U.S. Department of Housing and Urban Development, Washington, DC

HUD's Fiscal Years 2018 and 2017 (Restated) Consolidated Financial Statements Audit

Office of Audit, Financial Audits Division
Washington, DC

Audit Report Number: 2019-FO-0004
November 15, 2018

To: Irving Dennis, Chief Financial Officer, F

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From: Thomas R. McEnanly, Director, Financial Audits Division, Washington DC, GAF

Subject: HUD's Fiscal Years 2018 and 2017 (Restated) Consolidated Financial Statements Audit

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) independent auditor's report on HUD's consolidated financial statements and reports on internal controls over financial reporting and compliance with laws and regulations.

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 website. 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.

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Highlights

What We Audited and Why

In accordance with the Chief Financial Officers Act of 1990, as amended, we are required to annually audit the consolidated financial statements of the U.S. Department of Housing and Urban Development (HUD) and the stand-alone financial statements of the Federal Housing Administration and the Government National Mortgage Administration (Ginnie Mae). Our objective was to express an opinion on the fairness of HUD's consolidated financial statements in accordance with U.S. generally accepted accounting principles (GAAP) applicable to the Federal Government. This report presents our independent auditor's report on HUD's fiscal years 2018 and 2017 (restated) consolidated financial statements and reports on internal controls and compliance with laws and regulations.

What We Found

We expressed a disclaimer of opinion on HUD's fiscal years 2018 and 2017 (restated) consolidated financial statements because of the significant effects of certain unresolved audit matters, which restricted our ability to obtain sufficient, appropriate evidence to express an opinion. These unresolved audit matters relate to (1) the $3 billion in nonpooled loan assets from Ginnie Mae's stand-alone financial statements that we could not audit due to inadequate support and (2) noncompliant GAAP accounting for assets and budgetary resources. This report contains five material weaknesses, four significant deficiencies, and five instances of noncompliance with applicable laws and regulations. Additional details on the material weaknesses, significant deficiencies, and instances of noncompliance with laws and regulations and related recommendations are included in separate audit reports entitled (1) Additional Details To Supplement Our Fiscal Years 2018 and 2017 (Restated) U.S. Department of Housing and Urban Development Financial Statement Audit, audit report 2019-FO-0003; (2) Audit of the Federal Housing Administration Financial Statements for Fiscal Years 2018 and 2017 (Restated), audit report 2019-FO-0002; and (3) Audit of the Government National Mortgage Association's Financial Statements for Fiscal Years 2018 and 2017 (Restated), audit report 2019-FO-0001.

What We Recommend

We make no recommendations in this report because it is supplemented by three separate reports as described above to provide specific recommendations to HUD management.

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Background and Objective

We were engaged to audit HUD's principal financial statements in accordance with Government Auditing Standards and the requirements of Office of Management and Budget (OMB) Bulletin 19-01, Audit Requirements for Federal Financial Statements, and as required by the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994. The objective of our engagement was to express an opinion on the fair presentation of these principal financial statements.

In planning our audit of HUD's principal financial statements, we considered internal controls over financial reporting and tested compliance with selected provisions of applicable laws, regulations, and government policies that may materially affect the consolidated principal financial statements. Providing an opinion on internal controls or compliance with selected provisions of laws, regulations, and government policies was not an objective, and, accordingly, we do not express such an opinion.

Management is responsible for

- Preparing the financial statements in conformity with accounting principles generally accepted in the United States of America.
- Establishing, maintaining, and evaluating internal controls and systems to provide reasonable assurance that the broad objectives of the Federal Financial Management Improvement Act of 1996 (FFMIA) are met.
- Complying with applicable laws and regulations.

We were required by Government Auditing Standards generally accepted in the U.S. to obtain reasonable assurance about whether HUD's principal financial statements were presented fairly, in accordance with U.S. generally accepted accounting principles (GAAP), in all material respects. Because of the matters described in the Basis for Disclaimer of Opinion in our Independent Auditor's Report, we were not able to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion.

This report is intended solely for the use of HUD management, OMB, and Congress. However, this report is a matter of public record, and its distribution is not limited.

U.S. DEPARTMENT OF

HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL

Independent Auditor's Report[1]

To the Secretary,
U.S. Department of Housing and Urban Development:

In our engagement to audit the fiscal years 2018 and 2017 (restated) consolidated financial statements of the U.S. Department of Housing and Urban Development (HUD), we found

- That we were not able to obtain sufficient, appropriate audit evidence to provide an audit opinion on HUD's principal financial statements and accompanying notes as of September 30, 2018 and 2017 (restated), and its net costs, changes in net position, and budgetary resources for the fiscal year then ended. Accordingly, we do not express an opinion on the financial statements.
- Five material weaknesses and four significant deficiencies in internal control over financial reporting based on the limited procedures we performed.
- Five reportable noncompliances with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The following sections discuss in more detail (1) our report on the financial statements, which includes an emphasis-of-matter paragraph related to HUD's restatement of fiscal year 2017

[1] This report is supplemented by three separate reports issued by HUD's Office of Inspector General (OIG) to provide a more detailed discussion of the internal control and compliance issues and to provide specific recommendations to HUD management. The findings have been included in the Internal Control and Compliance With Laws and Regulations sections of the independent auditor's report. The supplemental reports are available on the HUD OIG internet site at https://www.hudoig.gov and are entitled (1) Additional Details To Supplement Our Fiscal Years 2018 and 2017 (Restated) U.S. Department of Housing and Urban Development Financial Statement Audit (audit report 2019-FO-0003, issued November 15, 2018); (2) Audit of the Federal Housing Administration Financial Statements for Fiscal Years 2018 and 2017 (Restated) (audit report 2019-FO-0002, issued November 14, 2018); and (3) Audit of the Government National Mortgage Association's Financial Statements for Fiscal Years 2018 and 2017 (Restated) (audit report 2019-FO-0001, issued November 13, 2018).

balances, required supplementary information (RSI),[2] and other information included with the financial statements;[3] (2) our report on internal control over financial reporting; (3) our report on compliance with laws, regulations, contracts, and grant agreements; and (4) agency comments and our evaluation.

