the program areas in addition to partnering directly with the program offices to help them develop better risk management practices. Key examples of these collaborative efforts include: 1) partnering with the Office of Multifamily Housing Programs in their development and execution of a clear methodology for prioritizing frontline asset managers' workloads by a consistent set of risk based criteria, and 2) working with the Office of Healthcare Programs to develop a more comprehensive data platform that facilitates enhanced metrics and analysis.

ANALYSIS OF FINANCIAL STATEMENTS

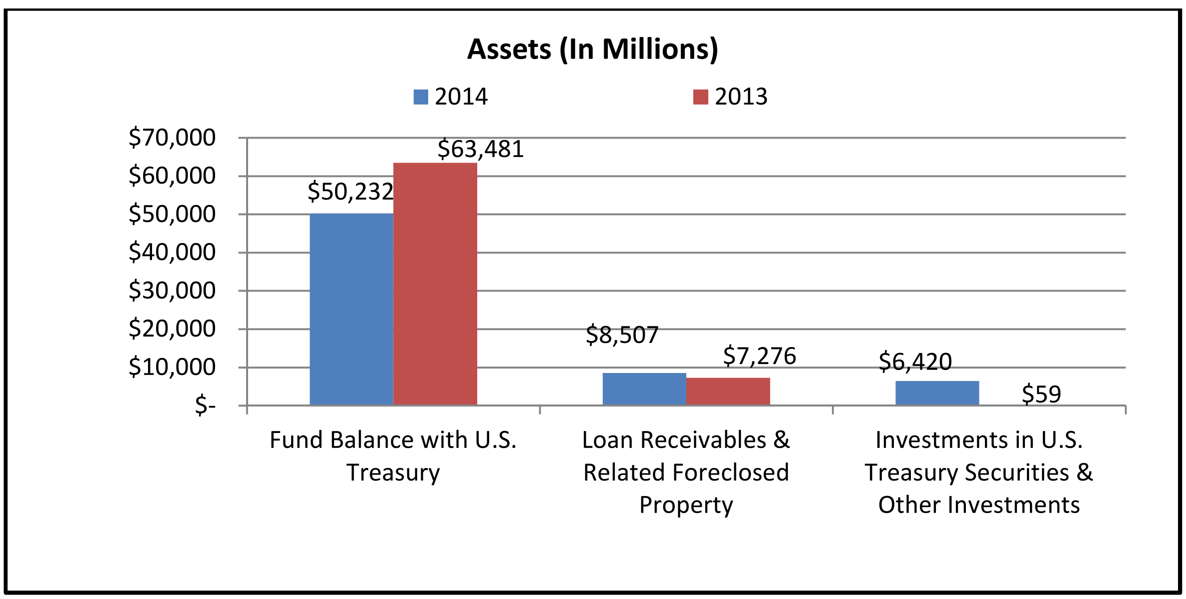
This section presents a summary analysis of FHA's financial statements. The financial statements in this report were prepared using General Accepted Accounting Principles (GAAP) in the United States for Federal entities, the Federal Credit Reform Act of 1990 and in accordance with the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements.* FHA's management is responsible for the integrity and objectivity of the financial information presented in the financial statements. This is the 22nd consecutive year FHA has received an unqualified audit opinion on its financial statements.

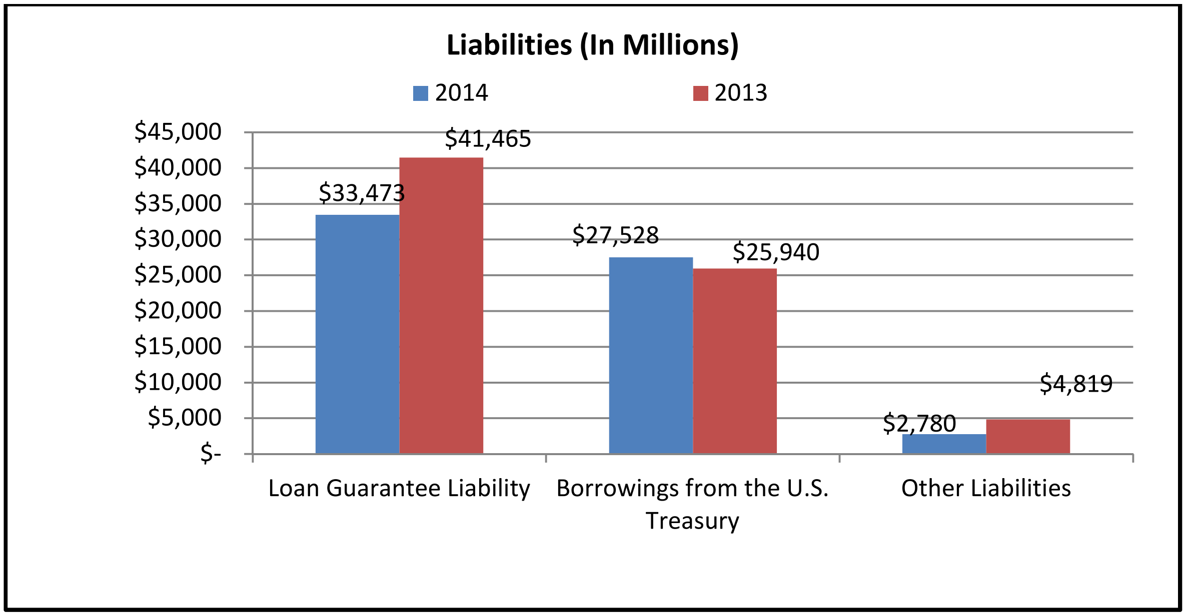
Overview of Financial Position

A summary of FHA's change in financial position from fiscal year 2013 to fiscal year 2014 is presented in the following sections on Assets and Liabilities, Net Cost and Budgetary Resources.

Assets and Liabilities

FHA's balance sheet assets primarily consist of fund balances with the U.S. Treasury. The nature of FHA's business requires it to carry, or acquire through borrowing, the fund balance necessary to pay estimated claim payments on defaulted guaranteed loans. Additionally, FHA must meet credit reform requirements of transferring subsidy expense and credit subsidy re-estimates. The subsidy expense and re-estimate calculations are based on assumptions of premium collections, prepayments, claims, and recoveries on credit program assets. Accordingly, FHA's net assets can fluctuate significantly depending largely on economic and market conditions and customer demand.





During fiscal year 2014, there was a $13,249 million decrease in fund balance with U.S. Treasury primarily attributable to an increase in MMI/CMHI investments in U.S. Treasury securities. Also, overall assets decreased due to disbursements exceeding collections (i.e., claim payments exceeding premium collections and proceeds from the sale of assets).

Loan Guarantee Liability

The loan guarantee liability (LGL) is comprised of two components, the liability for loan guarantee (LLG) for post-1991 loan guarantees and the loan loss reserves (LLR) for pre-1992 loan guarantees.

Post-1991 LLG

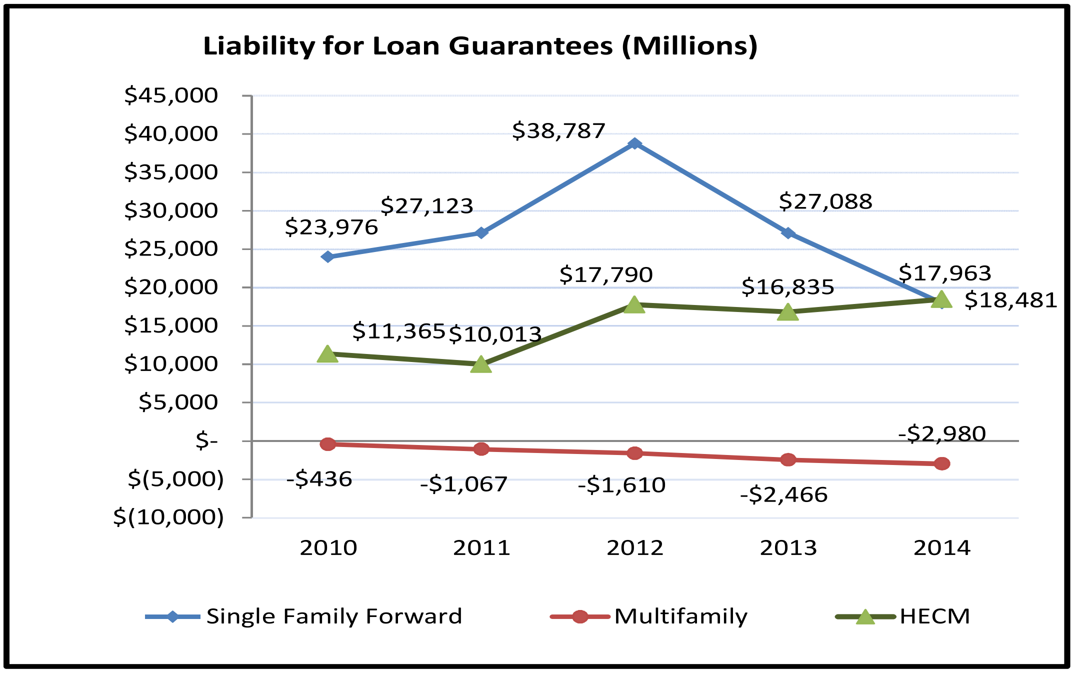
The LLG related to Credit Reform loans (made after September 30, 1991) is comprised of the present value of anticipated cash outflows, such as claim payments, premiums refunds, property expense for on-hand properties and sales expense for sold properties; less anticipated cash inflows, such as premium receipts, proceeds from property and note sales, and principal and interest on Secretary-held notes.

Schedule of Liability for Loan Guarantees (Dollars in Millions)				
	FY 2014	**FY 2013**	**Difference**	**% Change**
Single Family Forward	$ 17,963	$ 27,088	$ (9,125)	-34%
HECM	18,481	16,835	1,646	10%
Multifamily	(2,980)	(2,466)	(514)	21%
Total	**$ 33,464**	**$ 41,457**	**$ (7,993)**	**-19%**

The $9,125 million single family forward LLG decrease is primarily caused by to the inclusion of the 2014 book-of-business which is forecasted to add almost $ 9 billion in negative liability to the MMI Fund. Also the ramping up of the new policy requiring major loan servicers to facilitate Third Party Sale at foreclosure auctions in order to reduce reliance upon costly REO activities. HUD ran a limited pilot program in 2012 and then began national implementation in 2013 which has increased throughout the 2014 fiscal year.

The $1,646 million HECM LLG increase is primarily driven by more long term house price appreciation forecasts than short term forecasts. Also, for the fiscal year 2014 liability estimate, HECM recoveries as related to conveyance claim costs were adjusted this year to reflect increased maintenance and operation cost for projected conveyances. This increased cost will lower future expected recoveries, increasing liability.

The $514 million multifamily LLG decrease can be attributed to decreases in several multifamily programs. The Section 223(f) liability decreased by $297 million principally due to lower prepayment and claims expectations; as well as increased insurance-in-force. Section 232 Refinance liability decreased by $116 million due to a significant decrease in claims expectations coupled with large increase in insurance-in-force. The Section 242 decreased by $46 million due to higher premium revenue caused by decreased prepayment expectations as well as lower claims expected.



Pre-1992 Loan Loss Reserve (LLR)

FHA maintains loss reserves for the estimated costs of future mortgage insurance claims resulting from defaults that have occurred or are likely to occur among insured Single Family, Multifamily and Title I loan guarantees. FHA records a loss reserve for its pre-Credit Reform insured mortgages to provide for anticipated losses which may occur on claims for defaults that have taken place but have not yet been filed.

The LLR is computed using 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 sales and principal and interest on Secretary-held notes.

Overall, loss reserve increased by $1 million; from $8 million in fiscal year 2013 to $9 million in fiscal year 2014. The majority of the increase can be attributed to an increasing for pre-Credit Reform single family loans outstanding and decline in insurance-in-force.

Net Cost/ (Surplus)

In fiscal year 2014, FHA reported a net profit (surplus). The most important facet of FHA's cost and revenue activity is the treatment of loan guarantee subsidy cost. Loan guarantee subsidy cost is the estimated long-term cost to FHA of a loan guarantee calculated on a net present value basis, excluding administrative costs. The cost of a loan guarantee is the net present value of the estimated cash flows

paid by FHA to cover claims, interest subsidies, and other requirements as well as payments made to FHA, including premiums, penalties, and recoveries also included in the calculation.

Schedule of Net Cost (Surplus)
(Dollars in Millions)

	FY 2014	FY 2013	Difference	% Change
Program Cost	$ (3,108)	$ (6,717)	$ 3,609	-54%
Less: Program Revenues	2,181	2,681	(500)	-19%
Net Cost (Surplus)	**$ (5,289)**	**$ (9,398)**	**$ 4,109**	**-44%**

FHA had a net program surplus in 2014. The program cost difference is primarily due to the increase in single family gross costs with the public as a result of subsidy expenses in the MMI accounts. At the time of endorsement, future cash flows for single family guaranteed loans are projected to have positive cash flows over the life of the loans. This results in a negative subsidy. A primary driver in fiscal year 2014 compared to fiscal year 2013 is a reduction in negative subsidy expense due to a lower subsidy rate (less negative) and lower endorsement volume. In addition, program costs decreased due to an increase in the downward re-estimate in GI accounts.

Budgetary Resources

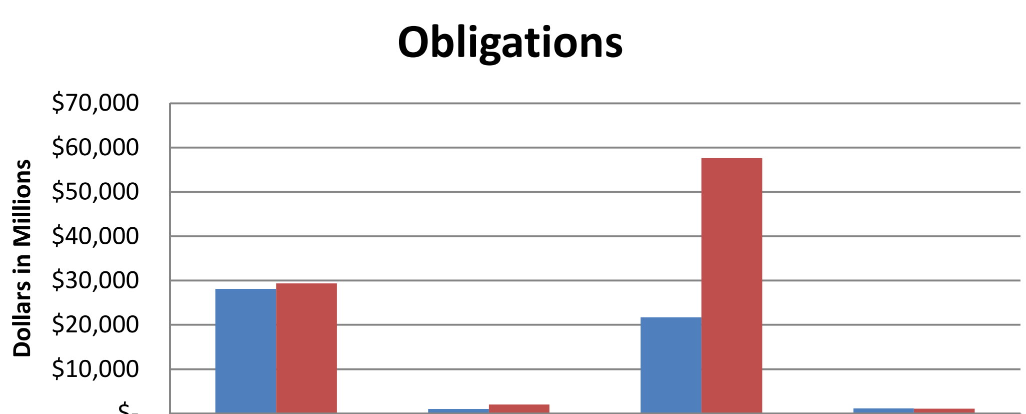
FHA finances its operations primarily through appropriations, borrowings from the U.S. Treasury, spending authority from offsetting collections, and prior year unobligated balances carried forward.

Offsetting collections include collections of premiums, fees, sales proceeds of credit program assets and credit subsidy transferred between different FHA accounts. Additionally, FHA's budgetary resources are reduced by repayments of borrowings, the return of the unobligated GI/SRI liquidating account balances to Treasury, the return of cancelled program funds, and non-expenditure transfers for working capital fund expenses.

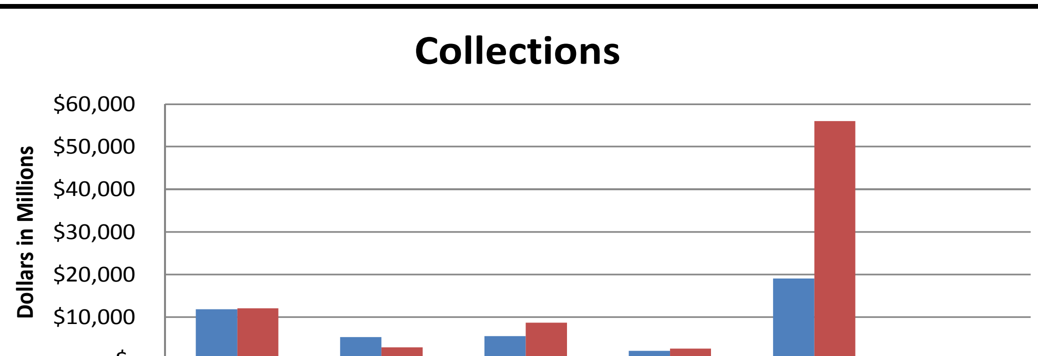
Budgetary Resources
(Dollars in millions)

	FY 2014	FY 2013	Difference	% Change
Offsetting Collections	$ 37,319	$ 77,618	$ (40,299)	-52%
Unobligated Balance Carried Forward	58,692	44,349	14,343	32%
Appropriations	367	7,525	(7,158)	-95%
Borrowing Authority	8,769	19,093	(10,324)	-54%
Recoveries, Transfers, and Other	564	283	281	99%
Total Budgetary Resources	**$ 105,711**	**$ 148,868**	**$ (43,157)**	**-29%**

These resources were used to cover the fiscal year 2014 obligations totaling $51,974 million. These obligations included: subsidy/re-estimate costs, claim payments on defaulted guaranteed loans, the cost of acquiring, maintaining and disposing of foreclosed properties and other. FHA collections totaled $44,493 million and included: premiums, notes, property, interest earned, subsidy/re-estimate, and other.



	Claims	Property Expenses	Subsidy and Reestimate	Other
FY 2014	$28,103	1,048	21,664	1,174
FY 2013	29,365	2,060	57,616	1,134



	Premiums	Notes	Property	Interest Earned	Subsidy and Reestimate	Other
FY2014	$11,885	5,319	5,572	2,111	19,078	528
FY 2013	$12,021	2,855	8,719	2,606	56,038	57

SYSTEMS, CONTROLS, AND COMPLIANCE

FHA continues to maintain and improve its overall financial management and system control environment by addressing areas identified through regular self-assessments, management reviews and independent auditor's reviews.

FHA Compliance with OMB Circular A-123, Management's Responsibility for Internal Control

An internal control certification statement is provided to the Chief Financial Officer by the Department's Assistant Secretaries to support the overall statement from the Secretary. Annually, Housing prepares an Internal Control Assurance Statement. This statement attests that Housing:

- Is in compliance with Sections 2 and 4 of the Federal Manager's Financial Integrity Act
- Systems generally comply with the requirements of the Federal Information Security Management Act (FISMA) requirements and Appendix III of OMB's Circular A-130, "Management of Federal Information Resources."

In addition, FHA conducted its assessment of the effectiveness of internal control over financial reporting in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this evaluation, FHA provides qualified assurance that its internal controls over financial reporting were operating effectively as of September 30, 2014, with the exception of one material weakness (Section 2) in the area of accounts receivable recognition. Other than the noted exception, no other material weaknesses were found in the design or operation of the internal control over financial reporting.

Fiscal Year 2014

Annual Assurance Statement on Internal Control over Financial Reporting

The Federal Housing Administration's (FHA) management is responsible for establishing and maintaining effective internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations. FHA conducted its assessment of the effectiveness of the FHA internal control over financial reporting in accordance with OMB Circular A-123, Management's Responsibility for Internal Control, Appendix A. Based on the results of this evaluation, FHA provides a qualified assurance that internal controls over financial reporting were operating effectively as of September 30, 2014 with the noted exception of one material weakness in the area of accounts receivable recognition. Other than the noted exception, the internal controls were operating effectively and no other material weaknesses were found in the design or operation of the internal controls over financial reporting.

Carol J. Galante

Assistant Secretary for Housing,
Federal Housing Commissioner

FHA Compliance with OMB Circular A-123, Financial Management Systems

FHA's management has reviewed FHA's core financial system and seventeen financial and mixed financial systems for compliance with the OMB Circular A-123 "Management's Responsibility for Internal Controls," and the Federal Financial Management Improvement Act 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 implements the U.S. Standard General Ledger at the transaction level. FHA's seventeen 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 since the financial crisis of 2008.

FHA management considers the existing systems capable of sustaining operation of the FHA insurance programs for the immediately foreseeable future. FHA management recognizes that its systems must eventually be modernized to meet advancing standards and new expectations for efficiency and flexibility. In 2014 FHA's investment in systems modernization applied current technologies to:

- Complete and implement a new, integrated business process for lender participation in FHA mortgage insurance programs including new analytical tools to assess lender financial condition,
- Begin pilot operations for a new Multifamily automated underwriting system in three Hub offices.

FHA's modernization investments are reducing FHA's dependence upon older systems.

Fiscal Year 2014 Significant Deficiencies

During fiscal year 2014, FHA management addressed two significant deficiencies identified in the fiscal year 2013 financial statement audit:

- *New system reporting and reconciliation for the Home Equity Conversion Mortgage (HECM) program need improvement.* FHA has implemented corrective procedures and reporting to improve reconciliation between HERMIT, a new system for HECM operations, and the general ledger and other related systems.
- *Undelivered orders for property-related contracts should be reviewed annually and deobligated promptly.* FHA has implemented quarterly reviews of inactive property-related contracts including reconciliation with HUD's procurement system and regular reporting of contracts requiring deobligation.

Fiscal Year 2014 Material Weakness

The Office of the Inspector General (OIG) has identified one material weakness in the Internal Control Report for FHA's 2014 financial statement audit. OIG stated in its finding that FHA did not recognize account receivables when claims to cash were established. Specifically, the OIG noted that account receivables were not accrued for settlement agreements and single family loans receivable balances were not supported with second mortgage notes.

Improper Payments Elimination and Recovery Act of 2010

In accordance with the Improper Payments Elimination and Recovery Act (IPERA) of 2010, enacted on July 22, 2010, and the OMB Memorandum dated April 14, 2011, FHA complied with the requirements and determined which of its program activities required review this year. Pursuant to the Act, FHA has analyzed the dollar volumes of each disbursement program for the period between May 1, 2013 and April 30, 2014. Based on a HUD threshold of $40 million, the following disbursements programs exceeded the threshold:

- Single Family Insurance Claims System (SFIC)
- Home Equity Conversion Mortgage (HECM) Notes
- Multifamily Insurance Claims (MFIC)
- Multifamily Notes
- Single Family Acquired Asset Management System (SAMS) Disbursement Program
- Contracts and Grants

During fiscal year 2014, limited risk assessments were conducted on all programs to determine that the programs are of low risk and there were no changes that might be vulnerable to improper payments. Our risk assessment revealed that there were no significant changes to processes by which the disbursements were processed, leading us to conclude that systems are not susceptible to improper payments. We conducted limited review of OIG audit findings and GAO audit recommendations in fiscal year 2014 to assess their impacts on improper payments. We have performed random statistical sampling and analyses of HECM, MFIC and SAMS case files and statistical testing of SFIC disbursements in fiscal year 2014. The findings from case files reviewed have confirmed that programs are not susceptible to significant risk of improper payments for the fiscal year 2014. In addition, FHA's internal control review required by OMB Circular A-123, Appendix A, concluded that each of these programs has adequate internal controls that are fully documented and implemented to control fraud, waste and abuse.

Legislation passed in 2010 requires agencies that enter into contracts worth more than $1 million in a fiscal year to complete a cost-effective program for identifying errors made in paying contracts and grants and recovering any improper payments. In fiscal year 2014, we estimated total contract disbursements of $111 million.

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 to implementing the controls established by the FHA, programs have taken specific actions to develop and regularly generate a report that identifies potential duplicate disbursements, researching questionable disbursements and initiating recovery actions for payments deemed to be improper.

FHA has established a payment recapture process for its claim disbursement systems. It has an extensive debt collection program to recover overpayments.

Limitations of Financial Statements

The following limitations apply to the preparation of the fiscal year 2014 financial statements:

- The financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C.3515 (b).
- While the statements have been prepared from the books and records of the entity in accordance with the formats prescribed by OMB, the statements are 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 U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

PRINCIPAL FINANCIAL STATEMENTS

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MESSAGE FROM THE DEPUTY ASSISTANT SECRETARY FOR FINANCE AND BUDGET

November 17, 2014

This year, Federal Housing Administration (FHA) has focused on improving risk management practices and as a result, received its 22nd consecutive unmodified audit opinion on its 2014 Financial Statement Audit. FHA has continued its efforts to enhance mortgage insurance program offerings and reduce operational risks to support appropriate, affordable housing opportunities and healthcare facilities across the country.

During fiscal year (FY) 2014, FHA was able to successfully resolve two significant deficiencies from the prior year to improve its reporting and reconciliation processes for the reverse mortgage service provider transactions, and to de-obligate remaining Undelivered Orders (UDOs) on expired property management contracts. For both findings, diligent efforts were made to improve data accuracy and system reporting capabilities.

FHA continued to strengthen the Mutual Mortgage Insurance (MMI) Fund and has made progress in restoring the capital reserve ratio. This improvement is the direct result of aggressive policy actions FHA has taken that led to lower rates of foreclosure, improved loss mitigation for troubled borrowers, and an improvement in recoveries to the Fund.

While the economy has continued to improve, higher levels of assistance through loss mitigation have also contributed to the downward trend in foreclosures. As a result, loss mitigation claims paid increased significantly by 91 percent, with 321,532 claims paid in FY2014 compared with 168,394 in FY2013. This was due in large part to increased borrower participation in the Home Affordable Modification Program (HAMP) that combines loss mitigation with a loan modification to provide sufficient relief to the borrower and helps FHA avoid costly foreclosure expenses. As part of the Distressed Asset Stabilization Program (DASP), which offers an alternative disposition for defaulted assets, FHA conducted four Single Family sales of 66,819 loans with an Unpaid Principal Balance (UPB) of $11.45 billion. These sales had the positive effect of reducing the amount of time properties would have been held in inventory, and the related costs to maintain them, while allowing FHA to recover a higher percentage of the UPB.

FHA has also realized a substantial drop in the total number of Real-Estate Owned (REO) properties held in inventory. Enhanced performance measures for third generation Management and Marketing (M&M III) contractors has significantly reduced holding times; down 34.3% over last year. The year-end inventory was at a low of 18,945 properties and M&M III REO disposition activities have resulted in a $1.5 billion savings to the MMI Fund. Looking forward, management will continue to develop operational efficiencies to further reduce costs.

Despite the many accomplishments of FY'14, FHA was cited for one material weakness and two significant deficiencies in the areas of accounts receivable and liability recognition, and general and application controls of FHA Information Technology systems. Management has already taken steps to resolve these findings, and will continue working to address the remaining auditor recommendations in the coming fiscal year.

Following the challenges of the recession, the fiscal health of FHA is now stronger due to the decisive actions that have been taken over the last five years. Going forward, FHA, and the Office of Finance and Budget in particular, will continue to make sure that more effective internal controls and operational efficiencies are strengthening FHA's role in the housing market.

George John Rabil

George J. Rabil
Deputy Assistant Secretary
for Finance and Budget

FEDERAL HOUSING ADMINISTRATION
(AN AGENCY OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT)
CONSOLIDATED BALANCE SHEETS
As of September 30, 2014 and 2013
(Dollars in Millions)

	FY 2014	FY 2013
ASSETS		
Intragovernmental		
Fund Balance with U.S. Treasury (Note 3)	$ 50,232	$ 63,481
Investments (Note 4)	6,379	3
Other Assets (Note 7)	1	1
Total Intragovernmental	$ 56,612	$ 63,485
Investments (Note 4)	$ 41	$ 56
Accounts Receivable, Net (Note 5)	1,459	13
Loans Receivable and Related Foreclosed Property, Net (Note 6)	8,507	7,276
Other Assets (Note 7)	47	379
TOTAL ASSETS	**$ 66,666**	**$ 71,209**
LIABILITIES		
Intragovernmental		
Accounts Payable (Note 8)	$ 3	$ 8
Borrowings from U.S. Treasury (Note 9)	27,528	25,940
Other Liabilities (Note 10)	1,689	3,983
Total Intragovernmental	$ 29,220	$ 29,931
Accounts Payable (Note 8)	$ 459	$ 404
Loan Guarantee Liability (Note 6)	33,473	41,465
Other Liabilities (Note 10)	629	424
TOTAL LIABILITIES	**$ 63,781**	**$ 72,224**
NET POSITION		
Unexpended Appropriations (Note 16)	$ 872	$ 869
Cumulative Results of Operations	2,013	(1,884)
TOTAL NET POSITION	**2,885**	**(1,015)**
TOTAL LIABILITIES AND NET POSITION	**$ 66,666**	**$ 71,209**

The accompanying notes are an integral part of these statements.

FEDERAL HOUSING ADMINISTRATION
(AN AGENCY OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT)
CONSOLIDATED STATEMENTS OF NET COST
For the Periods Ended September 30, 2014 and 2013
(Dollars in Millions)

	FY 2014	FY 2013
Single Family Forward		
Intragovernmental Gross Costs (Note 12)	$ 736	$ 727
Less: Intragovernmental Earned Revenue (Note 13)	1,340	1,720
Intragovernmental Net Costs	(604)	(993)
Gross Costs With the Public (Note 12)	(6,350)	(5,840)
Less: Earned Revenues (Note 13)	17	28
Net Costs With the Public	(6,367)	(5,868)
Single Family Forward Net Cost (Surplus)	**$ (6,971)**	**$(6,861)**
HECM		
Intragovernmental Gross Costs (Note 12)	$ 59	$ 53
Less: Intragovernmental Earned Revenue (Note 13)	711	823
Intragovernmental Net Costs	(652)	(770)
Gross Costs With the Public (Note 12)	2,673	(565)
Less: Earned Revenues (Note 13)	1	2
Net Costs With the Public	2,672	(567)
HECM Net Cost (Surplus)	**$ 2,020**	**$(1,337)**
Multifamily/Healthcare		
Intragovernmental Gross Costs (Note 12)	$ 168	$ 142
Less: Intragovernmental Earned Revenue (Note 13)	67	62
Intragovernmental Net Costs	101	80
Gross Costs With the Public (Note 12)	$ (1,024)	$ (1,927)
Less: Earned Revenues (Note 13)	45	46
Net Costs With the Public	(1,069)	(1,973)
Multifamily/Healthcare Net Cost (Surplus)	**$ (968)**	**$(1,893)**
Salaries and Administrative Expenses		
Intragovernmental Gross Costs (Note 12)	$ 17	$ 22
Less: Intragovernmental Earned Revenue (Note 13)	-	-
Intragovernmental Net Costs	17	22
Gross Costs With the Public (Note 12)	613	671
Less: Earned Revenues (Note 13)	-	-
Net Costs With the Public	613	671
Adminstrative Expenses Net Cost (Surplus)	**$ 630**	**$ 693**
Net Cost of Operations	**$ (5,289)**	**$ (9,398)**

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 POSITION
For the Periods Ended September 30, 2014 and 2013
(Dollars in Millions)

	FY 2014 Cumulative Results of Operations	FY 2014 Unexpended Appropriations	FY 2013 Cumulative Results of Operations	FY 2013 Unexpended Appropriations
BEGINNING BALANCES	**$ (1,884)**	**$ 869**	**$ (15,966)**	**$ 862**
Budgetary Financing Sources				
Appropriations Received (Note 16)	-	367	-	7,604
Other Adjustments (Note 16)	-	(37)	-	(39)
Appropriations Used (Note 16)	327	(327)	7,490	(7,490)
Transfers-Out (Note 15 and Note 16)	-	-	-	(68)
Other Financing Sources				
Transfers In/Out (Note 15)	497	-	550	-
Imputed Financing (Note 12)	15	-	18	-
Other	(2,231)	-	(3,374)	-
Total Financing Sources	**$ (1,392)**	**$ 3**	**$ 4,684**	**$ 7**
Net (Cost) Surplus of Operations	**5,289**	**-**	**9,398**	**-**
ENDING BALANCES	**$ 2,013**	**$ 872**	**$ (1,884)**	**$ 869**

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, 2014
(Dollars in Millions)

	FY 2014 Budgetary	FY 2014 Non-Budgetary	FY 2014 Total
Budgetary Resources:			
Unobligated balance brought forward, October 1	837	57,855	58,692
Unobligated balance brought forward, October 1, as adjusted	837	57,855	58,692
Recoveries of prior year unpaid obligations	71	765	836
Other changes in unobligated balance (+ or -)	(271)	(1)	(272)
Unobligated balance from prior year budget authority, net	637	58,618	59,255
Appropriations (discretionary and mandatory)	367	-	367
Borrowing authority (discretionary and mandatory)	-	8,769	8,769
Spending authority from offsetting collections (discretionary anc	13,317	24,002	37,319
Total budgetary resources	**14,321**	**91,389**	**105,710**
Status of Budgetary Resources:			
Obligations incurred	6,169	45,820	51,989
Unobligated balance, end of year:			
Apportioned	85	13,494	13,579
Unapportioned	8,067	32,075	40,142
Total unobligated balance, end of year	8,152	45,569	53,721
Total budgetary resources	**14,321**	**91,389**	**105,710**
Change in Obligated Balance:			
Unpaid obligations, brought forward, October 1 (gross)	634	2,539	3,173
Uncollected customer payments from Federal sources, brought	(3)	-	(3)
Obligated balance, start of year (net), before adjustments (+	631	2,539	3,170
Obligated balance, start of year (net), as adjusted	631	2,539	3,170
Obligations incurred	6,169	45,820	51,989
Outlays (gross) (-)	(6,145)	(45,366)	(51,511)
Change in uncollected customer payments from Federal	(6)	-	(6)
Recoveries of prior year unpaid obligations (-)	(71)	(765)	(836)
Unpaid obligations, end of year (gross)	587	2,229	2,816
Uncollected customer payments from Federal sources, end of	(9)	-	(9)
Obligated balance, end of year (net)	578	2,229	2,807
Budget Authority and Outlays, Net:			
Budget authority, gross (discretionary and mandatory)	13,684	32,771	46,455
Actual offsetting collections (discretionary and mandatory) (-)	(13,311)	(31,182)	(44,493)
Change in uncollected customer payments from Federal	(6)	-	(6)
Budget authority, net (discretionary and mandatory)	367	1,589	1,956
Outlays, gross (discretionary and mandatory)	6,145	45,366	51,511
Actual offsetting collections (discretionary and mandatory) (-)	(13,311)	(31,182)	(44,493)
Outlays, net (discretionary and mandatory)	(7,166)	14,184	7,018
Less Distributed offsetting receipts (-)	2,668	-	2,668
Agency outlays, net (discretionary and mandatory)	**(9,834)**	**14,184**	**4,350**

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, 2013
(Dollars in Millions)

	FY 2013 Budgetary	FY 2013 Non-Budgetary	FY 2013 Total
Budgetary Resources:			
Unobligated balance brought forward, October 1	4,074	40,275	44,349
Unobligated balance brought forward, October 1, as adjusted	4,075	40,275	44,350
Recoveries of prior year unpaid obligations	87	404	491
Other changes in unobligated balance (+ or -)	(208)	-	(208)
Unobligated balance from prior year budget authority, net	3,955	40,678	44,632
Appropriations (discretionary and mandatory)	7,525	-	7,525
Borrowing authority (discretionary and mandatory)	-	19,092	19,093
Spending authority from offsetting collections (discretionary and	22,922	54,696	77,618
Total budgetary resources	**34,402**	**114,466**	**148,868**
Status of Budgetary Resources:			
Obligations incurred	33,564	56,611	90,175
Unobligated balance, end of year:			
Apportioned	77	24,999	25,076
Unapportioned	761	32,856	33,617
Total unobligated balance, end of year	838	57,855	58,693
Total budgetary resources	**34,402**	**114,466**	**148,868**
Change in Obligated Balance:			
Unpaid obligations, brought forward, October 1 (gross)	732	2,472	3,204
Obligated balance, start of year (net), before adjustments (+	732	2,472	3,204
Adjustment to obligated balance, start of year (net) (+ or -)	(1)	-	(1)
Obligated balance, start of year (net), as adjusted	731	2,472	3,203
Obligations incurred	33,564	56,611	90,175
Outlays (gross) (-)	(33,574)	(56,141)	(89,715)
Change in uncollected customer payments from Federal	(1)	-	(1)
Recoveries of prior year unpaid obligations (-)	(87)	(404)	(491)
Unpaid obligations, end of year (gross)	634	2,539	3,173
Uncollected customer payments from Federal sources, end of	(3)	-	(3)
Obligated balance, end of year (net)	631	2,539	3,170
Budget Authority and Outlays, Net:			
Budget authority, gross (discretionary and mandatory)	30,448	73,788	104,236
Actual offsetting collections (discretionary and mandatory) (-)	(22,921)	(59,375)	(82,296)
Change in uncollected customer payments from Federal	(1)	-	(1)
Budget authority, net (discretionary and mandatory)	7,526	14,413	21,939
Outlays, gross (discretionary and mandatory)	33,574	56,141	89,715
Actual offsetting collections (discretionary and mandatory) (-)	(22,921)	(59,375)	(82,296)
Outlays, net (discretionary and mandatory)	10,653	(3,234)	7,419
Less Distributed offsetting receipts (-)	1,442	-	1,442
Agency outlays, net (discretionary and mandatory)	**9,211**	**(3,234)**	**5,977**

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014

Note 1. Significant Accounting Policies

Entity and Mission

The Federal Housing Administration (FHA) was established under the National Housing Act of 1934 and became a wholly owned government corporation in 1948 subject to the Government Corporation Control Act (31 U.S.C. § 9101 et seq.), as amended. While FHA was established as a separate Federal entity, it was subsequently merged into the Department of Housing and Urban Development (HUD) when that department was created in 1965. FHA does not maintain a separate staff or facilities; its operations are conducted, along with other Housing activities, by HUD organizations. FHA is headed by HUD's Assistant Secretary for Housing/Federal Housing Commissioner, who reports to the Secretary of HUD. FHA's activities are included in the Housing section of the HUD budget.

FHA administers a wide range of activities to make mortgage financing more accessible to the home-buying public and to increase the availability of affordable housing to families and individuals, particularly to the nation's poor and disadvantaged. FHA insures private lenders against loss on mortgages, which finance Single Family homes, Multifamily projects, health care facilities, property improvements, manufactured homes, and reverse mortgages, also referred to as Home Equity Conversion Mortgages (HECM). The objectives of the activities carried out by FHA relate directly to developing affordable housing.

FHA categorizes its insurance programs as Single Family (including Title 1), Multifamily and HECM. Single Family activities support initial or continued home ownership; Title I activities support manufactured housing and property improvement. Multifamily 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.

For the Loan Guarantee Program at FHA, in both the MMI/CMHI and GI/SRI funds there are Single Family and Multifamily activities. 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	234(c), HECM	N/A
MMI	203(b)	203(b), 234(c), HECM

In fiscal year 2010, FHA received appropriations for the Energy Innovation and Transformation Initiative programs. The Energy Innovation program is intended to catalyze innovations in the residential energy efficiency sector that have the ability to be replicated and to help create a standardized home energy efficient retrofit market. The appropriation for the Transformation Initiative is for combating mortgage fraud.

Basis of Accounting

The principal financial statements are presented in conformity with accounting principles generally accepted in the United States of America applicable to Federal agencies as promulgated by the Federal Accounting Standards Advisory Board (FASAB). The recognition and measurement of budgetary resources and their status for purposes of preparing the Combined Statements of Budgetary Resources (SBR), is based on concepts and guidance provided by Office of Management and Budget (OMB) Circular A-11, *Preparation, Submission, and Execution of the Budget* and the Federal Credit Reform Act of 1990. The format of the SBR is based on the SF 133, ***Report on Budget Execution and Budgetary Resources*****.**

Basis of Consolidation

The accompanying principal financial statements include all Treasury Account Fund Symbols (TAFSs) designated to FHA, which consist of principal program funds, revolving funds, general funds and a deposit fund. All inter-fund accounts receivable, accounts payable, transfers in and transfers out within these TAFSs have been eliminated to prepare the consolidated balance sheets, statements of net cost, and statements of changes in net position. The SBR is prepared on a combined basis as required by OMB Circular A-136, *Financial Reporting Requirements, Revised*.

Fund Balance with U.S. Treasury

Fund balance with U.S. Treasury consists of amounts collected from premiums, interest earned from Treasury, recoveries and appropriations. The balance is available to fund payments for claims, property and operating expenses and of amounts collected but unavailable until authorizing legislation is enacted (see Notes 2 and 3).

Investments

FHA investments include investments in U.S. Treasury securities and Multifamily risk sharing debentures.
Under current legislation, FHA invests available MMI/CMHI capital reserve fund resources in excess of its current needs in non-marketable market-based U.S. Treasury securities. These U.S. Treasury securities may not be sold on public securities exchanges, but do reflect prices and interest rates of similar marketable U.S. Treasury securities. Investments are presented at acquisition cost net of the amortized premium or discount. Amortization of the premium or discount is recognized monthly on investments in U.S. Treasury securities using the interest method in accordance with the Statement of Federal Financial Accounting Standards (SFFAS) No. 1 *Accounting for Selected Assets and Liabilities*, paragraph 71.

Multifamily Risk Sharing Debentures [Section 542(c)] is a program available to lenders where the lender shares the risk in a property by issuing debentures for the claim amount paid by FHA on defaulted insured loans.

Credit Reform Accounting

The Federal Credit Reform Act (FCRA) established the use of program, financing, general fund receipt and capital reserve accounts to separately account for transactions that are not controlled by the Congressional budget process. It also established the liquidating account for activity relating to any loan guarantees committed and direct loans obligated before October 1, 1991 (pre-Credit Reform). These accounts are classified as either Budgetary or Non-Budgetary in the Combined Statements of Budgetary Resources. The Budgetary accounts include the program, capital reserve and liquidating accounts. The Non-Budgetary accounts consist of the credit reform financing accounts.

In accordance with the SFFAS No. 2, *Accounting for Direct Loans and Loan Guarantees*, the program account receives and obligates appropriations to cover the subsidy cost of a direct loan or loan guarantee and disburses the subsidy cost to the financing account. The program account also receives appropriations for administrative expenses. The financing account is a Non-Budgetary account that is used to record all of 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.

FHA has two general fund receipt accounts. FHA's receipt accounts are general fund receipt accounts and amounts are not earmarked for the FHA's credit programs. The first is used for the receipt of amounts paid from the GI/SRI financing account when there is negative subsidy from the original estimate or a downward reestimate. They are available for appropriations only in the sense that all general fund receipts are available for appropriations. Any assets in these accounts are non-entity assets and are offset by intragovernmental liabilities. At the end of the fiscal year, the fund balance in the general fund receipt account is transferred to the U.S. Treasury general fund.

The second general fund receipt account is used for the unobligated balance transferred from GI/SRI liquidating account and loan modifications. Similar to the general fund receipt account used for the GI/SRI negative subsidy and downward reestimates, the amounts in this account are not earmarked for FHA's credit programs and are returned to Treasury at the end of the fiscal year. Any assets in this account are non-entity assets and are offset by intragovernmental liabilities. Negative subsidy and downward reestimates in the MMI/CMHI fund are transferred to the Capital Reserve account.

The liquidating account is used to record all cash flows to and from FHA resulting from pre-Credit Reform direct loans or loan guarantees. Liquidating account collections in any year are available only for obligations incurred during that year or to repay debt. Unobligated balances remaining in the GI and SRI liquidating funds at year-end are transferred to the U.S. Treasury's general fund. Consequently, in the event that resources in the GI/SRI liquidating account are otherwise insufficient to cover the payments for obligations or commitments, the FCRA provides that the GI/SRI liquidating account can receive permanent indefinite authority to cover any resource shortages.

Loans Receivable and Related Foreclosed Property, Net

FHA's loans receivable include mortgage notes assigned (MNA), also described as Secretary-held notes, purchase money mortgages (PMM), and notes related to partial claims. 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. 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 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 6).