Report on the Financial Statements

The Chief Financial Officers Act of 1990 requires HUD to prepare the accompanying consolidated balance sheets as of September 30, 2018 and 2017 (restated); the related consolidated statements of net cost, changes in net position, and combined statement of budgetary resources for the fiscal years then ended; and the related notes to the financial statements. We were engaged to audit those financial statements in accordance with generally accepted government auditing standards accepted in the United States of America and according to OMB Bulletin 19-01.

Management's Responsibility for the Financial Statements

HUD management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; (2) preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles (GAAP); (3) preparing and presenting other information included in documents containing the audited financial statements and auditor's report and ensuring the consistency of that information with the audited financial statements and the RSI; and (4) maintaining effective internal control over financial reporting, which includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

We are required by the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994 and implemented by OMB Bulletin 19-01, Audit Requirements for Federal Financial Statements, to audit HUD's principal financial statements or select an independent auditor to do so.

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2 In its fiscal year 2018 agency financial report, HUD presents "required supplemental stewardship information" and "required supplementary information," which are included with the financial statements. The required supplemental stewardship information presents information on investments in non-Federal physical property and human capital and investments in research and development. In the required supplementary information, HUD presents a "management discussion and analysis of operations" and combining statements of budgetary resources. HUD also chose to present consolidating balance sheets and related consolidating statements of changes in net position as required supplementary information. The consolidating information is presented for additional analysis of the financial statements rather than to present the financial position and changes in net position of HUD's major activities. This information is not a required part of the basic financial statements but is supplementary information required by Federal Accounting Standards Advisory Board (FASAB) and OMB Circular A-136.

3 Other information consists of information included with the financial statements, other than the RSI and the auditor's report.

Our responsibility is to express an opinion on the fair presentation of these principal financial statements in all material respects in conformity with accounting principles generally accepted in the United States of America based on our audits. Because of the matters described in the Basis for Disclaimer of Opinion section, we were not able to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

During our fiscal year 2018 audit, we identified several matters for which we were unable to obtain adequate audit evidence to provide a basis of opinion on the fiscal years 2018 and 2017 (restated) financial statements. When evaluating these areas and their impacts on the financial statements as a whole, we determined that multiple material financial statement line items were impacted and the issues identified were pervasive and material to the fiscal years 2018 and 2017 consolidated financial statements. There were no other satisfactory audit procedures that we could adopt to obtain sufficient, appropriate evidence with respect to these unresolved matters. Readers are cautioned that amounts reported in the financial statements and related notes may not be reliable.

The matters that we identified related to (1) a disclaimer of opinion on the Government National Mortgage Associations' (Ginnie Mae) financial statements and (2) improper and unreliable accounting for assets and budgetary resources. Additional details are discussed below.

> *Disclaimer of opinion on Ginnie Mae financial statements*. For the fifth consecutive year, Ginnie Mae could not bring its material asset balances related to its nonpooled loan assets (NPA) into an auditable state in fiscal year 2018. Therefore, we were unable to obtain sufficient, appropriate evidence to express an opinion on the fairness of the $3 billion (net of allowance) in NPA[4] from Ginnie Mae's defaulted issuers' portfolio, which were consolidated into HUD's fiscal years 2018 and 2017 financial statements.
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> This condition occurred because the subledger database project, which was the solution developed by Ginnie Mae management in response to our finding was not yet in place and fully implemented at the end of fiscal year 2018. Therefore, we were again unable to perform all of the audit procedures needed to obtain sufficient, appropriate evidence to render an opinion on the NPA. As a result, we determined our audit scope insufficient to express an opinion on Ginnie Mae's NPA and related accounts as of September 30, 2018. This determination impacted the following areas reported on HUD's consolidated financial statements: (1) noncredit reform loans totaling $2.6 billion, net of allowance, for the loan losses due to payment of probable claims by the Federal Housing Administration (FHA); (2) $385.1 million in elimination from FHA's loan guarantee liability also reflected in note 7; (3) $53.4 million in accounts receivables, and (4) note 8 to HUD's consolidated financial statements.

[4] These assets relate to (1) claims receivable, net ($253 million); (2) mortgage loans held for investment, including accrued interest, net ($2,736 million); and (3) acquired property, net ($25 million).

Additionally, Ginnie Mae continued to account for FHA reimbursable costs as an expense instead of capitalizing the costs as an asset in fiscal year 2018. This practice caused Ginnie Mae's asset and net income line items to be misstated. Due to multiple years of incorrect accounting, we believe the cumulative effect of the errors identified was material. However, we were unable to determine with sufficient accuracy a proposed adjustment to correct the errors due to insufficient available data.

Improper and unreliable accounting for assets and budgetary resources. HUD did not properly account for several types of assets and budgetary resources reported on its balance sheet and statement of budgetary resources, causing misstatements or unreliable balances. Specifically, budgetary accounting for Office of Community Planning and Development (CPD) formula and disaster programs was not performed in accordance with Federal GAAP. Balances reported for property, plant, and equipment could not be relied upon during fiscal year 2017, causing HUD to represent that this balance was not available to audit during fiscal year 2018 as OCFO implemented corrective actions. There were no other compensating audit procedures that could be performed to obtain reasonable assurance regarding these balances.

- Improper budgetary accounting for CPD formula programs. HUD used a first-in first-out (FIFO) method[5] to disburse and commit CPD formula program funds, which was not in accordance with GAAP. As a result, we determined that financial transactions related to CPD's formula-based programs that entered HUD's accounting system had been processed incorrectly. We considered the effects of this methodology and the system limitations of HUD's grant management and mixed accounting system to properly account for these grant transactions in accordance with GAAP pervasive because of the dollar amounts at risk and the volume of CPD grant activities. As of September 30, 2018, approximately $859.6 million in disbursements and $1.1 billion in undisbursed obligations related to the HOME Investment Partnerships, Community Development Block Grant, Housing for Persons With AIDS, and Emergency Solutions Grant programs were impacted. Based on the pervasiveness of their effects, in our opinion, the unobligated balance from prior year budget authority and unobligated balance, end of year, reported in HUD's combined statement of budgetary resources for fiscal year 2014 and prior years, were materially misstated. The amount of material misstatements for these CPD programs in the accompanying combined statement of budgetary resources could not be readily determined to reliably support the budgetary balances reported

[5] The FASAB Handbook defines FIFO as a cost flow assumption. The first goods purchased or produced are assumed to be the first goods sold (FASAB Handbook, Version 13, appendix E, page 30, dated June 2014). In addition, the Financial Audit Manual states that the use of "first-in, first-out" or other arbitrary means to liquidate obligations based on outlays is not generally acceptable (GAO-PCIE (U.S. Government Accountability Office-President's Council on Integrity and Efficiency) Financial Audit Manual, Internal Control Phase, Budget Control Objectives, page 395, F-3). In the context of HUD's use of this method, the first funds appropriated and allocated to the grantee are the first funds committed and disbursed, regardless of the source year in which grant funds were committed for the activity.

by HUD at yearend due to the inadequacy of evidence available from HUD's mixed accounting and grants management system.

- Improper budgetary accounting for disaster relief appropriations, 2013. The Disaster Relief Appropriations Act, 2013, contained a 24-month expenditure requirement for grantees. HUD improperly allowed grantees receiving funds from this Act to revise transactions in CPD's Disaster Recovery Grant Reporting (DRGR) system to avoid losing unexpended funds after the 24-month period passed. This occurred because of systemic weaknesses in DRGR and CPD's incorrectly allowing grantees to account for Community Development Block Grant Disaster Recovery funds in a cumulative manner and to make transfers between rounds that had overlapping obligation periods, regardless of the date on which the grantee incurred the costs. These weaknesses caused HUD to (1) disburse funds that would have otherwise been unavailable and (2) inaccurately present the status of its unobligated balances and related line items on the Statement of Budgetary Resources. We could not determine the total misstatement caused by this deficiency as of September 30, 2018, due to the cumulative treatment of the obligations and numerous revisions to the expenditures; however, we identified at least $497 million in expenses that had been improperly recorded or revised in DRGR as of January 2018. As of September 30, 2018, there was $5.2 billion remaining in 2013 Disaster Recovery funding that was susceptible to this practice. Therefore, due to the material nature of the funds remaining that were at risk of being improperly accounted for, we believe that HUD's financial statements were materially misstated.

- Unreliable accounting for HUD's property, plant, and equipment. HUD's accounting for its property, plant, and equipment did not comply with Federal GAAP. Specifically, HUD could not support balances related to internal use software totaling $335.4 million and in June 2018, represented that this balance was out of scope for the fiscal year 2018 audit. Therefore, we were unable to obtain sufficient, appropriate evidence to express an opinion on the fairness of the $335.4 million property, plant, and equipment balance. These conditions occurred because HUD (1) did not have a reliable and integrated asset management system, (2) lacked controls to ensure communication of information regarding acquisitions among stakeholders, and (3) lacked oversight from the Office of the Chief Financial Officer (OCFO) to detect and correct deficiencies. During fiscal year 2018, HUD was working toward implementing a reliable asset management system; new policies and procedures to properly account for property, plant, and equipment; internal use software, and leasehold improvements. As a result, we determined that our audit scope was insufficient to express an opinion on HUD's property, plant, and equipment, related accounts and note disclosures as of September 30, 2018.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion section above, we were not able to obtain sufficient, appropriate audit evidence to provide an audit opinion on HUD's principal financial statements and accompanying notes as of September 30, 2018 and 2017 (restated), and its net costs, changes in net position, and budgetary resources for the fiscal year then ended. Accordingly, we do not express an opinion on the financial statements.

Emphasis of Matter

The following are matters that we would like to draw users' attention to that are presented or disclosed in the financial statements, which we believe are of such importance that it is fundamental to users' understanding of these financial statements.

Restatement of Fiscal Year 2017 Financial Statements

As discussed in note 24 to the financial statements, the fiscal year 2017 financial statements have been restated for corrections due to (1) multiple errors found in FHA financial statement and note disclosures that were significant to the consolidated financial statements; (2) errors in HUD's note 7 related to subsidy expense and outstanding principal guaranteed for Section 108 and Native Hawaiian Housing loan guarantees, Note 3, Fund Balance with Treasury, related to a crosswalking error, and note 5 due to a classification error; (3) errors in HUD's cost allocation; and (4) removal of contingent liability and recognition of imputed costs for a lawsuit paid through the U.S. Department of the Treasury's judgement fund.

FHA performed multiple restatements related to the (1) FHA Homeowners Equity Conversion Mortgage (HECM) cash flow model and (2) schedule for reconciling loan guarantee liability balance. First, FHA corrected material misstatements to recognize the effects of a discounting error in the HECM Return on Assets cash flow model used to calculate the recovery rate applied to the annual financial statement reestimate. These corrections impacted multiple financial statement line items on HUD's Consolidated Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and related noted disclosures. Next, a restatement was made due to a presentation error in FHA's stand-alone financial statement note disclosure, note 7, which was carried over into HUD's consolidated financial statements note disclosure, note 7.

There were additional errors in note 7 that were identified and corrected by HUD due to its subledger to general ledger cleanup initiative. HUD's analysis determined that it needed to apply a net decrease of $179 million to the outstanding principal guaranteed balance in Note 7 for fiscal year 2017. The impacted programs were Section 108 Loan Guarantee and Section 184A Native Hawaiian Housing Loan Guarantee. We identified additional errors in note 3 during fiscal year 2017 due to a crosswalking error, which HUD corrected. HUD identified another classification error in note 5, which was also corrected.