Loan Guarantee Liability

The net potential future losses related to FHA's central business of providing mortgage insurance are reflected in the Loan Guarantee Liability in the consolidated balance sheets. As required by SFFAS No. 2, the Loan Guarantee Liability includes the Credit Reform related Liabilities for Loan Guarantees (LLG) and the pre-Credit Reform Loan Loss Reserve (LLR) (see Note 6).

The LLG is calculated as the net present value of anticipated cash outflows and cash inflows. Anticipated cash outflows include: lender claims arising from borrower defaults, (i.e., claim payments), premium refunds, property costs to maintain foreclosed properties arising from future defaults and selling costs for the properties. Anticipated cash inflows include premium receipts, proceeds from asset sales and principal and interest on Secretary-held notes.

FHA records loss estimates for its Single Family LLR (includes MMI and GI/SRI) to provide for anticipated losses incurred (e.g., claims on insured mortgages where defaults have taken place but claims have not yet been filed). Using the net cash flows (cash inflows less cash outflows), FHA computes an estimate based on conditional claim rates and loss experience data, and adjusts the estimate to incorporate management assumptions about current economic factors.

FHA records loss estimates for its Multifamily LLR (includes CMHI and GI/SRI) to provide for anticipated outflows less anticipated inflows. Using the net present value of claims less premiums, fees, and recoveries, FHA computes an estimate based on conditional claim rates, prepayment rates, and recovery assumptions based on historical experience.

Use of Estimates

The preparation of the principal financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Amounts reported for net loans receivable and related foreclosed property and the Loan Guarantee Liability represent FHA's best estimates based on pertinent information available.

To estimate the Allowance for Subsidy associated with loans receivable and related to foreclosed property and the liability for loan guarantees (LLG), FHA uses cash flow model assumptions associated with loan guarantee cases subject to the Federal Credit Reform Act of 1990 (FCRA), as described in Note 6, to estimate the cash flows associated with future loan performance. To make reasonable projections of future loan performance, FHA develops assumptions, as described in Note 6, based on historical data, current and forecasted program and economic assumptions.

Certain programs have higher risks due to increased chances of fraudulent activities perpetrated against FHA. FHA accounts for these risks through the assumptions used in the liabilities for loan guarantee estimates. FHA develops the assumptions based on historical performance and management's judgments about future loan performance.

General Property, Plant and Equipment

FHA does not maintain separate facilities. HUD purchases and maintains all property, plant and equipment used by FHA, along with other Office of Housing activities.

Current HUD policy concerning SFFAS No. 10, *Accounting for Internal Use Software*, indicates that HUD will either own the software or 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. FHA had several procurement actions in place and had incurred expenses for software development. FHA identified and transferred those expenses to HUD to comply with departmental policy.

Appropriations

FHA receives appropriations for certain operating expenses for its program activities, some of which are transferred to HUD. Additionally, FHA receives appropriations for GI/SRI positive subsidy, upward reestimates, and permanent indefinite authority to cover any shortage of resources in the liquidating account.

Full Cost Reporting

SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards* and SFFAS No. 30, *Inter-Entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts to account for costs assumed by other Federal organizations on their behalf*, require that Federal agencies 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 $15 million for fiscal year 2014 and $18 million for fiscal year 2013, and was included in FHA's financial statements as an imputed cost in the Consolidated Statements of Net Cost, and an imputed financing in the Consolidated Statements of Changes in Net Position.

Distributive Shares

As mutual funds, excess revenues in the MMI/CMHI Fund may be distributed to mortgagors at the discretion of the Secretary of HUD. Such distributions are determined based on the funds' financial positions and their projected revenues and costs. No distributive share distributions have been declared from the MMI fund since the enactment of the National Affordable Housing Act (NAHA) in 1990.

Liabilities Covered by Budgetary Resources

Liabilities of federal agencies are required to be classified as those covered and not covered by budgetary resources, as defined by OMB Circular A-136, and in accordance with SFFAS No. 1. In the event that available resources are insufficient to cover liabilities due at a point in time, FHA has authority to borrow monies from the U.S. Treasury (for post-1991 loan guarantees) or to draw on permanent indefinite appropriations (for pre-1992 loan guarantees) to satisfy the liabilities. Thus, all of FHA's liabilities are considered covered by budgetary resources.

Statement of Budgetary Resources

The Statement of Budgetary Resources has been prepared as a combined statement and as such, intra-entity transactions have not been eliminated. Budget authority is the authorization provided by law to enter into obligations to carry out the guaranteed and direct loan programs and their associated administrative costs, which would result in immediate or future outlays of federal funds. FHA's budgetary resources include current budgetary authority (i.e., appropriations and borrowing authority) and 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 obligation adjustments, but not for new obligations, until that account is canceled. When accounts are canceled, five years after they expire, amounts are not available for obligations or expenditure for any purpose.

FHA funds its programs through borrowings from the U.S. Treasury and debentures issued to the public. These borrowings and debentures are authorized through a permanent indefinite authority at interest rates set each year by the U.S. Treasury and the prevailing market rates.

Change in Accounting Principle

In prior years, FHA swept (returned to Treasury) its GI/SRI receipt accounts on October 1st. Effective in fiscal year 2014, FHA is changing the timing of sweeping its receipt accounts from October 1st to September 30th to be consistent with the implementation of Treasury's two new systems, the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) and the Central Accounting Reporting System (CARS).

FHA is treating this change as a "Change in Accounting Principle", prospectively. This change in FY 2014 has no effect on prior years' financial statements. FHA believes its numbers are accurate on its FY 2013 financial statement based on inconsistent guidance regarding receipt accounts. This change impacts the balance sheet line items *Fund Balance with U.S. Treasury* and *Other Liabilities,* and reduces both assets and liabilities but does not impact FHA's overall net position.

Note 2. Non-entity Assets

Non-entity assets consist of assets 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, 2014 and 2013 are as follows:

(Dollars in millions)

	FY 2014	FY 2013
Intragovernmental:		
Fund Balance with Treasury	$ 92	$ 1,671
Investments in U.S. Treasury Securities	-	3
Total Intragovernmental	92	1,674
Other Assets	41	47
Total Non-Entity Assets	133	1,721
Total Entity Assets	66,533	69,488
Total Assets	**$ 66,666**	**$ 71,209**

FHA's non-entity assets consist of FHA's U.S. Treasury deposit of negative credit subsidy in the GI/SRI general fund receipt account and of escrow monies collected by FHA from the borrowers of its loans and for the receipt of bid deposits on asset sales.

According to the FCRA, FHA transfers GI/SRI negative credit subsidy from new endorsements, downward credit subsidy re-estimates, loan modifications, and unobligated balances from the liquidating account to the GI/SRI general fund receipt accounts. Effective FY 2014, fund balances in the GI/SRI general fund receipt accounts are transferred into the U.S. Treasury's general fund at the end of the fiscal year.

Other assets consisting of escrow monies collected from FHA borrowers 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 property taxes, property insurance or 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, 2014 and 2013:

(Dollars in millions)	FY 2014	FY 2013
Fund Balances:		
Revolving Funds	$ 48,448	$ 61,084
Appropriated Funds	751	775
Other Funds	1,033	1,622
Total	**$ 50,232**	**$ 63,481**
Status of Fund Balance with U.S. Treasury:		
Unobligated Balance		
Available	$ 13,579	$ 25,075
Unavailable	33,837	35,233
Obligated Balance Not Yet Disbursed	2,816	3,173
Total	**$ 50,232**	**$ 63,481**

Revolving Funds

FHA's revolving funds include the liquidating and financing accounts as required by the FCRA and deposit funds for the receipt of bid deposit fund asset sales. These funds are created to finance a continuing cycle of business-like operations in which the fund charges for the sale of products or services. These funds also use the proceeds to finance spending, usually without requirement of annual appropriations.

Appropriated Funds

FHA's appropriated funds consist of annual or multi-year program accounts that expire at the end of the time period specified in the authorizing legislation. For the subsequent five fiscal years after expiration, the resources are available only to liquidate valid obligations incurred during the unexpired period. Adjustments are allowed to increase or decrease valid obligations incurred during the unexpired period that were not previously reported. At the end of the fifth expired year, the annual and multi-year program accounts are cancelled and any remaining resources are returned to the U.S. Treasury.

Other Funds

FHA's other funds include the general fund receipt accounts established under the FCRA and the deposit funds for the receipt of bid deposits for asset sales. As of 9/30, there was $73.9 million of bidder deposits. This is because FHA conducted an asset sale on 9/30 and the unsuccessful bidders' deposits were not returned until October. It is like escrow or earnest money, so FHA felt it was already covered in Notes 2 and 10. Effective FY 2014, FHA sweeps its GI/SRI receipt accounts on September 30 and returns the funds to Treasury. Additionally, the capital reserve account is included with these funds and is used to retain the MMI/CMHI negative subsidy and downward credit subsidy reestimates transferred from the financing account. If subsequent upward credit subsidy reestimates are calculated in the financing account or there is shortage of budgetary resources in the liquidating account, the capital reserve account will return the retained negative subsidy to the financing account or transfer the needed funds to the liquidating account, respectively.

Status of Fund Balance with U.S. Treasury

Unobligated Fund Balance with U.S. Treasury represents Fund Balance with U.S. Treasury that has not been obligated to purchase goods or services either because FHA has not received apportionment authority from OMB to use the resources (unavailable unobligated balance) or because FHA has not obligated the apportioned resources (available unobligated balance). Fund Balance with U.S. Treasury that is obligated, but not yet disbursed, consists of resources that have been obligated for goods or services but not yet disbursed either because the ordered goods or services have not been delivered or because FHA has not yet paid for goods or services received by the end of the fiscal year.

Note 4. Investments

Investment in U.S. Treasury Securities

As discussed in Note 1, all FHA investments in Treasury securities are in non-marketable securities issued by the U.S. Treasury. These securities carry market-based interest rates. The market value of these securities is calculated using the bid amount of similar marketable U.S. Treasury securities as of September 30th. The cost, net amortized premium/discount, net investment, and market values of FHA's investments in U.S. Treasury securities as of September 30, 2014 were as follows:

(Dollars in millions)

FY 2014	Cost	Amortized (Premium) / Discount, Net	Investments, Net	Market Value
MMI/CMHI Investments	$ 6,371	$ 1	$ 6,372	$ 6,372
MMI/CMHI Accrued Interest			7	7
Total	**$ 6,371**	**$ 1**	**$ 6,379**	**$ 6,379**

The cost, net amortized premium/discount, net investment, and market values as of September 30, 2013 were as follows. FHA had no MMI/CMHI investments in U.S. Treasury securities as of September 30, 2013.

FY 2013	Cost	Amortized (Premium) / Discount, Net	Investments, Net	Market Value
GI/SRI Investments	$ 3	$ -	$ 3	$ -
Total	**$ 3**	**$ -**	**$ 3**	**$ -**

Investments in Private-Sector Entities

Investments Risk Sharing Debentures as of September 30, 2014 and 2013 were as follows:

(Dollars in millions)	Beginning Balance	New Acquisitions	Redeemed	Ending Balance
FY 2014				
Risk Sharing Debentures	56	-	(15)	41
Total	**$ 56**	**$ -**	**$ (15)**	**$ 41**
FY 2013				
Risk Sharing Debentures	57	1	(2)	56
Total	**$ 57**	**$ 1**	**$ (2)**	**$ 56**

Note 5. Accounts Receivable, Net

Accounts receivable, net, as of September 30, 2014 and 2013 are as follows:

	Gross		Allowance		Net	
(Dollars in millions)	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013
With the Public:						
Receivables related to credit program assets	$ 8	$ 1	$ (1)	$ -	$ 7	$ 1
Premiums receivable	3	6	-	-	3	6
Partial Claims receivable	1,486	-	(783)	-	703	-
Generic Debt Receivable	85	96	(85)	(96)	-	-
Settlements receivable	725	-	-	-	725	-
Miscellaneous receivable	21	6	-	-	21	6
Total	**$ 2,328**	**$ 109**	**$ (869)**	**$ (96)**	**$ 1,459**	**$ 13**

Receivables Related to Credit Program Assets

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

Premiums Receivable

These amounts consist of the premiums due to FHA from the mortgagors at the end of the reporting period. The details of FHA premium structure are discussed in Note 13 – Earned Revenue/Premium Revenue.

Partial Claims Receivable

Partial claims receivable 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 Receivable

These amounts are mainly composed of receivables from various sources, the largest of which are Single Family Partial Claims, Single Family Indemnifications, and Single Family Restitutions.

Settlements Receivable

As of September 30, 2014, FHA received signed consent judgments that were approved by the courts for which funds have not been received.

Miscellaneous Receivable

Miscellaneous receivables include late charges and penalties receivable on premiums receivable, refunds receivable from overpayments of claims and distributive shares and other immaterial receivables.

Allowance for Loss

The allowance for loss for these receivables is calculated based on FHA's historical loss experience and management's judgment concerning current economic factors.

Note 6. Direct Loans and Loan Guarantees, Non-Federal Borrowers

Direct Loan and Loan Guarantee Programs Administered by FHA include:
Single Family Mortgages
Multifamily/Healthcare Mortgages
Home Equity Conversion Mortgages

FHA reports its insurance operations in three overall program areas: Single Family Forward mortgages, Multifamily/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),* which became operational in fiscal year 2009 which contains minimal activity.

FHA encourages homeownership through its Single Family Forward programs (Section 203(b), which is the largest program, and Section 234) by making loans readily available with its mortgage insurance programs. 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 Section223(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 health care facility projects and improve access to quality health care 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.

FHA Direct Loan and Loan Guarantee Programs and the related loans receivable, foreclosed property, and Loan Guarantee Liability as of September 30, 2014 and 2013 are as follows:

Direct Loan Program

(Dollars in Millions)

FY 2014	Total
Direct Loans	
Loan Receivables	14
Interest Receivables	13
Allowance	(12)
Total Direct Loans	**15**

(Dollars in Millions)

FY 2013	Total
Direct Loans	
Loan Receivables	15
Interest Receivables	11
Allowance	(12)
Total Direct Loans	**14**

FHA's Direct Loans are as a result of purchase money mortgages (PMMs). The Direct loan receivables are primarily multifamily loans and are in the liquidating fund. In addition, FHA has a small amount of new PMMs that are administered by Single Family Housing. Due to the small size, there is no subsidy associated with these loans.

FHA's net direct loans receivable is not the same as the proceeds that would be anticipated from the sale of its direct loans.

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

(Dollars in Millions)

FY 2014	MMI/CMHI	GI/SRI	Total
Guaranteed Loans			
Single Family Forward			
Loan Receivables	21	-	21
Interest Receivables	-	-	-
Allowance for Loan Losses	(9)	(4)	(13)
Foreclosed Property	11	9	20
Subtotal	**23**	**5**	**28**
Multifamily/Healthcare			
Loan Receivables	-	2,078	2,078
Interest Receivables	-	231	231
Allowance for Loan Losses	-	(857)	(857)
Foreclosed Property	-	1	1
Subtotal	**-**	**1,453**	**1,453**
HECM			
Loan Receivables	-	4	4
Interest Receivables	-	2	2
Allowance for Loan Losses	-	(2)	(2)
Foreclosed Property	-	(2)	(2)
Subtotal	-	2	2
Total Guaranteed Loans	**23**	**1,460**	**1,483**

(Dollars in Millions)

FY 2013	MMI/CMHI	GI/SRI	Total
Guaranteed Loans			
Single Family Forward			
Loan Receivables	18	-	18
Interest Receivables	-	-	-
Allowance for Loan Losses	(24)	(10)	(34)
Foreclosed Property	22	8	30
Subtotal	**16**	**(2)**	**14**
Multifamily/Healthcare			
Loan Receivables	-	2,225	2,225
Interest Receivables	-	228	228
Allowance for Loan Losses	-	(935)	(935)
Foreclosed Property	-	1	1
Subtotal	**-**	**1,519**	**1,519**
HECM			
Loan Receivables	-	5	5
Interest Receivables	-	2	2
Allowance for Loan Losses	-	(2)	(2)
Foreclosed Property	-	7	7
Subtotal	-	12	12
Total Guaranteed Loans	**16**	**1,529**	**1,545**

*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 2014	MMI/CMHI	GI/SRI	H4H	Total
Guaranteed Loans				
Single Family Forward				
Loan Receivables	5,244	176	2	5,422
Foreclosed Property	2,437	73	1	2,511
Allowance	(4,195)	(139)	2	(4,332)
Subtotal	**3,486**	**110**	**5**	**3,601**
Multifamily/Healthcare				
Loan Receivables	-	818	-	818
Foreclosed Property	-	1	-	1
Allowance	-	(319)	-	(319)
Subtotal	**-**	**500**	**-**	**500**
HECM				
Loan Receivables	996	2,510	-	3,506
Interest Receivables	371	1,192	-	1,563
Foreclosed Property	5	80	-	85
Allowance	(598)	(1,648)	-	(2,246)
Subtotal	**774**	**2,134**	**-**	**2,908**
Total Guaranteed Loans	**4,260**	**2,744**	**5**	**7,009**

FY 2013	MMI/CMHI	GI/SRI	H4H	Total
Guaranteed Loans				
Single Family Forward				
Loan Receivables	2,957	67	-	3,024
Interest Receivables	8	2	-	10
Foreclosed Property	4,499	149	1	4,649
Allowance	(4,729)	(147)	1	(4,875)
Subtotal	**2,735**	**71**	**2**	**2,809**
Multifamily/Healthcare				
Loan Receivables	-	619	-	619
Foreclosed Property	-	1	-	1
Allowance	-	(212)	-	(212)
Subtotal	**-**	**408**	**-**	**408**
HECM				
Loan Receivables	530	2,038	-	2,568
Interest Receivables	155	951	-	1,106
Foreclosed Property	2	67	-	69
Allowance	(228)	(1,015)	-	(1,243)
Subtotal	**459**	**2,041**	**-**	**2,500**
Total Guaranteed Loans	**3,194**	**2,520**	**2**	**5,717**

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

Guaranteed Loans Outstanding:

(Dollars in Millions)

Loan Guarantee Programs	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
Guaranteed Loans Outstanding (FY 2014):		
MMI/CMHI		
Single Family Forward	1,168,427	1,074,732
Multifamily/Healthcare	492	477
MMI/CMHI Subtotal	**1,168,919**	**1,075,209**
GI/SRI		
Single Family Forward	12,301	9,303
Multifamily/Healthcare	109,296	101,132
GI/SRI Subtotal	**121,597**	**110,435**
H4H		
Single Family - 257	109	104
H4H Subtotal	**109**	**104**
Total	**1,290,625**	**1,185,748**
Guaranteed Loans Outstanding (FY 2013):		
MMI/CMHI		
Single Family Forward	1,167,089	1,086,647
Multifamily/Healthcare	449	432
MMI/CMHI Subtotal	**1,167,538**	**1,087,079**
GI/SRI		
Single Family Forward	14,323	11,265
Multifamily/Healthcare	100,911	93,416
GI/SRI Subtotal	**115,234**	**104,681**
H4H		
Single Family - 257	117	113
H4H Subtotal	**117**	**113**
Total	**1,282,889**	**1,191,873**

New Guaranteed Loans Disbursed (FY 2014):

(Dollars in Millions)

	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
MMI/CMHI		
Single Family Forward	135,187	133,907
Multifamily/Healthcare	48	48
MMI/CMHI Subtotal	**135,235**	**133,955**
GI/SRI		
Single Family Forward	123	122
Multifamily/Healthcare	14,104	14,026
GI/SRI Subtotal	**14,227**	**14,148**
Total	**149,462**	**148,103**
New Guaranteed Loans Disbursed (FY 2013):		
MMI/CMHI		
Single Family Forward	240,089	237,258
Multifamily/Healthcare	187	185
MMI/CMHI Subtotal	**240,276**	**237,443**
GI/SRI		
Single Family Forward	138	137
Multifamily/Healthcare	23,206	23,054
GI/SRI Subtotal	**23,344**	**23,191**
Total	**263,620**	**260,634**

Home Equity Conversion Mortgage (HECM)

HECM (reverse mortgages) are not included in the previous tables due to the unique nature of the program. As of September 30, 2014 the insurance-in-force (the outstanding balance of active loans) was $105 billion. The insurance in force includes balances drawn by the mortgagee; 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 2014	MMI/CMHI		$ 13,473	$ 63,259	$ 94,466
	GI/SRI		-	42,264	55,419
		Total	**$ 13,473**	**$ 105,523**	**$ 149,885**
FY 2013	MMI/CMHI		$ 14,671	$ 56,936	$ 86,305
	GI/SRI		-	43,933	59,613
		Total	**$ 14,671**	**$ 100,869**	**$ 145,918**

Loan Guarantee Liability, Net:

(Dollars in Millions)

FY 2014	MMI/CMHI	GI/SRI	H4H	Total
LLR				
Single Family Forward	$ 7	$ 1	$ -	$ 8
Multifamily/Healthcare	-	1	-	1
Subtotal	**$ 7**	**$ 2**	**$ -**	**$ 9**
LLG				
Single Family Forward	$ 17,201	$ 740	$ 22	$ 17,963
Multifamily/Healthcare	(23)	(2,957)	-	(2,980)
HECM	7,447	11,034	-	18,481
Subtotal	**$ 24,625**	**$ 8,817**	**$ 22**	**$ 33,464**
Loan Guarantee Liability Total	**$ 24,632**	**$ 8,819**	**$ 22**	**$ 33,473**

FY 2013	MMI/CMHI	GI/SRI	H4H	Total
LLR				
Single Family Forward	$ 6	$ -	$ -	$ 6
Multifamily/Healthcare	-	2	-	2
Subtotal	**$ 6**	**$ 2**	**$ -**	**$ 8**
LLG				
Single Family Forward	$ 26,189	$ 878	$ 21	$ 27,088
Multifamily/Healthcare	(20)	(2,446)	-	(2,466)
HECM	6,038	10,797	-	16,835
Subtotal	$ 32,207	$ 9,229	$ 21	$ 41,457
Loan Guarantee Liability Total	**$ 32,213**	**$ 9,231**	**$ 21**	**$ 41,465**

Subsidy Expense for Loan Guarantees by Program and Component:

(Dollars in millions)

FY 2014	MMI/CMHI	GI/SRI	Total
Single Family Forward			
Defaults	3,951	4	3,955
Fees and Other Collections	(13,741)	(5)	(13,746)
Other	-	-	-
Subtotal	**(9,790)**	**(1)**	**(9,791)**
Multifamily/Healthcare			
Defaults	2	259	261
Fees and Other Collections	(7)	(866)	(873)
Other	-	-	-
Subtotal	**(5)**	**(607)**	**(612)**
HECM			
Defaults	878	-	878
Fees and Other Collections	(934)	-	(934)
Other	-	-	-
Subtotal	**(56)**	**-**	**(56)**
Total	**(9,851)**	**(608)**	**(10,459)**

FY 2013	MMI/CMHI	GI/SRI	Total
Single Family Forward			
Defaults	7,130	4	7,134
Fees and Other Collections	(24,191)	(5)	(24,196)
Other	(7)	-	(7)
Subtotal	(17,068)	(1)	(17,069)
Multifamily/Healthcare			
Defaults	6	567	573
Fees and Other Collections	(16)	(1,479)	(1,495)
Other	-	-	-
Subtotal	(10)	(912)	(922)
HECM			
Defaults	536	-	536
Fees and Other Collections	(902)	-	(902)
Other	-	-	-
Subtotal	(366)	-	(366)
Total	**(17,444)**	**(913)**	**(18,357)**

Subsidy Expense for Modification and Re-estimates:

(Dollars in millions)

FY 2014	Technical Reestimate
MMI/CMHI	3,380
GI/SRI	544
Total	3,924
FY 2013	
MMI/CMHI	9,862
GI/SRI	(1,443)
Total	8,419

Total Loan Guarantee Subsidy Expense:

(Dollars in millions)

	FY 2014	FY 2013
MMI/CMHI	(6,470)	(7,582)
GI/SRI	(64)	(2,356)
Total	(6,534)	(9,938)

Subsidy Rates for Loan Guarantee Endorsements by Program and Component:

(Percentage)	Defaults	Fees and Other Collections	Other	Total
Budget Subsidy Rates for FY 2014 Loan Guarantees:				
MMI/CMHI				
Single Family				
Forward	2.91	(10.16)	-	(7.25)
HECM	6.49	(6.90)	-	(0.41)
Short Refinance	11.36	(11.36)	-	-
Multifamily				
Cooperatives	2.91	(10.16)	-	(7.25)
GI/SRI				
Multifamily				
Apartments	2.52	(6.10)	-	(3.58)
Apartments Refinance	0.43	(4.61)	-	(4.18)
Healthcare				
Residential Care	2.78	(6.82)	-	(4.04)
Hospitals	3.19	(7.28)	-	(4.09)

(Percentage)	Defaults	Fees and Other Collections	Other	Total
Budget Subsidy Rates for FY 2013 Loan Guarantees:				
MMI/CMHI				
Single Family				
Forward - 06/03/2013 - present	2.96	(12.66)	-	(9.70)
Forward - 04/01/2013 - 06/02/2013	2.96	(9.29)	-	(6.33)
Forward - 10/01/12 - 03/31/2013	2.96	(8.94)	-	(5.98)
HECM	2.42	(6.19)	-	(3.77)
Short Refinance	10.22	(7.65)	(2.57)	-
Multifamily				
Cooperatives - 06/03/2013 - present	2.96	(12.66)	-	(9.70)
Cooperatives - 04/01/2013 - 06/02/2013	2.96	(9.29)	-	(6.33)
Cooperatives - 10/01/12- 03/31/2013	2.96	(8.94)	-	(5.98)
GI/SRI				
Multifamily				
Apartments	4.40	(6.91)	-	(2.51)
Apartments Refinance	1.10	(5.75)	-	(4.65)
Apartments Refinance	1.10	(5.75)	-	(4.65)
Healthcare				
Residential Care	3.08	(7.37)	-	(4.29)
Hospitals	1.31	(7.72)	-	(6.41)

Schedule for Reconciling Loan Guarantee Liability Balances:

(Dollars in Millions)	FY 2014 LLR	FY 2014 LLG	FY 2013 LLR	FY 2013 LLG
Beginning Balance of the Loan Guarantee Liability	$ 8	$ 41,457	$ 17	$ 54,967
Add: Subsidy Expense for guaranteed loans disbursed during the reporting fiscal years by component:				
Default Costs (Net of Recoveries)	-	5,094	-	8,243
Fees and Other Collections	-	(15,553)	-	(26,593)
Other Subsidy Costs	-	-	-	(7)
Total of the above subsidy expense components	**-**	**(10,459)**	**-**	**(18,357)**
Adjustments:				
Fees Received	-	12,227	-	12,022
Foreclosed Property and Loans Acquired	-	11,870	-	11,809
Claim Payments to Lenders	-	(27,944)	-	(29,386)
Interest Accumulation on the Liability Balance	-	1,149	-	1,674
Other	-	532	-	(14)
Ending Balance before Reestimates	**8**	**28,832**	**17**	**32,715**
Add or Subtract Subsidy Reestimates by Component:				
Technical/Default Reestimate				
Subsidy Expense Component	1	4,345	(9)	1,705
Interest Expense Component		946		(377)
Adjustment of prior years' credit subsidy reestimates	-	(659)	-	7,414
Total Technical/Default Reestimate	1	4,632	(9)	8,742
Ending Balance of the Loan Guarantee Liability	**$ 9**	**$ 33,464**	**$ 8**	**$ 41,457**

Administrative Expense:

(Dollars in Millions)	FY 2014	FY 2013
Total	577	647

Other Information on Foreclosed Property:

Additional information on FHA foreclosed property as of September 30, 2014 and 2013 is as follows:

	FY 2014	FY 2013
Average number of days in Inventory for Sold Cases	129	124
End of Fiscal Year Active Inventory	18,945	35,217

Defaulted Guaranteed Loans (Pre-92 and Post-91)

Restrictions on the use/disposal of foreclosed property:

The balance relating to foreclosures as of September 30, 2014 is comprised of only Single Family properties. There are no Multi-family properties currently in inventory.

The Secretary has the authority under the National Housing Act (12 U.S.C 1710 (g)) to manage or dispose of eligible HUD-owned property assets in a manner that will provide affordable, safe and sanitary housing to low-wealth families, preserve and revitalize residential neighborhoods, expand homeownership opportunities, minimize displacement of tenants residing in rental or cooperative housing, and protect the financial interest of the Federal government.

Single Family properties may be sold to eligible entities (24 CFR 291.303) through public asset sales. Eligibility of bidders will be determined by the Secretary and included in the bid package with a notice filed in the Federal Register. In addition, HUD must ensure that its policies and practices in conducting the single family property disposition program do not discriminate on the basis of disability (24 CFR 9.155(a)).

Credit Reform Valuation Methodology

FHA values its Credit Reform LLG and related receivables from notes and property inventories at the net present value of their estimated future cash flows.

To apply the present value computations, FHA divides loans into cohorts and "risk" categories. Multifamily and Health Care cohorts are defined based on the 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 fund. 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. For activity related to fiscal years 1992-2008, the MMI Fund has one risk category and, 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 15 different multifamily risk categories and six health care categories.

The cash flow estimates that underlie present value calculations are determined using the significant assumptions detailed below.

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: Independent forecasts of economic conditions are used in conjunction with loan-level data to generate Single Family, Multifamily, and Health Care claim and prepayment rates. Sources of forecast data include IHS Global Insight and Moody's Analytics. OMB provides other economic assumptions used, such as interest rates and the discount rates used against the cash flows.

Actuarial Review: An independent actuarial review of the MMI Fund each year produces conditional claim, prepayment, and loss severity rates that are used as inputs to the Single Family LLG calculation, both for forward and (post-2008) HECM loans.

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. FHA assumes that its portfolio will continue to perform consistently with its historical experience, respecting differences due to current loan characteristics and forecasted economic conditions.

Current legislation and regulatory structure: FHA's future plans allowed under current legislative authority have been taken into account in formulating assumptions when relevant. In contrast, future changes in legislative authority may affect the cash flows associated with FHA insurance programs. Such changes cannot be reflected in LLG calculations because of uncertainty over their nature and outcome.

Discount rates: The disbursement-timing-weighted interest rate on U.S. Treasury securities of maturity comparable to the guaranteed loans term creates the discount factor used in the present value calculation for cohorts 1992 to 2000. For the 2001 and future cohorts, the rate on U.S. Treasury securities of maturities comparable to cash flow timing for the loan guarantee is used in the present value calculation. This latter methodology is referred to as the basket-of-zeroes 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-zeroes 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 four 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, and (4) programmatic/policy changes that affect the characteristics of insured loans or potential credit losses.

Described below are the programs that comprise the majority of FHA’s loan guarantee business. These descriptions highlight the factors that contributed to changing LLG estimates for FY 2014. Overall, FHA’s liability decreased from the fiscal year 2013 estimates.

Mutual Mortgage Insurance (MMI) – On net, the MMI Fund LLG decreased from $31,010 million at the end of fiscal year 2013 to $24,648 million at the end of fiscal year 2014. This decrease is the result of the decreases in liability in the Forward loans exceeding the smaller increase in liability to HECM. There are two primary factors at work this year in the forward-loan portfolio and two in the HECM (reverse mortgage) portfolio. The decrease in liability in Forward loans is mainly due to the inclusion of the 2014 book-of-business which is forecast to add almost $ 9 billion in negative liability to the MMI fund. The second major factor affecting the portfolio LLG is the ramping up of the new policy requiring major loan servicers to facilitate Third Party Sale sales at foreclosure auctions in order to reduce reliance upon costly REO activities. HUD ran a limited pilot program in 2012 and then began national implementation in 2013 which has increased throughout the 2014 fiscal year. The first factor affecting the HECM LLG calculation is that there are three new mortality tables used this year which show people living longer. This causes the termination rates for HECM to be longer and thus increases the liability to the Fund. The second factor is HECM recoveries as related to conveyance claim costs that were adjusted this year to reflect increased maintenance and operation cost for projected conveyances. (Note: this increased cost will lower future expected recoveries hence increase liability).

Premium revenues continue to reflect the impacts of five increases from April 2010 through June 2012. To address the decline in portfolio value indicated by the 2012 actuarial study and the President’s 2014 Budget, FHA raised forward-loan insurance premiums again in Fiscal Year 2013.

FHA continues to face delayed claim actions. This is a result from lender’s holding properties after foreclosure auctions to assure they have good title to transfer to HUD, and because of significant foreclosure process bottlenecks in so-called judicial States, where court approval is required to schedule foreclosure auctions. Those delays are addressed in the loan performance forecasts. This year, the MMI Fund LLG includes an assumption that 12,000 additional loans will go to claim in FY 2015, above those otherwise predicted by the forecasting models. While such adjustments in past years have resulted in over-predictions of near term claims, the adjustment number this year is much smaller than what was used in past years. In addition, HUD continues to pursue the clearing of long foreclosure queues through its Distressed Asset Sale Program. That, alone, could account for the 12,000 loans involved in the adjustment noted here.

GI/SRI Home Equity Conversion Mortgage (HECM) - HECM endorsements from fiscal years 1990-2008 remain in the GI/SRI Fund. The liability for these loans increased from $10,796 million at the end of FY 2013 to $11,034 million at the end of FY 2014. This liability is driven more by long term house price appreciation forecasts than short term forecasts. Also, for the FY2014 liability estimate, HECM recoveries as related to conveyance claim costs were adjusted this year to reflect increased maintenance and operation cost for projected conveyances. (Note: this increased cost will lower future expected recoveries hence increase liability). The HECM loans remaining in the GI/SRI fund also benefited from slower UPB (Unpaid Principal Balance) growth due to lower current and future (projected) interest rates for adjustable-rate mortgages. Over 99 percent of the remaining GI/SRI HECM loans have adjustable interest 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 $28 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 $297 million, from ($766) million to ($1,063) million, due to lower prepayment and claims expectations as well as increased insurance-in-force.

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 the second largest multifamily program in the GI/SRI fund with an insurance-in-force of $11.5 billion. The Section 221(d)(4) liability decreased by $38 million this year, from ($48) million to ($86) million. This was due to lower claims and prepayments predicted.

GI/SRI Section 232 Health Care New Construction - The Section 232 NC program provides mortgage insurance for construction or substantial rehabilitation of nursing homes and assisted-living facilities. FHA insures a maximum of 90 percent of the estimated value of the physical improvements and major movable equipment. The Section 232 NC program has an insurance-in-force of $3.2 billion. The Section 232 NC liability decreased by $13.9 million from ($44.6) million in FY 2013 to ($58.5) million in FY 2014 due to a diminished insurance-in-force and decreased claim and prepayment expectations.

GI/SRI Section 232 Health Care Purchasing or Refinancing - The Section 232 Refinance program provides mortgage insurance for two purposes: purchasing or refinancing of projects that do not need substantial rehabilitation, and installation of fire safety equipment for either private, for-profit businesses or non-profit associations. For existing projects, FHA insures a maximum of 85 percent of the estimated value of the physical improvements and major movable equipment. The Section 232 Refinance program has an insurance-in-force of $30 billion. The Section 232 Refinance liability decreased by $116 million from ($537) million in FY 2013 to ($653) million in FY 2014 due to a significant decrease in claims expectations coupled with a large increase in insurance-in-force.

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 $8.6 billion. The Section 242 liability decreased by $46 million from ($249) million in FY 2013 to ($295) million in FY 2014 due to higher premium revenue caused by decreased prepayment expectations as well as lower claims expected.

Risks to LLG Calculations

LLG calculations for most major 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 actually occurred in the historical record. By creating a large number 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 for "tail risk." Tail risk occurs in most loan guarantee portfolios because potential losses under the worst scenarios are multiples of potential gains under the best scenarios. The inclusion of tail events in the mean-value calculation creates an addition to LLG, which is the difference between the mean value from the simulations and the median value. The median is the point at which half of the outcomes are worse and half are better. By booking a mean value rather than a median, FHA is essentially providing some additional protection in its loss reserves against adverse outcomes. At the same time, booking an LLG based on a mean value results in a better than even chance future revisions will be in the downward direction. Comparisons of mean-value results to indicators of the range of possible outcomes from the Monte Carlo simulations for Single Family forward and HECM mortgages in the MMI LLG are shown in the table below. The representative outcomes shown there are for the inter-quartile range (25th and 75th percentiles), and a standard indicator of "tail"outcomes (95th percentile).

Range of LLG Values Found in Monte Carlo Simulations
(all dollars in millions)

Program Area	25th Percentile	Mean	75th Percentile	95th Percentile
MMI Fund				
Single-Family Forward Mortgages	$ 10,990	$ 17,201	$ 21,795	$ 39,829
Single Family Reverse Mortgages (HECM)	$ 806	$ 7,447	$ 13,223	$ 20,261
Total	$ 11,796	$ 24,648	$ 35,018	$ 60,090

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 emanates 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 the forecasting models for reasonableness of results on a number of dimensions. 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. Lastly, because of the critical importance of the FHA single-family programs for national housing policy, and the uncertainty surrounding the final cost of credit expenses resulting from the recent, severe economic recession, HUD has contracted for a second independent actuarial study of that portfolio. Such a second opinion directly addresses potential model risk by seeing if a different modeling approach would produce a reasonably similar economic value.

This year, the results of that examination provide a reasonable assurance that any model risk in the LLG calculations is within a tolerable range for accepting the primary contractor’s loan performance projections.

At this point in the economic cycle, with demand for rental units high, and loans refinancing to historically low interest rates, near term risks to the multifamily LLG calculation appear to be low. However, over the longer term, risks come from many sources--changes in population growth and household formation, the supply of rental housing in each market where FHA has a presence, and local employment conditions. Risks also come from FHA’s policy of insuring loans pre-construction in its 221(d)(4) program, though that is a small share of new endorsement activity today. To the extent 221(d)(4) projects come into each new cohort, LLG calculations are subject to risk from their abilities to find viable markets when they do come on-line. New construction loans approved in 2007 – 2009 have now gone through several annual rounds of rentals to prove market viability. The combined 2010-2013 cohorts, which are just now starting to come into rent-up, are more than twice as large as 2007-2009, by dollar volume. Valuations of the newer portfolio are dependent upon continued trends in rental vacancy rates and rental-price growth.

For Healthcare programs (Sections 232 and 242), LLG risk comes principally from health-care 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 as does the quality of business management at each facility, and from 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.

Pre-Credit Reform Valuation Methodology

FHA values its Pre-Credit Reform related notes and properties in inventory at net realizable value, determined on the basis of 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 remaining insurance-in-force for pre-credit reform loans is $2.4 billion. The aggregate liability for the remaining pre-credit reform loans in FY 2014 is $7.6 million, which is a $1.6 million increase from the $6 million estimate in FY 2013.

GI/SRI Multifamily & Healthcare LLR - For the multifamily and healthcare portfolio, the remaining insurance-in-force for pre-credit reform loans is $555 million. The aggregate liability for the remaining pre-credit reform loans in FY 2014 is ($1.6) million, which is a $100 thousand increase from the ($1.7) million estimate in FY 2013. The year-over-year increase in aggregate liability is due to a $291 million decline in insurance-in-force as both measures move closer to zero.

GI/SRI Section 223(a)(7) - Section 223(a)(7) gives FHA authority to refinance FHA-insured loans. Under this program, the refinanced principal amount of the mortgage may be the lesser of the original amount of the existing mortgage or the remaining unpaid principal balance of the loan. Loans insured under any sections of the National Housing Act may be refinanced under 223(a)(7), including those already under 223(a)(7). The Section 223(a)(7) program has an insurance-in-force of $19.3 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 $40 million, from ($600) million to ($640) million, principally due higher premium revenue expectations resulting from decreased projected prepayment speeds.

Note 7. Other Assets

The following table presents the composition of Other Assets held by FHA as of September 30, 2014 and 2013:

(Dollars in millions)

	FY 2014	FY 2013
Intragovernmental:		
Advances to HUD for Working Capital Fund Expenses	$ 1	$ 1
Total	$ 1	$ 1
With the Public:		
Escrow Monies Deposited at Minority-Owned Banks	$ 41	$ 47
Deposits in Transit	6	332
Total	$ 47	$ 379

Advances to HUD for Working Capital Fund Expenses

The Working Capital Fund was established by HUD to consolidate, at the department level, the acquisition of certain property and equipment to be used by different organizations within HUD. Advances to HUD for Working Capital Fund expenses represent the amount of payments made by FHA to reimburse the HUD Working Capital Fund for its share of the fund’s expenses prior to the receipt of goods or services from this fund.

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 renovations expenses and for the bid deposits on asset sales. These escrow monies are deposited at the U.S. Treasury (see Note 2), invested in U.S. Treasury securities (see Note 4 - GI/SRI Investments) or deposited at minority-owned banks.

Deposits in Transit

A deposit 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 8. Accounts Payable

Accounts Payable as of September 30, 2014 and 2013 are as follows:

(Dollars in millions)

	FY 2014	FY 2013
Intragovernmental:		
Claims Payable to Ginnie Mae	$ 2	$ 8
Miscellaneous Payables to Other Federal Agencies	1	-
Total	$ 3	$ 8

	FY 2014	FY 2013
With the Public:		
Claims Payable	$ 277	$ 188
Premium Refunds Payable	142	143
Single Family Property Disposition Payable	14	49
Miscellaneous Payables	26	24
Total	$ 459	$ 404

Claims Payable

Claims payable represents the amount of claims that have been processed by FHA, but the disbursement of payment to lenders has not taken place at the end of the reporting period. This line item also includes estimated claims on suspended supplemental claims.

Premium Refunds

Premium refunds payable are refunds of previously collected Single Family premiums that will be returned to the borrowers resulting from prepayment of the insured mortgages.

Single Family Property Disposition Payable

Single family property disposition payable includes 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, 2014 and 2013:

(Dollars in millions)

	FY 2014				FY 2013		
	Beginning Balance	Net Borrowings	Ending Balance		Beginning Balance	Net Borrowings	Ending Balance
Other Debt:							
Borrowings from U.S. Treasury	25,940	1,588	27,528		11,527	14,413	25,940
Total	**$ 25,940**	**$ 1,588**	**$ 27,528**	**$ -**	**$ 11,527**	**$ 14,413**	**$ 25,940**

	FY 2014	FY 2013
Classification of Debt:		
Intragovernmental Debt	$ 27,528	$ 25,940
Total	**$ 27,528**	**$ 25,940**

Borrowings from U.S. Treasury

In accordance with Credit Reform accounting, FHA borrows from the U.S. Treasury when cash is needed in its financing accounts. Usually, the need for cash arises when FHA has to transfer the negative credit subsidy amounts related to new loan disbursements and existing loan modifications from the financing accounts to the general fund receipt account (for cases in GI/SRI funds) or to the capital reserve account (for cases in MMI/CMHI funds). In some instances, borrowings are also needed to transfer the credit subsidy related to downward reestimates from the GI/SRI financing account to the GI/SRI receipt account or when available cash is less than claim payments due.

During fiscal year 2014, FHA's U.S. Treasury borrowings carried interest rates ranging from 0.75 percent to 7.59 percent. In fiscal year 2013, they carried interest rates ranged from 1.68 percent to 7.59 percent. The maturity dates for these borrowings occur from September 2017 – September 2030. Loans may be repaid in whole or in part without penalty at any time prior to maturity.