As part of our fiscal year 2018 audit of HUD's cost allocation methodology, we identified a material error, which resulted in misstatements in the 2017 Statement of Net Cost and other related line items and note disclosures by $188 million. HUD corrected the allocation to address this issue.

Lastly, based on our review of HUD's legal representation letters, we identified an error related to HUD's reporting of contingent liabilities on its fiscal year 2017 balance sheet. HUD corrected the misstatement by removing the contingent liability and recording the imputed cost of $136 million.

Accordingly, our opinion on the audited financial statements for 2017 is withdrawn because it can no longer be relied upon and is replaced by the auditor's report on the restated financial statements. Our opinion was not modified with respect to this matter. Additional details regarding these restatements can be found in note 24 of HUD's consolidated financial statements.

There were other potential material misstatements in the fiscal year 2017 and 2018 financial statements in which no adjustments had been made. HUD described in note 24 the data limitations and misapplication of accounting principles related to loan impairment of Ginnie Mae's nonpooled loan portfolio balances, which prevented Ginnie Mae and HUD from reporting their NPA balances in compliance with U.S. GAAP. Other potential misstatements not disclosed in note 24 relate to (1) the use of the FIFO method to liquidate obligations under CPD's formula grant programs; (2) the effects of revisions to expenses and cumulative accounting of funds from the Disaster Relief Appropriations Act, 2013; (3) property, plant, and equipment; and (4) Ginnie Mae's inappropriate accounting for FHA reimbursable costs. No adjustments had been made because the specific amounts of misstatements and their related effects were unknown. Additional details can be found in our Report on Internal Controls Over Financial Reporting.

FHA Loan Guarantee Liability

The loan guarantee liability is an estimate of the net present value of future claims, net of 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. In fiscal year 2018, FHA changed its discounting period to allocate the reestimate expense from middle-of-year discount period assumption to the beginning-of-year discount period assumption. The loan guarantee liability is discussed further in note 7 to the financial statements. Our opinion was not modified with respect to this matter.

Other Matters

The following are other matters that are relevant to the users' understanding of the audit we conducted of HUD's consolidated financial statements, our responsibilities as the auditor, and our audit report included here.

Required Supplementary Information

U.S. GAAP requires that certain information be presented to supplement the basic general-purpose financial statements. Such information, although not a part of the basic general-purpose financial statements, is required by Federal Accounting Standards

Advisory Board (FASAB), which considers it to be an essential part of financial reporting for placing the basic general-purpose financial statements into an appropriate operational, economic, or historical context. We did not audit and do not express an opinion or provide any assurance on this information. However, we applied certain limited procedures in accordance with auditing standards generally accepted in the United States of America, which consisted principally of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to the auditor's inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. These limited procedures do not provide sufficient evidence to express an opinion or provide assurance on the information.

Other Information
HUD's agency financial report contains other information that is not a required part of the basic financial statements. It includes a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or the RSI. We read the other information included with the financial statements to identify material inconsistencies, if any, with the audited financial statements. Our audit was conducted for the purpose of forming an opinion on HUD's basic financial statements as a whole. Such information has not been subjected to the auditing procedures applied in the audit of the principal financial statements, and, accordingly, we do not express an opinion or provide assurance on the other information.

Report on Internal Controls Over Financial Reporting

Management's Responsibility
HUD management is responsible for maintaining effective internal control over financial reporting, including 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.

Auditor's Responsibility
In planning and performing our audit of HUD's consolidated financial statements as of and for the years ending September 30, 2018 and 2017, in accordance with U.S. generally accepted government auditing standards, we considered HUD's internal control over financial reporting as a basis for designing audit procedures that were 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 HUD's internal control over financial reporting. Accordingly, we do not express an opinion on HUD's internal control over financial reporting. We are required to

report all deficiencies that are considered to be significant deficiencies[6] or material weaknesses.[7] We did not consider all internal controls relevant to operating objectives, such as those controls relevant to preparing performance information and ensuring efficient operations.

Definition and Inherent Limitations of Internal Control Over Financial Reporting
An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. GAAP; (2) assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and (3) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

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

Results of Our Consideration of Internal Control Over Financial Reporting
Additional details on our findings regarding HUD's, FHA's, and Ginnie Mae's internal controls over financial reporting are summarized below and were provided in separate audit reports to HUD management.[8] These additional details also augment the discussions of instances in which HUD had not complied with applicable laws and regulations; the information regarding our audit objectives, scope, and methodology; and recommendations to HUD management resulting from our audit.

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

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

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

[8] Audit Report 2019-FO-0003, Additional Details To Supplement Our Fiscal Years 2018 and 2017 (Restated) U.S. Department of Housing and Urban Development Financial Statements, issued November 15, 2018; Audit Report 2019-FO-0002, Audit of the Federal Housing Administration's Financial Statements for Fiscal Years 2018 and 2017 (Restated), issued November 14, 2018; Audit Report 2019-FO-0001, Audit of the Government National Mortgage Association's Fiscal Years 2018 and 2017 (Restated) Financial Statements, issued November 13, 2018

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. However, we noted in our reports the following five material weaknesses and four significant deficiencies.

Material Weaknesses

1. HUD-wide weaknesses in internal controls over financial reporting. Our audits of the FHA financial statements, Ginnie Mae financial statements, and the HUD consolidated financial statements identified weaknesses in internal controls over financial reporting. While some of the weaknesses identified were specific to FHA, Ginnie Mae, and HUD component financial reporting processes, the impact of the weaknesses identified at the component entities also impacted the effectiveness and accuracy of HUD's financial reporting process when consolidating component-entity financial information to prepare HUD's consolidated financial statements and accompanying notes.

    - HUD financial reporting. In fiscal year 2018, HUD made significant improvements to its controls over financial reporting; however, there were still shortcomings in its internal control system. Specifically, HUD's internal control system did not have effective controls to reasonably ensure that it gathered and accurately included all necessary information from its component entities, program offices, and the Office of Legal Counsel in its consolidated financial statements. Further, neither Ginnie Mae nor HUD had adequate controls in place to ensure that Ginnie Mae's accounting system produced accurate budgetary balances. Due to ineffective controls, HUD's fiscal year 2018 financial statements provided for audit contained material errors that were not detected and fiscal year 2017 financial statements and notes required restatement. Additionally, HUD's third quarter fiscal year 2018 financial statements and note disclosures were misstated and missing required information. As a result, stakeholders did not have accurate and complete information required by Federal GAAP and OMB regulations. Further, the control weaknesses that led to these misstatements increased the risk of errors and may cause other misstatements in HUD's yearend financial statements that are not detected and corrected within the yearend reporting timeframes.

    - Ginnie Mae financial reporting. Ginnie Mae made progress in certain areas of internal control over financial reporting in fiscal year 2018; however, the majority of the weaknesses identified in prior-year audits continued. These weaknesses included (1) improper accounting for FHA's reimbursable costs and accrued interest earned on nonpooled loans and (2) accounting issues related to revenue recognition, fixed assets, advances, and note disclosures. We are reporting these continued weaknesses because Ginnie Mae has not remediated a number of our concerns and due to continued disagreement with Ginnie Mae regarding its accounting practice for advances. Until these control deficiencies are fully remediated, Ginnie Mae lacks assurance that its internal controls can be relied on to prevent or detect the risk of material misstatements in its financial statements in a timely manner.

- FHA financial reporting. In fiscal year 2018, some of the control deficiencies in financial reporting identified in 2017 continued, and new control deficiencies were identified. Specifically, these new control deficiencies included issues related to the lack of subsidiary ledger systems or inadequate designs within subsidiary ledger systems and incorrect assumptions and inadequate controls used for financial statement reporting. These conditions occurred because FHA did not have effective monitoring and processes in place to ensure (1) that subsidiary ledger systems were implemented and accurately designed to record accounting events and (2) the accuracy of data reported in the financial statements. As a result, $588 million in expenses was incorrectly reported in the financial statement note disclosures, and $461.5 million was restated in fiscal year 2017 financial statement notes. Additionally, FHA may have missed an opportunity to put $399 million of its unobligated funds to better use because invalid obligations were not always deobligated on time.

2. HUD accounting did not always comply with GAAP. HUD did not properly account for or have adequate support for all of its assets, liabilities, and budgetary resources. Specifically, HUD did not (1) use an appropriate method to commit and disburse fiscal year 2014 and prior obligations for CPD's formula grant programs; (2) account for the obligation and disbursement of funds from the Disaster Relief Appropriations Act, 2013, in accordance with GAAP; (3) properly account for its property, plant, and equipment; (4) adequately validate its accrued grant liabilities estimates; (5) accurately recognize receivables from sustained audit findings; (6) recognize prepayments for funds advanced to its Indian Housing Block Grant (IHBG) grantees for investments; (7) use complete and accurate data to estimate HUD's PIH (Office of Public and Indian Housing) prepayment; or (8) recognize all financial events resulting from PIH's cash management process. These deficiencies occurred because of (1) continued weaknesses in HUD's internal controls, (2) a lack of communication between OCFO and the program offices, and (3) insufficient information systems. As a result, several financial statement line items were misstated, were at risk of misstatement, or could not be audited as of September 30, 2018.

3. Material asset balances related to nonpooled loans were not auditable, and related allowance for loan loss account balances remained unreliable. For the fifth consecutive year, Ginnie Mae could not bring its material asset balances related to its NPA and related accounts into an auditable state in fiscal year 2018. Further, Ginnie Mae's loan loss account balances remained unreliable because various underlying accounting issues had not been remediated at the end of fiscal year 2018. Therefore, we were unable to audit the $3 billion (net of allowance) in NPA reported in Ginnie Mae's financial statements as of September 30, 2018. These assets relate to (1) claims receivable, net ($253 million); (2) mortgage loans held for investment, including accrued interest, net ($2,736 million); and (3) acquired property, net ($25 million). The first condition occurred because, although efforts are underway to develop financial management systems capable of handling loan-level transaction accounting, to include the subledger database project solution (SLDB), these systems were not yet fully in place at the end of fiscal year 2018. Similarly, the second condition of reliability concerns with the

allowance for loan loss account balances occurred because the SLDB was not fully implemented in fiscal year 2018. Further, the critical accounting policies and procedures, which dictate how the NPA and related accounts will be recorded in the financial statements, were not finalized until the end of fiscal year 2018. Therefore, we were again unable to perform all of the audit procedures needed to obtain sufficient, appropriate evidence to formulate a conclusion on the fairness of the financial statements. As a result, we deemed our audit scope insufficient to express an opinion on (1) Ginnie Mae's $3 billion in NPA and related accounts and (2) the balances of the allowance for loan loss account reported in Ginnie Mae's financial statements, which remained unreliable as of September 30, 2018.

4. <u>HUD's financial management system weaknesses continued.</u> HUD's financial management system weaknesses remained a material weakness in fiscal year 2018 due to the continued impact of a number of financial reporting deficiencies and limitations. While HUD took steps to address financial management system weaknesses during fiscal year 2018, significant challenges remained. Many of the material weaknesses discussed in this audit report share the same underlying cause, shortcomings in HUD's financial management systems. Specifically, we noted (1) issues remaining from the transition of key financial management functions to a Federal shared service provider, (2) existing financial management systems that lacked key functionality, and (3) that HUD did not have financial systems in place to meet financial management needs. HUD's efforts to modernize its financial management systems have been hindered by weaknesses in implementing key information technology (IT) management practices. HUD's inability to modernize its legacy financial systems has resulted in a continued reliance on legacy financial systems with various limitations. Program offices have compensated for system limitations by using less reliable manual processes to meet financial management needs. These system issues and limitations inhibited HUD's ability to produce reliable, useful, and timely financial information and have contributed to a number of financial reporting errors and HUD's inability to obtain an unqualified opinion on its consolidated financial statements.