Note 10. Other Liabilities

The following table describes the composition of Other Liabilities as of September 30, 2014 and 2013:

(Dollars in millions)

FY 2014		Current
Intragovernmental:		
Receipt Account Liability		1,689
Total	**$**	**1,689**
With the Public:		
Trust and Deposit Liabilities	$	59
Multifamily Notes Unearned Revenue		248
Premiums collected on unendorsed cases		174
Miscellaneous Liabilities		148
Total	**$**	**629**

FY 2013		Current
Intragovernmental:		
Receipt Account Liability		3,983
Total	**$**	**3,983**
With the Public:		
Trust and Deposit Liabilities	$	100
Multifamily Notes Unearned Revenue		243
Miscellaneous Liabilities		81
Total	**$**	**424**

Receipt Account Liability

The receipt account liability is created from negative credit subsidy from new endorsements, downward credit subsidy reestimates, loan modifications, and unobligated balances from the liquidating account in the GI/SRI receipt account. Effective FY 2014, FHA sweeps its GI/SRI receipt accounts on September 30 and returns the funds to Treasury.

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 insurance, property taxes, and maintenance expenses on behalf of the borrowers. The earnest money becomes part of the sale proceeds or is returned to any unsuccessful bidders.

Multifamily Notes Unearned Revenue

Multifamily Notes Unearned Revenue primarily includes the deferred interest revenue on Multifamily notes that are based on work out agreements with the owners. The workout agreements defer payments from the owners for a specified time but, the interest due on the notes is still accruing and will also be deferred until payments resume.

Premiums Collected on Unendorsed Cases

Premiums collected on unendorsed cases represent amounts collected by FHA for cases that have not yet been endorsed. FHA's policy is to collect upfront premiums prior to endorsing a case.

Miscellaneous Liabilities

Miscellaneous liabilities mainly include unearned premium revenue and may include loss contingencies that are recognized by FHA for past events that warrant a probable, or likely, future outflow of measurable economic resources.

Note 11. Commitments and Contingencies

Litigation

FHA is party in various legal actions and claims brought by or against it. In the opinion of management and general counsel, the ultimate resolution of these legal actions will not have an effect on FHA's consolidated financial statements as of September 30, 2014. There are pending or threatened legal actions where judgment against FHA is reasonably possible with an estimated potential loss of $24 million or more.

Activity with Ginnie Mae

As of September 30, 2014, the Government National Mortgage Association ("Ginnie Mae") held defaulted FHA-insured mortgage loans. These loans, acquired from defaulted mortgage-backed securities issuers, had the following balances:

	FY 2014 (in Millions)	**FY 2013 (in Millions)**
Mortgages Held for Investment & Foreclosed Property (Pre-Claim)	4,891	5,780
Short Sale Claims Receivable	19	44

"Ginnie Mae" may submit requests for claim payments to FHA for some or all of these loans. Subject to all existing claim verification controls, FHA would pay such claims to Ginnie Mae, another component of HUD, upon conveyance of the foreclosed property to FHA. Any liability for such claims, and offsetting recoveries, has been reflected in the Liability for Loan Guarantees on the accompanying financial statements based on the default status of the insured loans.

Note 12. Gross Costs

Gross costs incurred by FHA for the period ended September 30, 2014 and 2013 are as follows:
(Dollars in millions)

September 30, 2014	Single Family Forward	HECM	Multifamily/ Healthcare	Administrative Expenses	Total
Intragovernmental:					
Interest Expense	$ 736	$ 59	$ 168	$ -	$ 963
Imputed Cost	-	-	-	15	15
Other Expenses	-	-	-	2	2
Total	**$ 736**	**$ 59**	**$ 168**	**$ 17**	**$ 980**
With the Public:					
Salary and Administrative Expense	$ -	$ -	$ -	$ 574	$ 574
Subsidy Expense	(9,790)	(55)	(612)	-	(10,457)
Re-estimate Expense	2,636	1,580	(292)	-	3,924
Interest Expense	199	495	16	(1)	709
Interest Accumulation Expense	598	652	(101)	-	1,149
Bad Debt Expense	(19)	-	(78)	-	(97)
Loan Loss Reserve	2	-	(1)	-	1
Other Expenses	24	1	44	40	109
Total	**$ (6,350)**	**$ 2,673**	**$ (1,024)**	**$ 613**	**$ (4,088)**
Total Gross Costs	**$ (5,614)**	**$ 2,732**	**$ (856)**	**$ 630**	**$ (3,108)**

September 30, 2013	Single Family Forward	HECM	Multifamily/ Healthcare	Administrative Expenses	Total
Intragovernmental:					
Interest Expense	$ 727	$ 53	$ 142	$ -	$ 922
Imputed Cost	-	-	-	18	18
Other Expenses	-	-	-	4	4
Total	**$ 727**	**$ 53**	**$ 142**	**$ 22**	**$ 944**
With the Public:					
Salary and Administrative Expense	$ -	$ -	$ -	$ 644	$ 644
Subsidy Expense	(17,069)	(366)	(922)	-	(18,357)
Re-estimate Expense	9,462	(636)	(407)	-	8,419
Interest Expense	758	(336)	(99)	(1)	322
Interest Accumulation Expense	985	770	(81)	-	1,674
Bad Debt Expense	(15)	-	(426)	-	(441)
Loan Loss Reserve	(5)	-	(4)	-	(9)
Other Expenses	44	3	12	28	87
Total	**$ (5,840)**	**$ (565)**	**$ (1,927)**	**$ 671**	**$ (7,661)**
Total Gross Costs	**$ (5,113)**	**$ (512)**	**$ (1,785)**	**$ 693**	**$ (6,717)**

Interest Expense

Intragovernmental interest expense includes interest expense on borrowings from the U.S. Treasury in the financing account. Interest expense is calculated annually for each cohort using the interest rates provided by the U.S Treasury. Interest expense with the public consists of interest expense on debentures issued to claimants to settle claim payments and interest expense on the annual credit subsidy reestimates.

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 the offset to interest accumulation expense.

Imputed Costs/Imputed Financing

Imputed costs represent FHA's share of the departmental imputed cost calculated and allocated to FHA by the HUD CFO office. Federal agencies are required to report imputed costs under SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards,* and SFFAS No. 30, *Inter-Entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts to account for costs assumed by other Federal organizations on their behalf*. The HUD CFO receives its imputed cost data from the Office of Personnel Management (OPM) for pension costs, federal employee health benefits (FEHB) and life insurance costs. It also receives Federal Employees' Compensation Act (FECA) costs from the Department of Labor (DOL). Subsequently, using its internally developed allocation basis, HUD CFO allocates the imputed cost data to each of its reporting offices. The imputed costs reported by FHA in its Statements of Net Cost are equal to the amounts of imputed financing in its Statements of Changes in Net Position.

Salary and Administrative Expenses

Salary and administrative expenses include FHA's reimbursement to HUD for FHA personnel costs and FHA's payments to third party contractors for administrative contract expenses. Beginning in fiscal year 2010 and going forward, FHA is only using the MMI annual program fund to record salaries and related expenses other than those relating to the H4H program.

Re-estimate Expense

Re-estimate expense captures the cost associated with revisions to the liability for loan guarantee. A re-estimate is calculated annually.

Subsidy Expense

Subsidy expense, positive and negative, consists of credit subsidy expense from new endorsements, and modifications. Credit subsidy expense is the estimated long-term cost to the U.S. Government of a direct loan or loan guarantee, calculated on a net present value basis of the estimated future cash flows associated with the direct loan or loan guarantee.

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 of these assets' historical loss experience and FHA management's judgment concerning current economic factors.

Loan Loss Reserve Expense

Loan loss reserve expense is recorded to account for the change in the balance of the loan loss reserve liabilities associated with FHA's pre-1992 loan guarantees. The loan loss reserve is provided for the estimated losses incurred by FHA to pay claims on its pre-1992 insured mortgages when defaults have taken place but the claims have not yet been filed with FHA.

Other Expenses

Other expenses with the public include only those associated with the FHA pre-1992 loan guarantees. They consist of net losses or gains on sales of FHA credit program assets, insurance claim expenses, fee expenses, and other miscellaneous expenses incurred to carry out FHA operations. Other intragovernmental expenses include FHA's share of HUD expenses incurred in the Working Capital Fund and expenses from intra-agency agreements.

Note 13. Earned Revenue

Earned revenues generated by FHA for the period ended September 30, 2014 and 2013 are as follows:

(Dollars in millions)

September 30, 2014	Single Family Forward	HECM	Multifamily/ Healthcare	Total
Intragovernmental:				
Interest Revenue from Deposits at U.S. Treasury	$ 1,334	$ 711	$ 67	$ 2,112
Interest Revenue from MMI/CMHI Investments	6	-	-	6
Total Intragovernmental	**$ 1,340**	**$ 711**	**$ 67**	**$ 2,118**
With the Public:				
Insurance Premium Revenue	$ (7)	$ -	$ 8	$ 1
Income from Notes and Properties	14	1	37	52
Other Revenue	10	-	-	10
Total With the Public	**$ 17**	**$ 1**	**$ 45**	**$ 63**
Total Earned Revenue	**$ 1,357**	**$ 712**	**$ 112**	**$ 2,181**

September 30, 2013	Single Family Forward	HECM	Multifamily/ Healthcare	Total
Intragovernmental:				
Interest Revenue from Deposits at U.S. Treasury	$ 1,712	$ 823	$ 62	$ 2,597
Interest Revenue from MMI/CMHI Investments	8	-	-	$ 8
Total Intragovernmental	**$ 1,720**	**$ 823**	**$ 62**	**$ 2,605**
With the Public:				
Insurance Premium Revenue	$ -	$ -	$ 8	$ 8
Income from Notes and Properties	27	2	38	$ 67
Other Revenue	1	-	-	$ 1
Total With the Public	**$ 28**	**$ 2**	**$ 46**	**$ 76**
Total Earned Revenue	**$ 1,748**	**$ 825**	**$ 108**	**$ 2,681**

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 and of escrow monies collected from borrowers in the GI/SRI liquidating accounts.

Interest revenue with the public is generated mainly from FHA's acquisition of pre-1992 performing MNA notes as a result of claim payments to lenders for defaulted guaranteed loans. Interest revenue associated with the post-1991 MNA notes is included in the Allowance for Subsidy (AFS) balance.

Gain on Sale of MMI/CMHI Investments

This gain occurred as a result of the sale of investments before maturity in the MMI/CMHI Capital Reserve account because the sales price of the investments was greater than the book value of the investments at the time of the sale.

Premium Revenue

According to the FCRA accounting, FHA's premium revenue includes only premiums associated with the pre-1992 loan guarantee business. Premiums for post-1991 guarantee loans are included in the balance of the LLG. The FHA premium structure includes both up-front premiums and annual periodic premiums.

Up-front Premiums

The up-front premium rates vary according to the mortgage type and the year of origination. The FHA up-front premium rates in fiscal year 2014 were:

	Upfront Premium Rates
Single Family:	
10/01/2013 - 9/30/2014	1.75%
Multifamily	0.25%, 0.45%, 0.50%, 0.80% or 1.00%
HECM Standard	2.00% (Based on Maximum Claim Amount)
HECM Saver	0.01% (Based on Maximum Claim Amount)

Annual Periodic Premiums

The periodic premium rate is used to calculate monthly or annual premiums. These rates also vary by mortgage type and program. The FHA annual periodic premium rates in fiscal year 2014 were:

	Annual Periodic Premium Rates
Single Family:	
10/01/2013 - 9/30/2014	1.20%, 1.25% , 1.45% or 1.50%
10/01/2013 - 9/30/2014	1.30%, 1.35%, 1.50% or 1.55%
Multifamily	0.45%, 0.50%, 0.57% or 0.80%
HECM (Standard and Saver)	1.25%

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. For guaranteed cases endorsed in fiscal year 2013, the Title I annual insurance premium is 1.00 percent of the loan amount until maturity.

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, sold, and gains associated with the sale.

Other Revenue

Other revenue includes revenue associated with FHA pre-1992 loan guarantees. FHA's other revenue consists of late charges and penalty revenue, fee income, and miscellaneous income generated from FHA operations.

Note 14. 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 15. Transfers Out and Other Financing Sources

Transfers in/out incurred by FHA for the period ended September 30, 2014 and 2013 are as follows:

(Dollars in millions)

September 30, 2014	Cumulative Results of Operations	Unexpended Appropriations	Total
Transfers Out:			
HUD	497	-	497
Other Financing Sources:			
Treasury	$ (2,231)	$ -	$ (2,231)

September 30, 2013	Cumulative Results of Operations	Unexpended Appropriations	Total
Budgetary Financing Sources:			
HUD	-	(68)	(68)
Transfers Out:			
HUD	550	-	550
Other Financing Sources:			
Treasury	$ (3,374)	$ -	$ (3,374)

Transfers In/Out From HUD

FHA does not receive an appropriation for salaries and expense; instead the FHA amounts are appropriated directly to HUD. In order to recognize these costs in FHA's Statement of Net Cost, a Transfer In from HUD is recorded based on amounts computed by HUD. FHA continues to make a non-expenditure Transfer Out to HUD for Working Capital Fund expenses.

Other Financing Sources

Transfers out to U.S. Treasury consist of negative subsidy from new endorsements, modifications and downward credit subsidy reestimates in the GI/SRI general fund receipt account.

Note 16. Unexpended Appropriations

Unexpended appropriation balances at September 30, 2014 and 2013 are as follows:

(Dollars in millions)

FY 2014	Beginning Balance	Appropriations Received	Other Adjustments	Appropriations Used	Transfers-Out	Ending Balance
Positive Subsidy	$ 464	$ -	$ -	$ -	$ -	$ 464
Working Capital and Contract Expenses	298	127	(37)	(114)	-	274
Reestimates	-	210	-	(210)	-	-
GI/SRI Liquidating	107	30	-	(3)	-	134
Total	**$ 869**	**$ 367**	**$ (37)**	**$ (327)**	**$ -**	**$ 872**

FY 2013	Beginning Balance	Appropriations Received	Other Adjustments	Appropriations Used	Transfers-Out	Ending Balance
Positive Subsidy	$ 464	$ -	$ -	$ -	$ -	$ 464
Working Capital and Contract Expenses	309	207	(39)	(111)	(68)	298
Reestimates	-	7,367	-	(7,367)	-	-
GI/SRI Liquidating	89	30	-	(12)	-	107
Total	**$ 862**	**$ 7,604**	**$ (39)**	**$ (7,490)**	**$ (68)**	**$ 869**

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 program accounts for administrative and contract expenses. The GI/SRI and H4H no-year program accounts also receive appropriations for positive credit subsidy and upward reestimates. Additionally, FHA obtains permanent indefinite appropriations to cover any shortfalls for its GI/SRI pre-1992 loan guarantee operations.

When appropriations are first received, they are reported as unexpended appropriations. As these appropriations are expended, appropriations used are increased and unexpended appropriations are decreased. Additionally, unexpended appropriations are decreased when: administrative expenses and working capital funds are transferred out to HUD; appropriations are rescinded; or other miscellaneous adjustments are required.

Note 17. Budgetary Resources

The SF-133 and the Statement of Budgetary Resources for fiscal year 2013 have been reconciled to the fiscal year 2013 actual amounts included in the Program and Financing Schedules presented in the fiscal year 2015 Budget of the United States Government. There were no significant reconciling items. Information from the fiscal year 2014 Statement of Budgetary Resources will be presented in the fiscal year 2016 Budget of the U.S. Government. The Budget will be transmitted to Congress on the first Monday in February 2015 and will be available from the Government Printing Office and online at that time.

Obligated balances as of September 30, 2014 and 2013 are as follows:

Unpaid Obligations

(Dollars in Millions)

Undelivered Orders	**FY 2014**	**FY 2013**
MMI/CMHI	$ 1,570	$ 1,870
GI/SRI	321	436
EI	26	36
TI	-	2
Undelivered Orders Subtotal	**$ 1,917**	**$ 2,344**
Accounts Payable		
MMI/CMHI	$ 527	$ 447
GI/SRI	372	382
Accounts Payable Subtotal	**$ 899**	**$ 829**
Total	**$ 2,816**	**$ 3,173**

Note 18. Budgetary Resources - Collections

During fiscal year 2012 and 2014, FHA collected funds received from the National Servicing Settlement with the Nation's five largest loan servicers, as well as settlements from lenders as a result of increased monitoring and enforcement actions.

The following table presents the composition of FHA's collections for the period ended September 30, 2014 and 2013:

FY 2014	MMI/CMHI	GI/SRI	H4H	Total
Collections:				
Premiums	$ 11,041	$ 843	$ 1	$ 11,885
Notes	4,884	434	1	5,319
Property	5,348	223	1	5,572
Interest Earned from U.S. Treasury	1,637	473	1	2,111
Subsidy	9,850	-	-	9,850
Reestimates	9,018	210	-	9,228
Collections from settlements	466	-	-	466
Other	47	15	-	62
Total	**$ 42,291**	**$ 2,198**	**$ 4**	**$ 44,493**

FY 2013	MMI/CMHI	GI/SRI	H4H	Total
Collections:				
Premiums	$ 11,178	$ 842	$ 1	$ 12,021
Notes	2,253	601	1	2,855
Property	8,400	319	-	8,719
Interest Earned from U.S. Treasury	2,002	603	1	2,606
Subsidy	17,444	-	-	17,444
Reestimates	32,913	5,681	-	38,594
Collections from settlements	-	-	-	-
Other	43	13	1	57
Total	**$ 74,233**	**$ 8,059**	**$ 4**	**$ 82,296**

Note 19. Budgetary Resources – Non-expenditure Transfers

The following table presents the composition of FHA's non-expenditure transfers for the period ended September 30, 2014 and 2013:

(Dollars in Millions)

FY 2014	MMI/CMHI	GI/SRI	H4H	EI	TI	Total
Transfers:						
Working Capital and Contract Expenses	$ -	$ -	$ -	$ -	$ -	$ -

(Dollars in Millions)

FY 2013	MMI/CMHI	GI/SRI	H4H	EI		Total
Transfers						
Working Capital and Contract Expenses	$ (68)	$ -	$ -	$ -	$ -	$ (68)

Note 20. Budgetary Resources – Obligations

The following table presents the composition of FHA's obligations for the period ended September 30, 2014 and 2013:

(Dollars in Millions)

FY 2014	MMI/CMHI	GI/SRI	H4H	EI/TI	Total
Obligations					
Claims	$ 25,392	$ 2,706	$ 5	$ -	$ 28,103
Property Expenses	956	92	-	-	1,048
Interest on Borrowings	726	237	-	-	963
Subsidy	9,849	526	-	-	10,375
Downward Reestimates	3,250	2,060	-	-	5,310
Upward Reestimates	5,769	210	-	-	5,979
Admin, Contract and Working Capital	122	-	-	-	122
Other	10	79	-	-	89
Total	**$ 46,074**	**$ 5,910**	**$ 5**	**$ -**	**$ 51,989**

FY 2013	MMI/CMHI	GI/SRI	H4H	EI/TI	Total
Obligations					
Claims	$ 26,766	$ 2,596	$ 3	$ -	$ 29,365
Property Expenses	1,982	78	-	-	2,060
Interest on Borrowings	710	211	-	-	921
Subsidy	17,446	1,046	-	-	18,492
Downward Reestimates	5,241	529	-	-	5,770
Upward Reestimates	27,673	5,681	-	-	33,354
Admin, Contract and Working Capital	110	-	-	4	114
Other	12	87	-	-	99
Total	**$ 79,940**	**$ 10,228**	**$ 3**	**$ 4**	**$ 90,175**

Note 21. Reconciliation of Net Cost of Operations to Budget

This note (formerly the Statement of Financing) links the proprietary data to the budgetary data. Most transactions are recorded in both proprietary and budgetary accounts. However, because different accounting bases are used for budgetary and proprietary accounting, some transactions may appear in only one set of accounts. The Reconciliation of Net Cost of Operations to Budget is as follows for the period ended September 30, 2014 and 2013:

(Dollars in Millions)		FY 2014		FY 2013
RESOURCES USED TO FINANCE ACTIVITIES				
Obligations Incurred - SBR	$	51,989	$	90,175
Spending Authority from Offsetting Collections and Recoveries - SBR	$	(44,499)		(82,297)
Offsetting Receipts - SBR	$	(2,668)		(1,442)
Transfers In / Out - NP	$	(2,230)		-
Imputed Financing from Costs Absorbed by Others	$	15		18
TOTAL RESOURCES USED TO FINANCE ACTIVITIES	**$**	**2,607**	**$**	**6,454**
RESOURCES THAT DO NOT FUND THE NET COST OF OPERATIONS				
Undelivered Orders and Adjustments	$	428	$	(266)
Revenue and Other Resources		45,001		81,088
Purchase of Assets		(45,433)		(55,840)
Appropriation for prior year Re-estimate		(5,979)		(33,354)
TOTAL RESOURCES NOT PART OF NET COST OF OPERATIONS	**$**	**(5,983)**	**$**	**(8,372)**
TOTAL RESOURCES USED TO FINANCE THE NET COST (SURPLUS) OF OPERATIONS	**$**	**(3,376)**	**$**	**(1,918)**
COMPONENTS OF THE NET COST (SURPLUS) OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD				
Upward Re-estimate of Credit Subsidy Expense	$	10,639	$	14,777
Downward Re-estimate of Credit Subsidy Expense		(6,006)		(6,035)
Changes in Loan Loss Reserve Expense		27		(3)
Changes in Bad Debt Expenses Related to Uncollectible Pre-Credit Reform Receivables		(97)		(440)
Reduction of Credit Subsidy Expense from Endorsements and Modifications of Loan Guarantees		(10,457)		(18,358)
Gains or Losses on Sales of Credit Program Assets		29		19
Other		3,952		2,560
TOTAL COMPONENTS OF THE NET COST (SURPLUS) OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD	**$**	**(1,913)**	**$**	**(7,480)**
NET COST (SURPLUS) OF OPERATIONS	**$**	**(5,289)**	**$**	**(9,398)**

Required Supplementary Information

Schedule A: Intragovernmental Assets

FHA's Intragovernmental assets, by federal entity, are as follows on September 30, 2014 and 2013:

(Dollars in Millions)