5. <u>Weaknesses continued in FHA's modeling processes.</u> FHA had addressed some previous-year modeling weaknesses, but improvements are still needed. While FHA had corrected the specific modeling errors cited in our fiscal year 2017 audit report, new modeling errors were identified during our fiscal year 2018 audit. For example, in fiscal year 2018, FHA discovered that cash flows were improperly discounted in the fiscal year 2017 HECM return on assets (ROA) model. Errors were also identified in the HECM and multifamily liabilities for loan guarantees (LLG) cash flow models. In addition, FHA continued to face challenges with its model governance and model practices and failed to test or consider the impact of assumptions used in its HECM models. These conditions were due to ineffective oversight and FHA's failure to follow its established guidelines. As a result of improperly discounting cash flows in the HECM ROA model, the loans receivable and related foreclosed-on property line item was understated by $1.7 billion on the fiscal year 2017 financial statements. Further, there were additional errors totaling $19.1 million in the fiscal year

2018 models, and FHA remained susceptible to modeling errors due to its model governance and practices and its failure to test or consider the impact of assumptions.

Significant Deficiencies

1. HUD and Ginnie Mae financial management governance had progressed, but weaknesses remained. During fiscal year 2018, HUD and Ginnie Mae experienced progress with financial management governance; however, several areas remained unaddressed. As of September 30, 2018, (1) HUD's financial management leadership structure had been strengthened by key positions being filled; however, key personnel roles remained vacant in OCFO; (2) OCFO continued to experience problems with information and communication necessary to allow for accurate financial reporting; (3) development of policies and procedures for significant business practices had progressed, but HUD continued to lack mature financial management governance practices; (4) HUD did not have reliable financial information for reporting; and (5) weaknesses in HUD's financial management systems continued. Weaknesses in program and component internal controls, which impacted financial reporting, were able to develop in part due to a lack of established financial management governance processes. These unaddressed financial management weaknesses have contributed significantly to the (1) material weaknesses and significant deficiencies in internal controls over financial reporting, (2) instances of noncompliance with laws and regulations, and (3) consecutive years of restating prior-year financial statement balances to correct errors. While financial management leadership had begun setting the preliminary direction and priorities to ensure proper oversight and implementation of robust financial management practices, HUD continued to experience challenges with resolving these deficiencies. HUD's inability to resolve the deficiencies contributed to restatements of fiscal year 2017 financial statements and errors and missing required information in fiscal year 2018 quarterly financial statements.

   Concerns with Ginnie Mae's financial management governance were specifically related to (1) keeping Ginnie Mae's OCFO operations fully functional; (2) ensuring that emerging risks affecting its financial management operations were identified, analyzed, and responded to appropriately and in a timely manner; (3) establishing adequate and appropriate accounting policies and procedures and accounting systems; (4) lacking effective monitoring and oversight of master subservicers as service organizations; and (5) implementing an effective entitywide governance of the estimation models, which are used to generate accounting estimates for financial reporting. The lack of proper alignment in its people, process, and technology at the right time, right place, and right seats contributed to our ongoing concern, as well as Ginnie Mae's inability to produce auditable financial statements for the fifth consecutive fiscal year.

2. HUD continued to report significant amounts of invalid obligations. Deficiencies in HUD's process for monitoring its unliquidated obligations and deobligating balances tied to invalid obligations continued to exist. We identified $65.8 million in obligations, which HUD determined needed to be closed out and deobligated during the fiscal year that remained unprocessed as of September 30, 2018. We also identified $47.6 million in

obligations that were inactive,[9] potentially indicating additional invalid obligations. We attributed these deficiencies to ineffective monitoring efforts and the inability to promptly process contract closeouts. Lastly, we noted that as of September 30, 2018, HUD had not implemented prior-year recommendations to deobligate $576.4 million in funds. We attribute the root cause of these conditions to weaknesses with HUD's open obligation review and weaknesses with program office monitoring of obligations. As a result, HUD's unobligated balance from prior-year budget authority and related line items on the statement of budgetary resources were understated by at least $65.8 million and potentially understated by up to $689.8 million.

3. FHA's controls related to partial claims had improved, but weaknesses remained. While FHA made progress on resolving unsupported partial claims in fiscal year 2018, it did not follow up with the Office of Program Enforcement (OPE) to determine whether it should refer seriously noncompliant lenders to the Mortgagee Review Board (MRB) for temporary suspension or termination. These lenders did not provide required supporting documentation, did not reimburse FHA for the partial claim plus incentive fee, or did not reach a settlement in a timely manner. The cases remained unresolved an average of 591 days after the execution of the partial claim. FHA is no longer waiting until 6 months after execution of partial claims to begin requesting payment from lenders that do not provide the supporting promissory note, and it is sending requests for payments more frequently and on average, in a timely manner and in accordance with its newly implemented process. However, for lenders that have not sent the recorded mortgage within 6 months, letters requesting reimbursement in the amount of the partial claim plus the incentive fee were sent between 33 and 62 days after the expiration of the 6-month period and on average, 48 days after the expiration of the 6-month period. Failure to collect from noncompliant lenders with unsupported partial claims is a deficient cash management practice and does not help improve the health of the Mutual Mortgage Insurance fund.

4. HUD's computing environment controls had weaknesses. HUD's computing environment, data centers, networks, and servers provide critical support to all facets of its program, mortgage insurance, financial management, and administrative operations. We audited the general and application controls over the internet server general support system (GSS) and selected information systems that support the preparation of HUD, FHA, and Ginnie Mae financial statements. We identified the following deficiencies:

    - HUD did not ensure that controls over its computing environment fully complied with Federal requirements. Specifically, we identified weaknesses related to HUD's internet server GSS and the OneStream and GrantSolutions applications maintained by shared service providers. The weaknesses identified with the internet server GSS occurred because HUD did not initiate actions in a timely manner to address known vulnerabilities and did not provide sufficient oversight

[9] We define an obligation as inactive if a disbursement has not been made within a reasonable amount of time. This time varies based on program area and applicable criteria.

and guidance to its IT support contractors. For OneStream and GrantSolutions, the weaknesses occurred because the shared service provider believed that it had an alternative security measure in place and HUD believed that its current processes were adequate.

- Ginnie Mae was not in full compliance with Federal information system controls requirements for its Integrated Pool Management System (IPMS). Our review of the general controls over IPMS identified deficiencies with (1) transaction security within the utility software of the Customer Information Control System transaction server of IPMS, (2) privileged accounts' password controls, (3) contractor employees' access controls, and (4) the review process for incompatible duties. These conditions occurred primarily due to Ginnie Mae's lack of sufficient oversight and as a result, increased the risk of unauthorized access and that erroneous or fraudulent transactions could be processed.

- FHA had security vulnerabilities with the management of controls of the Computerized Homes Underwriting Management System application. These conditions occurred due to a lack of sufficient oversight. We also determined that weaknesses previously reported with selected FHA information systems and the credit reform estimation and reestimation process had not been fully remediated.

As a result, the confidentiality, integrity, and availability of critical information may have been negatively impacted. Without adequate controls and oversight, there is no assurance that HUD's financial management applications and the data within them were adequately protected.

Intended Purpose of Report on Internal Control Over Financial Reporting

The purpose of this report is solely to describe the scope of our consideration of HUD's internal control over financial reporting and the results of our procedures and not to provide an opinion on the effectiveness of HUD's internal control over financial reporting. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering internal control over financial reporting. Accordingly, this report on internal control over financial reporting is not suitable for any other purpose. In addition to separate reports detailing the internal control issues included in this report and providing specific recommendations to HUD management, we noted other matters involving internal control over financial reporting and HUD's operations that we are reporting to HUD management in a separate management letter.

Report on Compliance With Laws and Regulations, Contracts, and Grant Agreements

We performed tests of HUD's compliance with certain provisions of laws and regulations, contracts, and grant agreements consistent with our auditor's responsibility discussed below. We caution that noncompliance may occur and not be detected by these tests. We performed our tests of compliance in accordance with Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Bulletin 19-01, Audit Requirements for

Federal Financial Statements. However, the objective of our audit was not to provide an opinion on compliance with laws and regulations. Accordingly, we do not express such an opinion.

Management's Responsibility
HUD's management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to HUD.

Auditor's Responsibility
Our responsibility is to test compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements applicable to HUD that have a direct effect on the determination of material amounts and disclosures in HUD's consolidated financial statements and perform certain other limited procedures. Accordingly, we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to HUD.

Results of Our Tests for Compliance With Laws, Regulations, Contracts, and Grant Agreements
Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed five instances of noncompliance for fiscal year 2018 that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to HUD. Accordingly, we do not express such an opinion.

1. HUD's financial management system did not comply with the Federal Financial Management Improvement Act. In fiscal year 2018, we noted a number of instances of FFMIA noncompliance within HUD's financial management system. HUD's continued noncompliance with FFMIA was due to a high volume of material weaknesses, ineffectively designed and operating key internal controls over financial reporting, and longstanding issues related to component and program offices' system weaknesses that remained unresolved.

2. HUD and Ginnie Mae did not comply with the Debt Collection Improvement Act. HUD did not comply with the Debt Collection Improvement Act (DCIA), as amended, due to weaknesses in (1) establishing and collecting debts due HUD and (2) debt forgiveness and termination. The Act required that HUD refer delinquent debts to the Treasury within 120 days[10] and take all appropriate actions before discharging debts.[11] However,

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[10] Public Law 104-134—Apr. 26, 1996, 110 STAT. 1321 Sec. 31001. Debt Collection Improvement Act of 1996. (6) Any Federal agency that is owed by a person a past due, legally enforceable nontax debt that is over 180 days delinquent, including nontax debt administered by a third party acting as an agent for the Federal Government, shall notify the Secretary of the Treasury of all such nontax debts for purposes of administrative offset under this subsection. (Note: Effective May 9, 2014 agencies were required to transfer debts for administrative offset after 120 days in accordance with the DATA Act [Digital Accountability and Transparency Act of 2014]).

[11] Public Law 104-134—Apr. 26, 1996, 110 STAT. 1321 Sec. 31001. Debt Collection Improvement Act of 1996. 31 U.S.C. [United States Code] 3711(g)(9). Before discharging any delinquent debt owed to any executive, judicial, or legislative agency, the head of such agency shall take all appropriate steps to collect such debt, including (as applicable)— administrative offset, tax refund offset, Federal salary offset, referral to private

in fiscal year 2017, we found that HUD did not always follow applicable requirements for establishing and collecting debts for the Housing Choice Voucher Program. Additionally, a separate program audit[12] identified similar weaknesses in the area of debt forgiveness and termination. Ginnie Mae also continued its noncompliance with the Act in fiscal year 2018. As reported in the past 3 fiscal years, Ginnie Mae continued to discharge (write off) uninsured mortgage deficiency debts without ensuring that before doing so, all debt collection tools allowed by law had been considered. These conditions still existed during the course of fiscal year 2018 because (1) PIH had not yet implemented necessary changes to its debt collection functions, (2) OCFO's efforts to coordinate with program offices had faltered, and (3) Ginnie Mae continued to challenge DCIA's applicability and the lack of progress in the finalization of the policy on master subservicer loss mitigation and debt collection practices. Therefore, HUD's and Ginnie Mae's noncompliance with the Act continues, and as a result, they are unable to recoup funds due them that could be used to serve the public.

3. <u>HUD did not comply with the Federal Credit Reform Act</u>. HUD did not perform annual technical reestimates for the Emergency Homeowners' Loan Program (EHLP) as required by the Federal Credit Reform Act. HUD stated that a decision was made in collaboration with OMB to not perform reestimates for EHLP; however, HUD could not provide documentation of the decision. As a result, the allowance for subsidy account is at risk of misstatement.