FY 2014	Fund Balance with U.S. Treasury	Investments in U.S. Treasury Securities	Other Assets	Total
U.S. Treasury	$ 50,232	$ 6,379	$ -	$ 56,611
HUD	-	-	1	1
Total	**$ 50,232**	**$ 6,379**	**$ 1**	**$ 56,612**

FY 2013	Fund Balance with U.S. Treasury	Investments in U.S. Treasury Securities	Other Assets	Total
U.S. Treasury	$ 63,481	$ 3	$ -	$ 63,484
HUD	-	-	1	1
Total	**$ 63,481**	**$ 3**	**$ 1**	**$ 63,485**

Schedule B: Intragovernmental Liabilities

FHA's Intragovernmental liabilities, by federal entity, are as follows on September 30, 2014 and 2013:

(Dollars in Millions)

FY 2014	Accounts Payable	Borrowings from U.S. Treasury	Other Liabilities	Total
U.S. Treasury	$ -	$ 27,528	$ 1,689	$ 29,217
HUD	3	-	-	3
Total	**$ 3**	**$ 27,528**	**$ 1,689**	**$ 29,220**

FY 2013	Accounts Payable	Borrowings from U.S. Treasury	Other Liabilities	Total
U.S. Treasury	$ -	$ 25,940	$ 3,983	$ 29,923
HUD	8	-	-	8
Total	**$ 8**	**$ 25,940**	**$ 3,983**	**$ 29,931**

Required Supplementary Information

Schedule C: Comparative Combining Statement of Budgetary Resources by FHA Program for Budgetary September 30, 2014:

Dollars in Millions	MMI/CMHI Capital Reserve	MMI/CMHI Program	GI/SRI Program	Other	Budgetary Total
Budgetary Resources:					
Unobligated balance brought forward, October 1	$ 2	$ 95	$ 23	$ 717	$ 837
Unobligated balance brought forward, October 1, as adjusted	2	95	23	717	837
Recoveries of prior year unpaid obligations	-	23	3	45	71
Other changes in unobligated balance (+ or -)	(2)	(25)	(10)	(234)	(271)
Unobligated balance from prior year budget authority, net	-	93	16	528	637
Appropriations (discretionary and mandatory)	-	127	210	30	367
Spending authority from offsetting collections (discretionary and mandatory)	7,337	5,766	-	214	13,317
Total budgetary resources	**$ 7,337**	**$ 5,986**	**$ 226**	**$ 772**	**$ 14,321**
Status of Budgetary Resources:					
Obligations incurred	-	5,892	210	67	6,169
Apportioned	-	44	16	25	85
Exempt from apportionment	-	-	-	85	85
Unapportioned	7,337	50	-	680	8,067
Total unobligated balance, end of year	7,337	94	16	705	8,152
Total budgetary resources	**$ 7,337**	**$ 5,986**	**$ 226**	**$ 772**	**$ 14,321**
Change in Obligated Balance:					
Unpaid obligations, brought forward, October 1 (gross)	-	147	4	483	634
Uncollected customer payments from Federal sources, brought forward, October 1 (-)	(2)	-	-	(1)	(3)
Obligated balance, start of year (net), before adjustments (+ or -)	(2)	147	4	482	631
Adjustment to obligated balance, start of year (net) (+ or -)	-	-	-	-	-
Obligated balance, start of year (net), as adjusted	(2)	147	4	482	631
Obligations incurred	-	5,892	210	67	6,169
Outlays (gross) (-)	-	(5,870)	(210)	(65)	(6,145)
Change in uncollected customer payments from Federal sources (+ or -)	(6)	-	-	-	(6)
Recoveries of prior year unpaid obligations (-)	-	(23)	(3)	(45)	(71)
Unpaid obligations, end of year (gross)	-	146	1	440	587
Uncollected customer payments from Federal sources, end of year	(8)	-	-	(1)	(9)
Obligated balance, end of year (net)	**$ (8)**	**$ 146**	**$ 1**	**$ 439**	**$ 578**
Budget Authority and Outlays, Net:					
Budget authority, gross (discretionary and mandatory)	7,337	5,893	210	244	13,684
Actual offsetting collections (discretionary and mandatory) (-)	(13,098)	-	-	(213)	(13,311)
Change in uncollected customer payments from Federal sources (discretionary and mandatory) (+ or -)	(6)	-	-	-	(6)
Anticipated offsetting collections (discretionary and mandatory) (+ or -)	-	-	-	-	-
Budget authority, net (discretionary and mandatory)	(5,766)	5,893	210	30	367
Outlays, gross (discretionary and mandatory)	-	5,870	210	65	6,145
Actual offsetting collections (discretionary and mandatory) (-)	(13,098)	-	-	(213)	(13,311)
Outlays, net (discretionary and mandatory)	(13,098)	5,870	210	(148)	(7,166)
Distributed offsetting receipts (-)	-	-	-	(2,668)	(2,668)
Agency outlays, net (discretionary and mandatory)	**$ (13,098)**	**$ 5,870**	**$ 210**	**$ (2,816)**	**$ (9,834)**

Required Supplementary Information

Schedule C: Comparative Combining Statement of Budgetary Resources by FHA Program for Budgetary September 30, 2013:

Dollars in Millions	MMI/CMHI Capital Reserve	MMI/CMHI Program	GI/SRI Program	Other	Budgetary Total Total
Budgetary Resources:					
Unobligated balance brought forward, October 1	$ 3,309	$ 72	$ 41	$ 652	$ 4,074
Adjustment to unobligated balance brought forward, October 1 (+ or -)	-	1	-	-	1
Unobligated balance brought forward, October 1, as adjusted	3,309	74	41	651	4,075
Recoveries of prior year unpaid obligations	-	11	3	73	87
Other changes in unobligated balance (+ or -)	(3,309)	3,285	(20)	(164)	(208)
Unobligated balance from prior year budget authority, net	-	3,370	23	561	3,954
Appropriations (discretionary and mandatory)	-	1,814	5,681	30	7,525
Borrowing authority (discretionary and mandatory)	-	-	-	1	1
Spending authority from offsetting collections (discretionary and mandatory)	2	22,694	-	226	22,922
Total budgetary resources	**$ 2**	**$ 27,878**	**$ 5,704**	**$ 818**	**$ 34,402**
Status of Budgetary Resources:					
Obligations incurred	-	27,783	5,681	100	33,564
Unobligated balance, end of year:					
Apportioned	-	34	16	27	77
Unapportioned	2	61	7	691	761
Total unobligated balance, end of year	2	95	23	718	838
Total budgetary resources	**$ 2**	**$ 27,878**	**$ 5,704**	**$ 818**	**$ 34,402**
Change in Obligated Balance:					
Unpaid obligations, brought forward, October 1 (gross)	-	157	8	567	732
Uncollected customer payments from Federal sources, brought forward, October 1 (-)	(1)	-	-	1	-
Obligated balance, start of year (net), before adjustments (+ or -)	(1)	157	8	568	732
Adjustment to obligated balance, start of year (net) (+ or -)	-	(1)	-	-	(1)
Obligated balance, start of year (net), as adjusted	(1)	155	8	569	731
Obligations incurred	-	27,783	5,681	100	33,564
Outlays (gross) (-)	-	(27,780)	(5,682)	(112)	(33,574)
Change in uncollected customer payments from Federal sources (+ or -)	(1)	-	-	-	(1)
Recoveries of prior year unpaid obligations (-)	-	(11)	(3)	(73)	(87)
Unpaid obligations, end of year (gross)	-	147	4	483	634
Uncollected customer payments from Federal sources, end of year	(2)	-	-	(1)	(3)
Obligated balance, end of year (net)	**$ (2)**	**$ 147**	**$ 4**	**$ 482**	**$ 631**
Budget Authority and Outlays, Net:					
Budget authority, gross (discretionary and mandatory)	2	24,508	5,681	257	30,448
Actual offsetting collections (discretionary and mandatory) (-)	(22,695)	-	-	(226)	(22,921)
Change in uncollected customer payments from Federal sources (discretionary and mandatory) (+ or -)	(1)	-	-	-	(1)
Budget authority, net (discretionary and mandatory)	(22,694)	24,508	5,681	31	7,526
Outlays, gross (discretionary and mandatory)	-	27,780	5,682	112	33,574
Actual offsetting collections (discretionary and mandatory) (-)	(22,695)	-	-	(226)	(22,921)
Outlays, net (discretionary and mandatory)	(22,695)	27,780	5,682	(114)	10,653
Distributed offsetting receipts (-)	-	-	-	1,442	(1,442)
Agency outlays, net (discretionary and mandatory)	**$ (22,695)**	**$ 27,780**	**$ 5,682**	**$ 1,328**	**$ 9,211**

Required Supplementary Information

Schedule D: Comparative Combining Budgetary Resources by FHA Program for Non-Budgetary September 30, 2014:

	MMI/CMHI Financing	GI/SRI Financing	Other	Budgetary Total Total
Budgetary Resources:				
Unobligated balance brought forward, October 1	$ 46,334	$ 11,495	$ 26	$ 57,855
Unobligated balance brought forward, October 1, as adjusted	46,334	11,495	26	57,855
Recoveries of prior year unpaid obligations	714	50	1	765
Other changes in unobligated balance (+ or -)	-	-	(1)	(1)
Unobligated balance from prior year budget authority, net	47,048	11,546	24	58,618
Borrowing authority (discretionary and mandatory)	7,000	1,769	-	8,769
Spending authority from offsetting collections (discretionary and mandatory)	23,181	817	4	24,002
Total budgetary resources	**$ 77,229**	**$ 14,132**	**$ 28**	**$ 91,389**
Status of Budgetary Resources:				
Obligations incurred	40,158	5,658	4	45,820
Unobligated balance, end of year:	-	-		
Apportioned	12,076	1,406	12	13,494
Exempt from apportionment	-	-	13,494	13,494
Unapportioned	24,996	7,068	11	32,075
Total unobligated balance, end of year	37,072	8,474	23	45,569
Total budgetary resources	**$ 77,229**	**$ 14,132**	**$ 28**	**$ 91,389**
Change in Obligated Balance:				
Unpaid obligations, brought forward, October 1 (gross)	2,019	520	-	2,539
Obligated balance, start of year (net), before adjustments (+ or -)	2,019	520	-	2,539
Obligated balance, start of year (net), as adjusted	2,019	520	-	2,539
Obligations incurred	40,158	5,658	4	45,820
Outlays (gross) (-)	(39,657)	(5,704)	(5)	(45,366)
Recoveries of prior year unpaid obligations (-)	(714)	(50)	(1)	(765)
Unpaid obligations, end of year (gross)	1,806	423	-	2,229
Obligated balance, end of year (net)	**$ 1,806**	**$ 423**	**$ -**	**$ 2,229**
Budget Authority and Outlays, Net:				
Budget authority, gross (discretionary and mandatory)	30,181	2,586	4	32,771
Actual offsetting collections (discretionary and mandatory) (-)	(29,181)	(1,997)	(4)	(31,182)
Budget authority, net (discretionary and mandatory)	1,000	589	-	1,589
Outlays, gross (discretionary and mandatory)	39,657	5,704	5	45,366
Actual offsetting collections (discretionary and mandatory) (-)	(29,181)	(1,997)	(4)	(31,182)
Outlays, net (discretionary and mandatory)	10,476	3,707	1	14,184
Agency outlays, net (discretionary and mandatory)	**$ 10,476**	**$ 3,707**	**$ 1**	**$ 14,184**

Required Supplementary Information

Schedule D: Comparative Combining Budgetary Resources by FHA Program for Non-Budgetary September 30, 2013:

	MMI/CMHI Financing	GI/SRI Financing	Other	Non Budgetary Total Total
Budgetary Resources:				
Unobligated balance brought forward, October 1	$ 33,167	$ 7,082	$ 26	$ 40,275
Unobligated balance brought forward, October 1, as adjusted	33,167	7,082	26	40,275
Recoveries of prior year unpaid obligations	381	23	-	404
Unobligated balance from prior year budget authority, net	33,548	7,105	25	40,678
Borrowing authority (discretionary and mandatory)	17,603	1,488	1	19,092
Spending authority from offsetting collections (discretionary and mandatory)	47,304	7,389	3	54,696
Total budgetary resources	**$ 98,455**	**$ 15,982**	**$ 29**	**$ 114,466**
Status of Budgetary Resources:				
Obligations incurred	52,121	4,487	3	56,611
Unobligated balance, end of year:				
Apportioned	22,797	2,187	15	24,999
Unapportioned	23,537	9,308	11	32,856
Total unobligated balance, end of year	46,334	11,495	26	57,855
Total budgetary resources	**$ 98,455**	**$ 15,982**	**$ 29**	**$ 114,466**
Change in Obligated Balance:				
Unpaid obligations, brought forward, October 1 (gross)	1,931	541	-	2,472
Obligated balance, start of year (net), before adjustments (+ or -)	1,931	541	-	2,472
Obligated balance, start of year (net), as adjusted	1,931	541	-	2,472
Obligations incurred	52,121	4,487	3	56,611
Outlays (gross) (-)	(51,651)	(4,486)	(4)	(56,141)
Recoveries of prior year unpaid obligations (-)	(381)	(23)	-	(404)
Unpaid obligations, end of year (gross)	2,019	520	-	2,539
Obligated balance, end of year (net)	**$ 2,019**	**$ 520**	**$ -**	**$ 2,539**
Budget Authority and Outlays, Net:				
Budget authority, gross (discretionary and mandatory)	64,907	8,877	4	73,788
Actual offsetting collections (discretionary and mandatory) (-)	(51,514)	(7,859)	(2)	(59,375)
Budget authority, net (discretionary and mandatory)	13,393	1,019	1	14,413
Outlays, gross (discretionary and mandatory)	51,651	4,486	4	56,141
Actual offsetting collections (discretionary and mandatory) (-)	(51,514)	(7,859)	(2)	(59,375)
Outlays, net (discretionary and mandatory)	138	(3,373)	1	(3,234)
Agency outlays, net (discretionary and mandatory)	**$ 138**	**$ (3,373)**	**$ 1**	**$ (3,234)**

Other Information

The Office of Management and Budget (OMB) requires all CFO Act agencies' to include the Schedule of Spending in the Other Accompanying Information section of their Annual Financial Report. The Schedule of Spending presents an overview of how and where agencies are spending money. The statement discloses FHA's resources that were available to spend, services or items that were purchased, with whom the agencies are spending money, and how obligations are issued.

SCHEDULE OF SPENDING
As of September 30 2014
in millions

	FY 2014	FY 2013
What Money is Available to spend?		
Total Resources	$105,710	$148,867
Less Amount Available but Not Agreed to be Spent	$13,579	$25,075
Less Amount Not Available to be Spent	$40,142	$33,617
Total Amounts Agreed to be Spent	**$51,989**	**$90,175**
How was the Money Spent?		
Category*		
Claims	$27,991	$29,656
Property Expenses	$596	$1,414
Interest on Borrowings	$963	$921
Subsidy	$10,457	$18,358
Downward Reestimates	$5,310	$5,770
Upward Reestimates	$5,979	$33,354
Admin, Contract and Working Capital	$116	$116
Other	$99	$126
Total Spending	$51,511	$89,714
Amounts Remaining to be Spent	$478	$461
Total Amounts Agreed to be Spent	**$51,989**	**$90,175**
Who did the Money go to?		
For Profit	$29,280	$31,772
Government	$22,709	$58,403
Total Amounts Agreed to be Spent	**$51,989**	**$90,175**
How Was the Money Issued?		
Claims	$28,103	$29,365
Property Expenses	$1,048	$2,060
Interest on Borrowings	$963	$921
Subsidy	$10,376	$18,491
Downward Reestimates	$5,310	$5,770
Upward Reestimates	$5,979	$33,354
Admin, Contract and Working Capital	$123	$114
Other	$87	$100
Total on How Money Was Issued	**$51,989**	**$90,175**

Summary of Financial Statement Audit and Management Assurances

For FY2014, one material internal control weakness was identified. The following tables provide a summary of financial audit findings with regard to audit opinion and management assurances.

Summary of Financial Statement Audit

Summary of Financial Statement Audit					
Audit Opinion	Unmodified				
Restatement	No				
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Failure to recognize accounts receivable appropriately	0	1	0	0	1
Total Material Weaknesses	0	1	0	0	1

Summary of Management Assurances

Summary of Management Assurances					
Effectiveness of Internal Control over Financial Reporting (FMFIA section 2)					
Statement of Assurance	Qualified				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Failure to recognize accounts receivable appropriately	0	1	0	0	1
Total Material Weaknesses	0	1	0	0	1

AUDITOR'S REPORT

This report was issued separately in November 2014 by HUD, OIG entitled, "Audit of the Federal Housing Administration's Financial Statements for Fiscal Years 2014 and 2013" (2015-FO-0001). The report is available at HUD, OIG's internet site at: http://www.hudoig.gov/sites/default/files/documents/2015-FO-0001.pdf

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To:	Biniam Gebre, Acting Assistant Secretary for Housing and Acting Federal Housing Administration Commissioner, H
From:	Thomas R. McEnanly, Director, Financial Audits Division, GAF
Subject:	Audit of the Federal Housing Administration's Financial Statements for Fiscal Years 2014 and 2013

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our audits of Federal Housing Administration's fiscal years 2014 and 2013 financial statements.

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, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at http://www.hudoig.gov.

If you have any questions or comments about this report, please do not hesitate to call me at 202-402-8216.

Audit Report Number: 2015-FO-0001
Date: November 14, 2014

Audit of Federal Housing Administration's Financial Statements for Fiscal Years 2014 and 2013

Highlights

What We Audited and Why

The Chief Financial Officers Act of 1990 (Public Law 101-576), as amended, requires the Office of Inspector General (OIG) or an independent auditor, as determined by the OIG to annually audit the financial statements of the Federal Housing Administration (FHA). We contracted with the independent certified public accounting firm of CliftonLarsonAllen LLP to audit FHA's fiscal year 2013 principal financial statements. CliftonLarsonAllen LLP was responsible for its audit reports and the conclusions expressed on those reports. OIG audited FHA's fiscal year 2014 principal financial statements, which are comprised of the balance sheets and the related statements of net cost and changes in net position and the combined statements of budgetary resources for the year then ended. We conducted these audits in accordance with generally accepted government auditing standards.

The following is our report on the results of our audits of FHA's principal financial statements for the fiscal years ending September 30, 2014 and 2013. Also provided are assessments of FHA's internal controls and our findings with respect to FHA's compliance with applicable laws and regulations. In addition, we plan to issue a letter to management describing other issues of concern that came to our attention during the audit.

What We Found

In our opinion, FHA's fiscal year 2014 and 2013 financial statements were presented fairly, in all material respects, in accordance with the generally accepted accounting principles for the Federal government. Our opinion is reported in FHA's Fiscal Year 2014 Annual Management Report. Our audit disclosed one material weakness, two significant deficiencies in internal controls, and one instance of noncompliance with applicable laws and regulations.

What We Recommend

Recommendations are after each finding. One open recommendation from a prior year audit is in the Follow-up on Prior Audits section of this report. We identified the lack of policies and procedures to accrue $722.2 million in accounts receivables and $217.5 million in liabilities and a reclassification on the balance sheet in the net amount of $703.2 million.

Independent Auditor's Report

Commissioner
Federal Housing Administration

In our audits of fiscal years 2014 and 2013 financial statements of the Federal Housing Administration (FHA), a component of the U.S. Department of Housing and Urban Development (HUD), we found

- The financial statements are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- One material weakness in internal control over financial reporting;
- Two significant deficiencies in internal control over financial reporting; and
- One instance of reportable noncompliance with certain provisions of laws and regulations tested.

The following sections and appendixes discuss in more detail: (1) our conclusions, including a matter of emphasis related to the potential range of estimate for the Single Family liability for loan guarantee and changing of the accounting method for sweeping FHA's receipt account, (2) management's discussion and analysis, other required supplementary information, and additional information included with the financial statements, (3) management's responsibilities, (4) our responsibilities, (5) the current status of prior-year findings, (6)schedule of questioned costs and funds to be put to better use, and (7) management's response to findings.

Report on the Financial Statements

We have audited the accompanying financial statements of FHA, which comprise the balance sheets as of September 30, 2014 and 2013, and the related statements of net cost and changes in net position, the combined statements of budgetary resources for the years then ended, and the related notes to the financial statements. The independent certified public accounting firm of CliftonLarsonAllen LLP, under contract with OIG, audited FHA's fiscal year 2013 principal financial statements. CliftonLarsonAllen LLP was responsible for its audit report and the conclusions expressed on that report. OIG audited FHA's fiscal year 2014 principal financial statements.

Management's Responsibilities

FHA management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accounting principles (GAAP). This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Management is also responsible for (1) evaluating the effectiveness of internal control over financial reporting, (2) providing a statement of assurance on the overall effectiveness of internal control over financial reporting, including providing reasonable assurance that the broad control objectives of Federal Managers' Financial Integrity Act are met, and (3) ensuring compliance with other applicable laws and regulations.

Auditor's Responsibilities

Our responsibility is to express an opinion on these financial statements based on our audits. We and the previous auditor conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. We also conducted our audits in accordance with Office of Management and Budget (OMB) Bulletin No. 14-02, Audit Requirements for Federal Financial Statements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to FHA's preparation and fair presentation of the financial statements to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We are also responsible for (1) obtaining a sufficient understanding of internal control over financial reporting to assess the risk of material misstatements and to design the nature, timing and extent of audit procedures, (2) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements and applicable laws for which OMB Bulletin 14-02 requires testing, and (3) applying certain limited procedures with respect to the required supplementary information and all other accompanying information included with the financial statements.

We did not evaluate all internal controls relevant to operating objectives as broadly established by the Federal Managers' Financial Integrity Act, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may still occur and not be detected. We also caution that projecting our audit results to future periods is subject to risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws and regulations applicable to FHA. We limited our tests of compliance to certain provisions of laws and regulations that have a direct and material effect on the financial statements and those required by OMB Bulletin 14-02 that we deemed applicable to FHA's financial statements for the fiscal year ended September 30, 2014. We caution that noncompliance with laws and regulations may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Federal Housing Administration as of September 30, 2014 and 2013, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Notes 1 and 6 to the financial statements, the loan guarantee liability is an actuarially determined estimate of the net present value of future claims, future premiums and future recoveries, from loans insured as of the end of the fiscal year. This estimate is developed using econometric models that integrate historical loan-level program and economic data with regional house price appreciation forecasts to develop assumptions about future portfolio performance. This year's estimate is the mean value from a series of projections using many economic scenarios and FHA's Single Family liability for loan guarantee estimates reported as of September 30, 2014 could change depending on which economic outcome ultimately prevails. This forecast method helps project how the estimate will be affected by different economic scenarios but does not address the risk that the models may not accurately reflect current borrower behavior or contain technical errors. Our opinion is not modified with respect to this matter.

As discussed in Note 1 to the financial statements, FHA has elected to change its method of accounting for sweeping its receipt accounts and changed the timing from October 1 to September 30 in fiscal year 2014. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S GAAP requires that FHA's management's discussion and analysis and other required supplementary information be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Federal Accounting Standards Advisory Board, 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 management discussion and analysis and other required supplementary information in accordance with U.S. generally accepted government auditing standards. These procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on this information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

The Message from the Commissioner and the Schedule of Spending are presented for purposes of additional analysis and are not a required part of the financial statements or required supplementary information. This information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Prior Period Financial Statements Audited by a Predecessor Auditor

FHA's financial statements as of September 30, 2013, were audited by other auditors whose report, dated December 9, 2013, expressed an unqualified opinion on those statements. The audit report on those statements also included an emphasis of matter paragraph, which described the actuarially determined estimate for the loan guarantee liability.

Report on Internal Control over Financial Reporting and on Compliance Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered FHA's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of FHA's internal control. Accordingly, we do not express an opinion on the effectiveness of FHA's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of FHA's financial statements will not be prevented, or detected and corrected in a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified three deficiencies in internal control, which are described below. We considered one to be a material weakness and two to be significant deficiencies.

FHA Did Not Establish Appropriate Receivables for Legal Settlements and Partial Claims Notes

FHA did not record an accrual in its accounts receivables from settled legal claims. Instead, it accounted for the settlement funds collected on a cash basis. GAAP requires receivables which represent claims for cash from settled legal claims to be recognized at the point of legal settlement rather than when the cash was received. FHA had not established or implemented formal policies and procedures to identify, accrue, record, and report amounts due as a result of the legal settlement agreements. FHA received and reported a total of $466.4 million in collections for fiscal year 2014. An additional $722.2 million was anticipated because of four settlement agreements reached during fiscal year 2014 and a remaining amount due from a 2012 settlement. However, the cash had not been collected by FHA as of September 30, 2014.

FHA could not provide the promissory notes to support $1.5 billion (gross) of the net loans receivable balance outstanding reported in its balance sheet as of September 30, 2014. The $1.5 billion represented 57,164 partial claims (subordinated liens) for which payments were made by FHA to mortgagees on delinquent loans as part of FHA's loss mitigation efforts to bring these delinquent loans current. An increase in the number of partial claims filed, a backlog of unprocessed documents received by the contractor, and the discrepancies between FHA's policy and the regulations resulted in an increased number of partial claims for which FHA was unable to provide documentation and for which it did not demand reimbursement from delinquent mortgagees. As of September 30, 2014, adjustments were needed to recognize $722.2 million in uncollected legal settlements and reclassify $703.2 million from loans receivables to accounts receivables.

Liabilities Were Not Recognized for Unearned Premium Collections or Unpaid Supplemental Claims

Prior to endorsing and providing insurance of Single Family forward loans, FHA recognized the premiums collected prior to loan endorsement as earned, and not as deferred revenue. Recognition of revenue at this point is a departure from GAAP. OIG estimated that FHA did not properly defer $175.6 million of collected premiums as unearned as of September 30, 2014. This condition occurred because FHA's policy is to recognize the cash collection as an inflow in the Single-Family Liability for Loan Guarantee (LLG) when received. The inclusion of premium collections in the LLG balance for loans closed but not endorsed causes the balance to be overstated and the annual re-estimate expense to be understated. As a result, FHA made adjustments to recognize $174.4 million in other deferred revenue for premium collections on unendorsed loans as of September 30, 2014.

In addition, FHA did not have a process to accrue the estimated liability for unpaid Single Family suspended supplemental claims filed. FHA assumed the liability for supplemental claims was accounted for under the LLG. Under that assumption, FHA's accrual process excluded an accrual for unpaid supplemental claims filed but not processed or approved and understated the liability. We estimated that FHA's reported liability in its balance sheet may have been understated by at least $41.9 million at fiscal year-end because of the lack of accruals for suspended supplemental claims. FHA agreed and recorded an accrual of $56.8 million to reflect the suspended supplemental claims liability as of September 30, 2014.

Weaknesses Identified in Selected FHA Information Technology Systems

The Single Family Housing Enterprise Data Warehouse contains critical single family business data from several data sources, mostly from FHA single family automated systems. We found that (1) access to some of the sensitive personally identifiable information in the data warehouse was not sufficiently limited to individuals as necessary to perform their duties, (2) reconciliations of data from some of the source systems that interface with the data warehouse were not sufficiently performed, (3) passwords for the data warehouse user accounts were also not changed to the frequency specified by HUD policy, and (4) web server software was not kept up to date.

The FHA subsidiary ledger (subsidiary ledger) is FHA's official system of record for financial transactions. We found that some of the controls over the subsidiary ledger user accounts were inadequate. Specifically, (1) inactive user accounts and temporary accounts were not always deactivated and removed in a timely manner, (2) HUD's standardized user IDs were not always assigned to STAT[1] users, and (3) one user was inappropriately granted access to the system administration account. Not all subsidiary ledger audit tables with the audit configuration features turned on were included in the subsidiary ledger audit plan. Also, audit data in these tables were not reviewed and analyzed by FHA officials for unusual user access activities. FHA had not developed a memorandum of agreement/understanding and interconnection security agreement for the external interfaces between the subsidiary ledger and U.S. Department of Treasury systems. FHA officials did not fully implement adequate controls over information within the subsidiary ledger test environment. User IDs and passwords for the test environment with subsidiary ledger production data were not encrypted. The implementation status of some security controls was not accurately reflected in the subsidiary ledger system security documents. In addition, certain configuration management controls over the subsidiary ledger were inadequately documented.

Report on Compliance

To obtain reasonable assurance that FHA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance, described below, which is required to be reported in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

> Capital ratio: For the sixth consecutive year, the FHA fund has failed to meet its legislatively mandated capital ratio requirement. The Cranston-Gonzales National Affordable Housing Act of 1990 required that FHA's Mutual Mortgage Insurance Fund

[1] STAT – is a PeopleSoft account that is used for performing release migrations from one PeopleSoft environment to another using the Quest STAT configuration management tool.

maintain a minimum capital ratio of 2 percent. The capital ratio is defined as the ratio of capital to unamortized insurance-in-force. The Act requires FHA to conduct an annual independent actuarial study to, among other things, calculate this ratio. The Housing and Economic Recovery Act of 2008 requires that the HUD Secretary submit a report annually to the Congress describing the results of the study, assess the financial status of the MMI fund recommend program adjustments, and evaluate the quality control procedures and accuracy of information used in the process of underwriting loans guaranteed by the Mutual Mortgage Insurance Fund. As of the date of our audit, this report for fiscal year 2014 had not yet been submitted to Congress, but preliminary FHA data indicated hat this ratio remained below the required 2 percent throughout fiscal year 2014.

This report is intended for the information and use of the management of FHA, OMB, the U.S Government Accountability Office, and Congress and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited. The purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance sections of this report was solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of FHA's internal control or compliance. These reports are an integral part of an audit performed in accordance with Government Auditing Standards in considering FHA's internal control and compliance. Accordingly, these reports are not suitable for any other purpose. In addition to a separate report detailing the internal control and compliance issues included in this report and providing specific recommendations to FHA management, we noted other matters involving internal control over financial reporting and FHA's operation that we are reporting to FHA management in a separate management letter.

Randy W. McGinnis

Randy W. McGinnis
Assistant Inspector General for Audit

November 14, 2014

Material Weakness

Finding 1: FHA Did Not Establish Appropriate Receivables for Legal Settlements and Partial Claims Notes

FHA was awarded seven[2] cash settlements totaling $1.2 billion and collected $466.4 million of those settlements, in fiscal year 2014. Additionally, during fiscal year 2014, as part of its loss mitigation efforts to bring delinquent loans current, FHA paid $4.4 billion to mortgagees for partial claims; however, FHA did not receive promissory notes from the mortgagee for $1.5 billion of the claim payments. Mortgagees were required to provide FHA with promissory notes for the payments made or return the claim payment back to FHA. Due to the non-routine nature of legal settlements for FHA and the contractor's backlog for recording promissory notes for partial claim payments, FHA did not properly recognize their receivables. As a result, as of September 30, 2014, adjustments were needed to (1) recognize FHA's anticipated collections of $722.2 million in settlement fees and (2) reclassify $703.2 million in net loans receivables related to partial claims paid without the corresponding promissory notes.

Accounts Receivables Were Not Accrued for Settlement Agreements

FHA did not record an accrual in its accounts receivables for settled legal claims. Instead, FHA accounted for the settlement funds collected on a cash basis. GAAP requires receivables which represent claims for cash from settled legal claims to be recognized at the point of legal settlement rather than when cash was received. Federal financial accounting standards require that a receivable should be recognized when a Federal entity establishes a claim to cash or other assets against other entities, either based on legal provisions, such as a payment due date, such as, taxes not received by the date they are due, or goods or services provided. If the exact amount is unknown, a reasonable estimate should be made.

In March 2012, FHA began receiving cash through the National Servicing Settlement Agreement from lenders, including the nation's five largest loan servicers, as a result of increased monitoring and enforcement actions. In fiscal year 2012, FHA reported over $1.1 billion in collections related to the settlement agreements. One of the settlements reached in FHA's favor in fiscal year 2012 was for $490.9 million. However, FHA only collected $485.4 million, and the remaining $5.5 million had not been collected or recorded as an account receivable as of September 30, 2014. No collections were reported for fiscal year 2013. FHA received and reported a total of $466.4 million in collections for fiscal year 2014. An additional $716.7 million is anticipated from four settlement agreements reached during fiscal year 2014, for which the cash had not been collected by FHA as of September 30, 2014.

As FHA was not always the only party named and awarded in the settlement agreements, some of the settlements do not contain FHA's portion of the total settlement amount. This resulted in

[2] A subsequent event was noted for the seventh settlement, which was reached on September 30, 2014, in the amount of $291 million.

FHA not having a reasonable estimate to accrue. Additionally, FHA's accounting division often did not know of the settlement until just before the collection of the cash. Moreover, as a non-routine transaction, FHA may not have considered accruing the receivables from settled legal claims at the point of legal settlement because legal settlements are uncommon for a credit reform program. Therefore, the policy in place was to record the collection of the cash.

FHA had not established formal policies and procedures to identify, accrue, record, and report amounts due as a result of the legal settlement agreements. Consequently, when legal cases are settled and approved by the court near or at the end of the current fiscal year, FHA will not recognize the asset until the next fiscal year, when the cash is received. As a result, FHA's accounts receivable balances may be understated and the asset may be recognized in an incorrect accounting period.

Single Family Loans Receivable Balances Were Not Supported With Second Mortgage Notes

FHA could not provide the promissory notes to support $1.5 billion (gross) of the net loans receivable balance outstanding reported in its Balance Sheet as of September 30, 2014.[3] The $1.5 billion represented 57,164 partial claims (subordinated liens) for which payments were made by FHA to mortgagees on delinquent loans as part of FHA's loss mitigation efforts to bring these delinquent loans current. An increase in the number of partial claims filed, a backlog of unprocessed documents received by the contractor, and the discrepancies between FHA's policy and the regulations resulted in an increased number of partial claims for which FHA was unable to provide documentation and for which they did not demand reimbursement from delinquent mortgagees.

The borrower eligible for the partial claim loss mitigation option was required to sign a second promissory note and a second mortgage or deed of trust with HUD as the beneficiary, reflecting the partial claim terms. The partial claim promissory note contained the borrower's promise to repay the amount borrowed and established the existence of the loans receivable recorded by FHA. The current regulations for partial claims require that the "original credit instrument" (promissory note) be provided by the lender to HUD no later than 60 days after execution. On a monthly basis, the contractor maintaining the Single-Family Mortgage Asset Recovery Technology (SMART) system generates the Missing Documents' Report (MDR) and sends it to FHA staff at the National Servicing Center in Oklahoma. The MDR identifies partial claims for which the promissory note or mortgage have not been provided by the mortgagee to HUD and for which payment for the partial claim has been made by FHA to the mortgagee.

We reviewed the MDR for September 2014 and determined that 94,179 partial claims were included in the report with a total claim amount of $2.4 billion. Of the 94,179 partial claims, we identified 48,181 partial claims with claim amounts of $1.3 billion and 8,983 partial claims with claim amounts of $216.2 million were missing the promissory note more than 60 days after the

[3] An allowance for subsidy of $783.3 million was recognized against the $1.5 billion gross loans receivable, resulting in $703.2 million, net loans receivable.

loan claims origination date as of September 30, 2014, and September 30, 2013, respectively, totaling 57,164 loans and $1.5 billion in claims.[4]

FHA experienced an increase in partial claims filed in fiscal years 2013 and 2014. FHA's contractor responsible for processing and documenting the receipt of the partial claim promissory notes and mortgages did not have the capacity to keep up with the increase. This resulted in a backlog of unopened, unprocessed documents. Because of the backlog, the MDR did not accurately reflect all documents received because not all of the documents had been entered into SMART by the contractor.

Another contributing factor was the difference between FHA's current policy regarding partial claims and the regulatory requirements. Although the regulations require that the promissory note be provided to HUD no later than 60 days after execution, and that the second mortgage be provided to HUD no later than six months following the date of execution, FHA's policy allowed mortgagees to deliver both the second note and second mortgage to HUD's loan servicing contractor no later than six (6) months from the execution date of the partial claim note and security instrument.[5] The regulations also require the mortgagee to reimburse the amount of the claim paid, including the incentive, if the original of the note and security instrument are not provided within the prescribed deadlines. However, prior to July 30, 2013, the effective date of Mortgagee Letter 2013-19, Partial Claim Documentation and Delivery Requirements, which established FHA's current policy of issuing demand letters for the full reimbursement of all amounts associated with overdue partial claim documents, FHA only enforced reimbursement of the incentive fee. Following the effective date of Mortgagee Letter 2013-19, FHA made a determination to cease follow-up procedures and only issue demand letters after the backlog of partial claims had been properly inventoried and updated in SMART.

According to FHA staff, a new loan servicing contract was awarded in July 2014. The new loan servicing contractor would be responsible for working through the backlog, updating SMART, and sending the demand letters for both the claim and incentive fees paid starting in October 2014.

Conclusion

FHA has recognized the need to implement a policy to determine the total amount of settlement funds due to FHA and to ensure all settlement agreement funds due to FHA are collected in full. In addition, FHA has contracted with a new loan servicing contractor to accurately record the status of the promissory notes and second mortgages in SMART for partial claims and to demand reimbursement from delinquent mortgagees for partial claims and incentive fees previously paid. The court settlements and demand letters establish a legally enforceable claim to cash which should be recorded by FHA as an account receivable in accordance with GAAP.

[4] OIG used the loan claims origination date because the execution date has to be obtained from the promissory note, which was unavailable. The Partial Claim Documentation and Delivery Requirements state that mortgagees file the claims after the execution of the promissory note and mortgage. Therefore, the loan claims origination date should be subsequent to the execution date.

[5] Mortgagee Letter 2000-05: Loss Mitigation Program – Comprehensive Clarification of Policy and Notice of Procedural Changes, effective January 19, 2000, established the six-month document delivery policy.

As of September 30, 2014, adjustments were needed to recognize $722.2 million in uncollected legal settlements and reclassify $703.2 million from loans receivables to accounts receivables.

Recommendations

We recommend that the FHA Office of the Comptroller

1A. Establish and implement policies and procedures to (a) determine the total amount of settlement funds due to FHA, based upon the settlement agreements or addendums (b) ensure all settlement agreement funds due to FHA are collected in full, and (c) record and account for non-routine transactions related to the accrual of settlement funds in accordance with GAAP and credit reform accounting.

1B. Follow-up on the collection of the $5.5 million from the fiscal year 2012 settlement agreement and determine whether an accrual for the funds due is necessary.

1C. Determine the loans receivable with missing notes that are over 60 days old at the end of fiscal year 2013 and 2014 and reclassify that balance to an appropriate receivable account at the end of their respective fiscal years.

We recommend that the Director of Single Family Asset Management

1D. In conjunction with the loan servicing contractor, review the supporting documentation for all partial claim notes to ensure that SMART accurately reflects the status of the second notes and second mortgages.

1E. Align its current policy on partial claim document delivery with FHA's regulatory requirements.

1F. Initiate the billing process for the claims paid, plus incentive, where the lender has not provided the original of the note and security instrument within the prescribed deadlines for the $1.5 billion.

Significant Deficiencies

Finding 2: Liabilities Were Not Recognized for Unearned Premium Collections or Unpaid Supplemental Claims

Prior to endorsing and providing insurance of Single Family forward loans, FHA recognized the premiums collected prior to loan endorsement as earned, and not as deferred revenue. Recognition of revenue at this point is a departure from GAAP. This condition occurred because FHA's policy is to recognize the cash collection as an inflow in the Single-Family Liability for Loan Guarantee (LLG) when received. The inclusion of premium collections in the LLG balance for loans closed but not endorsed causes the balance to be overstated and the annual re-estimate expense to be understated.

In addition, FHA did not have a process to accrue the estimated liability for unpaid Single Family suspended supplemental claims filed. FHA assumed the liability for supplemental claims was accounted for under the LLG. Under that assumption, FHA's accrual process excluded an accrual for unpaid supplemental claims filed but not processed or approved and understated the liability.

Improper Recognition of Premiums Collected Prior to Insurance Coverage

OIG estimated that FHA did not properly defer $175.6 million of collected premiums as unearned as of September 30, 2014. FHA recognizes a loan guarantee commitment[6] and provides insurance coverage upon its endorsement of the loan and not upon disbursement of the loan. According to the regulations,[7] the mortgage is insured from the date of issuance of a Mortgage Insurance Certificate, from the date of endorsement of the credit instrument, or from the date of HUD's acknowledgement to the mortgagee that the mortgage is insured. A Mortgage Insurance Certificate is issued upon successful processing of the insurance application and subsequent endorsement.

One-time or up-front mortgage insurance premiums are required within ten calendar days after the date of loan closing or the date of disbursement of the mortgage proceeds as a condition of endorsement. Periodic mortgage insurance premiums are required beginning in the month the mortgagor is required to make the first monthly mortgage payment. The periodic mortgage insurance premium is billed and collected on a monthly basis whether a loan is endorsed or not.

Federal GAAP require that premium collections for loan guarantee liabilities subject to the Federal Credit Reform Act (FCRA) be recognized as a cash inflow to the LLG when the loan is disbursed. It is assumed that the disbursement takes place after the loan guarantee commitment

[6] Loan guarantee commitment means a binding agreement by a Federal agency to make a loan guarantee when specified conditions are fulfilled by the borrower, the lender, or any other party to the guarantee agreement.
[7] Code of Federal Regulations: Title 24: Housing and Urban Development PART 203—Single Family Mortgage Insurance Subpart B—Contract Rights and Obligations §203.257 Creation of the contract

is made. For non-credit reform programs, insurance premium fees are exchanged for insurance coverage and are recognized as revenue when they are realized or earned, or when the insurance coverage is provided. However, for Single Family Forward loan guarantees subject to FCRA, FHA recognized premium collections as a cash inflow to the LLG prior to endorsement, prior to its guarantee of insurance coverage, and prior to earning the collections. The premium fees collected prior to the insurance coverage were unearned, and FHA should have recorded the collections for the unendorsed loans as deferred revenue until the loan was endorsed.

When premiums are initially collected, FHA, through an automated process, records the cash collection as an inflow to the LLG in the current cohort[8] year. Once the case is endorsed, the initial transaction is reversed and the premiums are then recorded in the cohort year in which the case was endorsed. In most instances, the premiums are received and the loan is endorsed in the same cohort year. However, due to process timing, many of the loans associated with premiums received during September are not endorsed until the following fiscal year. Premiums collected during September for unendorsed cases included in the current cohort year causes the re-estimate expense to be understated since cash will include premiums for cases not included as part of the LLG. In the following cohort year, when the cases are endorsed and included in the LLG, the re-estimate expense is overstated because it also includes the cash collected during September.

Using a data extract of Single Family Forward loans from the Single Family Enterprise Data Warehouse as of May 28, 2014, we calculated an average of 28 days between the closing date and the endorsement date for loans that were endorsed as of May 28, 2014. We also calculated the average monthly premium collection for FHA using data extracts of the upfront premiums collected during fiscal year 2014. Based on our review, we determined that an average of $175.6 million in upfront premiums per month was collected by FHA in fiscal year 2014. However, at or close to fiscal year end, the monthly premiums collected are not earned until the following fiscal year when the associated loans are endorsed.

FHA's Claims Payable Accrual Process was Incomplete

FHA's claims payable only included claims approved but not paid as of the end of the fiscal year and potential claims for single family properties sold for which no claim request had been filed. Prior to 2005, FHA accrued accounts payable for supplemental claims using the average supplemental claim amount paid. The General Ledger Division stopped accruing any accounts payable amount for suspended supplemental claims in 2005 because the assumption was that the amount of the supplemental claims was accounted for under the Loan Guarantee Liability balance. However, for supplemental claims associated with conveyance or Accelerated Claims Disposition claims, once the note or property is sold, any further claim payments are not accounted for either in the Loan Guarantee Liability balance or the Allowance for Subsidy. GAAP requires recognition of liability when the future outflow of resources is both probable and measurable.

FHA relies on a contractor to review supplemental claim requests and prepare them for approval. According to FHA staff, the funding for the contract has been insufficient to allow FHA to keep

[8] Cohort year refers to the fiscal year of obligation for direct loan obligations, or loan guarantee commitments of a program.

up with the increasing volume of supplemental claims. The insufficient funding has led to a backlog in processing the supplemental claims for approval.

Once the supplemental claims have been imaged and uploaded to the claims system, a contractor manually reviews each claim for payment. The contractor reviews the documentation from the original claim paid to ensure that the request for the supplemental claim payment was not already paid with the original claim payment. Once the contractor completes its review, the results of the review are forwarded to FHA staff, with a recommendation for payment or denial of the claim. HUD's Government Technical Monitor performs a final review of a sample of such claims to ensure the recommendations are valid.

Based upon the Single Family Claims Monthly Average report for September 2014, OIG noted that during fiscal year 2014, 34,410 supplemental claims were paid in the amount of $32.6 million. Based on the Suspended Cases Summary report as of September 30, 2014, and other information provided by FHA staff, we determined the number of suspended Single Family supplemental claims that would be subject to accrual. Of the 60,133 cases included in the report, we determined that 54,372 of the cases were for supplemental claims; an additional 5,073 supplemental claims had been received but not imaged. The total number of supplemental claims filed during fiscal year 2014 was 52,110. The remaining 7,335 were carried over from a backlog in prior years. Due to the impact of the backlog, which is approximately 1.7 times the amount of claims paid during the fiscal year, we determined that the recognition of estimated liability for the unpaid supplemental claims would be appropriate. Using the Single Family Claims Monthly Average report for September 2014 provided by FHA staff, we identified an average claim amount per supplemental claim of $947.41 and an estimated liability for the supplemental claims of at least $41.9 million as of September 2014.

Conclusion

FHA's current policy is to recognize all premiums as cash inflows to the LLG when they are received. If the loan is not endorsed until the following fiscal year, the inclusion of the premiums in the LLG causes the re-estimate expense to be understated. Since FHA does not endorse the loans when the loans are disbursed, it should record all premiums received as deferred revenue until the loans are endorsed. Accordingly, FHA should recognize $175.6 million in other deferred revenue for premium collections on unendorsed loans as of September 30, 2014.

Due to the lack of accruals for suspended supplemental claims, we estimated that FHA's reported liability in its balance sheet may be understated by at least $41.9 million at fiscal year-end. FHA agreed that an accrual to reflect the suspended supplemental claims liability at year-end was necessary and recorded an accrual in the amount of $56.8 million.

Recommendations

We recommend that the FHA Comptroller

2A. Develop and implement a methodology to defer the recognition of all premium collections prior to endorsement from the Liability for Loan Guarantee.

2B. Develop and implement a methodology for estimating the appropriate amount of liability to accrue from suspended supplemental claims.

2C. Record an adjusting entry to report the appropriate amount of suspended supplemental claims liability to accrue at year-end based on the methodology developed in recommendation number 2B.

Finding 3: Weaknesses Identified in Selected FHA Information Technology Systems

We reviewed the general and application controls over the FHA Single Family Housing Enterprise Data Warehouse and the FHA subsidiary ledger system as part of the internal control assessments of FHA's principal financial statements for fiscal year 2014. We found weaknesses in the data warehouse and the FHA subsidiary ledger information systems. These conditions occurred because some application controls were not sufficient. As a result, the appropriate confidentiality, integrity, and availability of critical information may be negatively impacted. The information used to provide input to the FHA financial statements could be adversely affected.

Information System Control Weaknesses Were Identified in the Single Family Data Warehouse

The data warehouse contains critical single family business data from several data sources, mostly from FHA single-family automated systems. The data warehouse helps FHA manage its $1.2 trillion portfolio of single family mortgages. The data warehouse maintains Web pages on HUD's Intranet that, as of May 2014, contained data query tools for approximately 400 registered users. The data warehouse was created for HUD personnel to extract financial information to prepare financial statement line items, and to obtain other financial and non-financial data. The information in the data warehouse can also be used to assess the potential impact of a disaster. For example, the data warehouse can be used to identify the number of FHA loans and servicing lenders affected by the disaster. This capability would allow managers in Headquarters to make decisions regarding potential moratoriums or other special initiatives. Further, it would give the HUD Secretary background information from the data warehouse to advise the President.

We found that access to some of the sensitive personally identifiable information in the data warehouse was not sufficiently limited to individuals as necessary to perform their duties. This condition occurred because procedures were not sufficient to determine who required access to the sensitive information in the system. As a result, some of the sensitive information in the data warehouse could be vulnerable to unauthorized access and disclosure.

Reconciliations of data from some of the source systems that interface with the data warehouse were not sufficiently performed. This condition occurred because data from the source systems to the data warehouse were assumed to be valid and some interfaces transferring information to the data warehouse did not provide adequate data to reconcile the information processed. As a result, data may not have been processed accurately because of errors, inconsistencies in data, system interruptions, or communication failures.

Passwords for the data warehouse user accounts were not changed to the frequency specified by HUD policy. This condition occurred because the system has a limitation where users cannot change their own passwords. As a result, the sensitive information in the system could be vulnerable to unauthorized access and modification.

Web server software was not kept up to date. This condition occurred because the former acting Chief Information Officer granted a waiver to continue using the outdated server software because of application dependencies. As a result, the data warehouse may have been exposed to known security vulnerabilities.

Information System Control Weaknesses Were Identified in the FHA Subsidiary Ledger

The FHA subsidiary ledger (subsidiary ledger) is FHA's official system of record of financial transactions. It is a commercial-off-the-shelf PeopleSoft accounting package and was certified by the Financial Systems Integration Office as compliant with Federal government financial accounting processing. The subsidiary ledger relies on 19 interfaces to translate commercial accounting transactions to code values consistent with Federal rules and regulations in accordance with the U.S. Standard General Ledger. FHA financial data feeder systems are on various hardware and software platforms. The transactions are rolled-up and summarized in the FHA subsidiary ledger's Financial Transaction Repository and then interfaced into the FHA subsidiary ledger's PeopleSoft General Ledger (GL) module for journal processing. FHA subsidiary ledger maintains budgetary, proprietary and memorandum U.S. Standard General Ledger accounts. Currently, the FHA subsidiary ledger GL consists of approximately 200,000 summarized transactions (rows) per reporting period.

We found that some of the controls over the subsidiary ledger user accounts were inadequate. Specifically, inactive user accounts and temporary accounts were not always deactivated or removed in a timely manner and HUD's standardized user IDs were not always assigned to STAT users. These conditions occurred because FHA did not always follow National Institute of Standards and Technology and the Department's account management policies when granting and monitoring those user accounts. Inadequate access controls diminish the reliability of computerized data and increase the risk of destruction or inappropriate disclosure of subsidiary ledger data.

Not all subsidiary ledger audit tables with the audit configuration features turned on were included in the subsidiary ledger audit plan. Also, audit data of these tables were not reviewed and analyzed by FHA officials for unusual user access activities. These conditions occurred because subsidiary ledger audit plans and the tables with audit log turned on have not been reviewed periodically by FHA officials to ensure audit configurations reflect risk inherent in current operations. As a result, FHA officials cannot ensure inappropriate user access to all subsidiary ledger audit tables will be identified in a timely manner.

FHA had not developed a Memorandum of Agreement/Understanding (MOA/U) and Interconnection Security Agreement (ISA) for the external interfaces between the subsidiary ledger and Treasury systems because the subsidiary ledger moved back to HUD's data center in fiscal year 2013. This condition occurred because FHA did not always comply with the Federal security requirements to ensure a MOA/U and ISA were developed before connecting FHA systems to external systems. Without developing the ISA and MOA/U before connecting systems to external systems, FHA management cannot ensure equipment operates properly and controls are tested for the planned interconnections.

FHA officials did not fully implement adequate controls over information within the subsidiary ledger test environment. User IDs and passwords for the test environment with subsidiary ledger production data were not encrypted. This condition occurred because HUD's password encryption policy was not enforced and FHA management was not aware that the subsidiary ledger contains Personally Indentifable Information (PII) data that needed to be protected from unauthorized individuals. Unauthorized individuals can surreptitiously read and copy the PII data for malicious purposes or personal gain.

The implementation status of some security controls was not accurately reflected in the subsidiary ledger system security documents. This condition occurred because implementation statements for the subsidiary ledger security controls were not closely reviewed for accuracy. As a result, it increases the risk that subsidiary ledger security controls might not be properly assessed and consequently, inadequate security controls over the application could be implemented.

Certain configuration management (CM) controls over the subsidiary ledger were inadequately documented. These conditions occurred because subsidiary ledger management did not ensure certain information required by HUD's CM policy and procedures were included in the subsidiary ledger CM plan. Without adequate policies, procedures, and techniques, FHA risks that security features can be inadvertently omitted or that processing irregularities are introduced.

Conclusion

FHA must improve its information security controls over the data warehouse and subsidiary ledger to fully comply with Federal requirements and its own security policies to prevent an increased risk of unauthorized disclosure or modification of FHA data.

Recommendations

Recommendations were included in separate OIG audit reports[9]. Therefore, no recommendations are reported here.

[9] This work was performed under separate audits of the data warehouse and subsidiary ledger which are reported in Audit Report Number 2015-DP-0001, Federal Housing Commissioner Single Family Housing Enterprise Data Warehouse, issued October 21, 2014 and Audit Report 2015-DP-0003, Federal Housing Administration FHA Subsidiary Ledger, issued November 7, 2014.

Scope and Methodology

In accordance with the Chief Financial Officers Act of 1990 (Public Law 101-576), as amended, OIG is responsible for the conduct of the annual financial statement audit of FHA. The scope of this work includes the audit of FHA's balance sheets as of September 30, 2014 and 2013, and the related statements of net costs and changes in net position, the combined statements of budgetary resources for the years then ended, and the related notes to the financial statements. We conducted this audit in accordance with U.S. generally accepted government audit standards and OMB Bulletin 14-02, as amended, Audit Requirements for Federal Financial Statements. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To fulfill these responsibilities, we

- Examined, on a test basis, evidence supporting the amounts and disclosures in the principal financial statements;
- Assessed the accounting principles used and the significant estimates made by management;
- Evaluated the overall presentation of the principal financial statements;
- Obtained an understanding of internal controls over financial reporting, including safeguarding assets and compliance with laws and regulations, including the execution of transactions in accordance with budget authority;
- Tested and evaluated the design and operating effectiveness of relevant internal controls over significant cycles, classes of transactions, and account balances;
- Tested FHA's compliance with certain provisions of laws and regulations, government wide policies, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin 14-02, including the requirements referred to in FMFIA;
- Considered compliance with the process required by FMFIA for evaluating and reporting on internal controls and accounting systems; and
- Performed other procedures we considered necessary in the circumstances.

We considered internal controls over financial reporting by obtaining an understanding of the design of FHA's internal controls, determined whether these internal controls had been placed into operation, assessed control risk, and performed tests of controls to determine our auditing procedures for the purpose of expressing our opinion on the principal financial statements. We also tested compliance with selected provisions of applicable laws, regulations, and government policies that may materially affect the principal financial statements.

Regarding internal controls related to performance measures to be reported in FHA's Fiscal Year 2014 Annual Management Report, we obtained an understanding of the design of significant internal controls as described in OMB Bulletin 14-02. We performed limited testing procedures as required by AU-C Section 730, Required Supplementary Information, and OMB Bulletin 14-02. Our procedures were not designed to provide assurance on internal controls over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

We did not evaluate the internal controls relevant to operating objectives as broadly defined by FMFIA. We limited our internal controls testing to those controls that are material to FHA's financial statements. Because of inherent limitations in any internal control structure, misstatements may occur and not be detected. We also caution that projection of any evaluation of the structure to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Our consideration of the internal controls over financial reporting would not necessarily disclose all matters in the internal controls over financial reporting that might be material weaknesses or significant deficiencies. We noted one material weakness and two significant deficiencies that are reportable under AICPA and OMB Bulletin 14-02, as amended.

Under standards issued by the American Institute of Certified Public Accountants, a significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

A material weakness is a deficiency or combination of deficiencies in internal controls, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis.

Follow-up on Prior Audits

A recommendation from a prior year report on FHA's financial statements that has not been fully implemented based on the status reported in the Audit Resolution and Corrective Action Tracking System (ARCATS) is included below. FHA should continue to track this recommendation under the prior year's report number in accordance with departmental procedures. The open recommendation and the status are shown below.

Federal Housing Administration Fiscal Years 2013 and 2012 Financial Statements Audit, 2014-FO-0002

1. The FHA Comptroller should review and de-obligate, as appropriate, the $43 million in expired property-related contracts once they have been closed out by the contracts office. (Final action target date was September 30, 2014, reported in ARCATS as 1C)

Appendixes

Appendix A

Schedule of Questioned Costs and Funds To Be Put to Better Use

Recommendation number	Unsupported 1/	Funds to be put to better use 2/
1B.		$5,500,000
1F.	$1,486,544,478	
Totals	**$1,486,544,478**	**$5,500,000**

1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

2/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation | **Auditee Comments**

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

OFFICE OF HOUSING

OCT 31 2014

MEMORANDUM FOR: Thomas R. McEnanly, Financial Audits Division Director, GAF

FROM: George J. Rabil, Deputy Assistant Secretary for Finance and Budget, HW

SUBJECT: Response to Fiscal Year 2014 FHA Audit Report

Thank you for providing us the opportunity to respond to FHA's Independent Audit Report. FHA continues to have strong focus on internal controls and continuously strives for improvements. During fiscal year 2014, FHA resolved both prior year significant deficiencies.

FHA acknowledges the deficiencies identified by the OIG in the internal control report and will continue to work to improve the new concerns identified in fiscal year 2015.

Report on Internal Control – Material Weakness

1. FHA Did Not Recognize Accounts Receivables When Claims to Cash Were Established

FHA concurs with the recommendations identified in this finding and as already taken actions to implement auditor recommendations in its FY 2014 year-end financial statements.

- ***Accounts Receivables Were Not Accrued for Settlement Agreements***

Comment 1

FHA prepares its financial statements 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). FHA's primary business is to insure lenders against losses on mortgages. As such, FHA's accounting is influenced by the Credit Reform Act.

Consistent with credit reform, FHA has recorded settlement amounts on the cash basis. Due to the magnitude of the settlements and the fact they are not typically included in the cash flow model estimates (since settlements are unpredictable and amounts are difficult to estimate), FHA will continue to evaluate its processes surrounding settlements and improve the tracking of settlement funds.

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

2

- ***Single Family Loans Receivable Balances Were Not Supported With Second Mortgage Notes***

Comment 2

FHA recognizes that it has a control deficiency to its partial claims loan receivable. The Office of Single Family Asset Management has already initiated steps to comply with the OIG recommendations and is working with the new loan servicing contractor to immediately address the backlog of unprocessed documents and ensure that the SMART system accurately reflects the status of the second notes and second mortgages. The Office also plans to draft a Mortgagee Letter to align policy on partial claim document delivery with FHA's regulatory requirements and initiate the billing process for any claims paid, plus incentives, where the lender did not provide the original note and security instrument within policy deadlines. The processing of the backlog is expected to take approximately 60 to 90 days, at which time, an accurate Missing Documents Report will be available to support the billing process.

While FHA agrees with the need to enhance controls surrounding the partial claims receivables, FHA disagrees with the recommendation to reclassify loan receivables that do not have the supporting note recorded to accounts receivable. Even without the promissory note being documented as received, there is a high probability that the note exists. FHA will further research this issue in FY15, if needed.

Report on Internal Control - Significant Deficiencies

2. Liabilities Were Not Recognized for Unearned Premium Collections or Unpaid Supplemental Claims

Comment 3

FHA concurs with the findings and recommendations and has already taken actions to implement auditor recommendations in its FY 2014 year-end financial statements.

3. Weaknesses Identified in Selected FHA Information Technology Systems

Comment 4

FHA concurs with the recommendations identified in both the report on the Single Family Data Warehouse and the report on the FHA Subsidiary Ledger (FHASL) and has already started to resolve the issues identified. However, FHA does not believe that the conditions identified warrant a significant deficiency. The OIG report, while factually accurate, leaves the reader with the impression of more dire conditions than actually exist.

OIG Evaluation of Auditee Comments

Comment 1 OIG recognizes the influence of the Federal Credit Reform Act of 1990 (FCRA) on FHA's accounting. Additionally, OIG recognizes the need to record on an accrual basis, consistent with GAAP. As FHA continues to evaluate its processes surrounding settlements and improve the tracking of settlement funds, OIG will continue to review those processes for the proper recognition in the financial statements.

Comment 2 OIG has a responsibility to gather sufficient appropriate evidence in order to report on the assertions in account balances in FHA's financial statements. FHA's efforts to work through processing the partial claims backlog and aligning its policy with regulatory requirements should result in FHA being able to produce the evidence to support the loans receivable balances in its financial statements.

Comment 3 OIG has reviewed FHA's actions taken to properly recognize liabilities in its balance sheet as of September 30, 2014. Based upon our review, the actions taken resulted in adjustments which adequately recognized FHA's liabilities for unearned premiums and unpaid supplemental claims.

Comment 4 OIG accepts the response of concurrence for recommendations identified in both the report on the Single Family Data Warehouse and the report on the FHA Subsidiary Ledger. We agree that FHA has initiated actions to resolve the conditions identified. However, we maintain that collectively the conditions identified warrant a significant deficiency. A significant deficiency is defined as a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance. OIG identified a combination of deficiencies in the FHA Subsidiary Ledger and the Single Family Data Warehouse that could adversely affect the reporting of financial data and merit the attention of management. We look forward to working with the office on the recommendations to reach a mutually acceptable corrective action plan.

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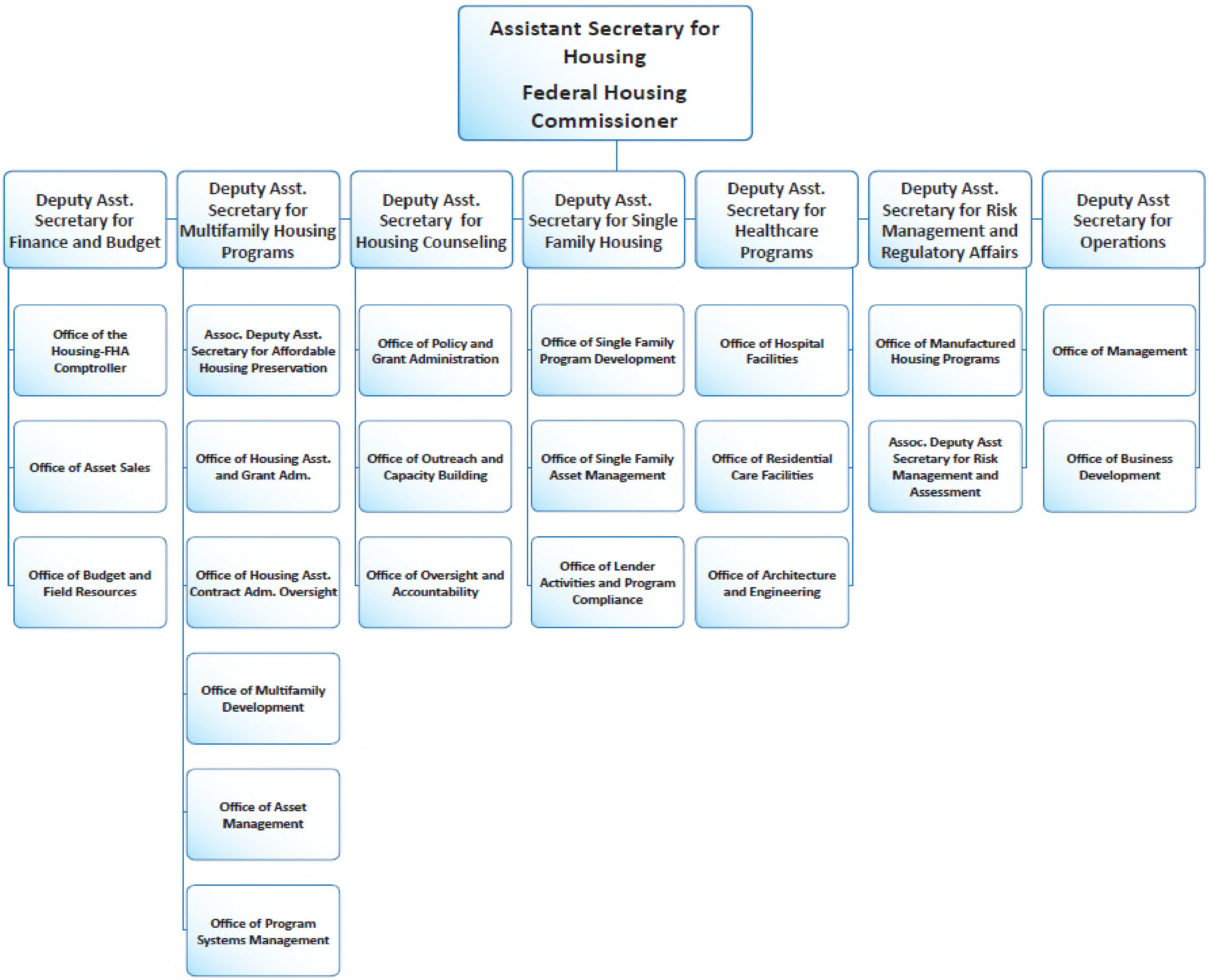
FHA Organizational Chart



http://portal.hud.gov/hudportal/documents/huddoc?id=fhafy14annualmgmntrpt.pdf

Your Door to FHA HOMEOWNERSHIP

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

EQUAL HOUSING OPPORTUNITY