4. <u>HUD potentially violated the Antideficiency Act</u>. The OCFO Appropriations Law Division (ALD) had 10 ongoing investigations related to possible Antideficiency Act (ADA) violations. ALD had not maintained adequate documentation to support the status of its ongoing investigations. As a result, we were unable to assess the potential impact to HUD's financial statements from the potential ADA violations and compliance with the law.

5. <u>HUD did not comply with the Improper Payments Elimination and Recovery Act of 2010.</u> Our Improper Payments Elimination and Recovery Act (IPERA) audit[13] found that HUD did not comply with IPERA, as amended, in fiscal year 2017 because it did not conduct its annual risk assessment and failed to publish improper payment estimates in accordance with OMB guidance. This is the fifth consecutive year that HUD has not complied with IPERA. HUD's failure to comply occurred because its remediation plans that were intended to address many of the IPERA compliance issues were not in place at the end of fiscal year 2017. Therefore, HUD's programs continued to be vulnerable to the adverse effects of improper payments.

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collection contractors, referral to agencies operating a debt collection center, reporting delinquencies to credit reporting bureaus, garnishing the wages of delinquent debtors, and litigation or foreclosure.

12 Audit Report 2017-LA-0005, HUD Did Not Always Follow Applicable Requirements When Forgiving Debts and Terminating Debt Collections

13 Audit Report 2018-FO-0006, Compliance With the Improper Payments Elimination and Recovery Act, issued May 15, 2018

Intended Purpose of Report on Compliance With Laws, Regulations, Contracts, and Grant Agreements

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements and the results of that testing and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

Results of the Audit of FHA's Financial Statements

We performed a separate audit of FHA's fiscal years 2018 and 2017 (restated) financial statements. Our report on FHA's financial statements[14] includes an unqualified opinion on FHA's financial statements, along with discussion of one material weaknesses and three significant deficiencies in internal controls.

Results of the Audit of Ginnie Mae's Financial Statements

We performed a separate audit of Ginnie Mae's fiscal years 2018 and 2017 (restated) financial statements. Our report on Ginnie Mae's financial statements[15] includes a disclaimer of opinion on these financial statements, along with discussion of four material weaknesses, one significant deficiency in internal control, and one instance of noncompliance with laws and regulations.

Objectives, Scope, and Methodology

We were engaged to audit HUD's consolidated fiscal year 2018 financial statements in accordance with Government Auditing Standards and the requirements of OMB Bulletin 19-01. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America. Because of the matters described in the Basis for Disclaimer of Opinion section above, we were not able to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion. As part of our engagement to audit HUD's fiscal year 2018 consolidated financial statements, we considered HUD's internal controls over financial reporting. We are not providing assurance on those internal controls. Therefore, we do not provide an opinion on internal controls. We also tested HUD's compliance with laws, regulations, governmentwide policies, and provisions of contract and grant agreements that could have a direct and material effect on the financial statements. However, our consideration of HUD's internal controls and our testing of its compliance with laws, regulations, governmentwide policies, and provisions of contract and grant agreements was not designed to and did not provide sufficient evidence to allow us to express an opinion on such matters and would not necessarily disclose all matters that might be material weaknesses; significant deficiencies; or noncompliance with laws, regulations, governmentwide policies, and

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14 Audit Report 2019-FO-0002, Audit of the Federal Housing Administration's Financial Statements for Fiscal Years 2018 and 2017 (Restated), issued November 14, 2018, was incorporated into this report.

15 Audit Report 2019-FO-0001, Audit of the Government National Mortgage Association's Financial Statements for Fiscal Years 2018 and 2017 (Restated), issued November 13, 2018, was incorporated into this report.

provisions of contract and grant agreements. Accordingly, we do not express an opinion on HUD's internal controls or its compliance with laws, regulations, governmentwide policies, and provisions of contract and grant agreements.

With respect to information presented in HUD's "required supplementary stewardship information" and "required supplementary information" and management's discussion and analysis presented in HUD's fiscal year 2018 agency financial report, we performed limited testing procedures as required by the American Institute of Certified Public Accountants' Clarified Statements on Auditing Standards, AU-C 730, Required Supplementary Information. Our procedures were not designed to provide assurance, and, accordingly, we do not provide an opinion on such information.

Agency Comments and Our Evaluation

HUD's CFO provided comments to our draft independent auditor's report on November 9, 2018. The CFO's comments, in their entirety, are presented in appendix A. We reviewed management's response and determined HUD is generally in agreement with the internal control weaknesses cited in our report. We will work with HUD during the audit resolution process to evaluate HUD's progress in developing and implementing corrective action plans to address these findings.

Kimberly R. Randall
Acting Assistant Inspector General for Audit
Washington, DC

November 15, 2018

Appendixes

Appendix A

Auditee Comments to Independent Auditor's Report

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-3000

CHIEF FINANCIAL OFFICER

HUD OCFO MEMO 18-39

NOV 9 2018

MEMORANDUM FOR: Thomas R. McEnanly, Director of Financial Audits Division, HUD, GAH

FROM: Irving L. Dennis, Chief Financial Officer, HUD, F

11/9/18

SUBJECT: Response to Fiscal Year 2018 Financial Statement Audit – Transmittal of Draft Fiscal Year 2018 Independent Auditor's Report on HUD's Fiscal Year 2018 and 2017 Consolidated Financial Statements

HUD is committed to fulfilling its mission to create strong, sustainable, inclusive communities and quality affordable homes for American families and individuals. The work of HUD's Office of Inspector General (OIG) helps to ensure that HUD programs and employees work to successfully accomplish these goals.

HUD agrees that it cannot continue to operate in the absence of a clean audit opinion, and we are committed to making the business process changes necessary to resolve the longstanding material weaknesses in internal controls. We look forward to working with the OIG to identify the weaknesses that have the largest impact on the disclaimer condition, will again focus our remediation efforts to achieve the greatest results, and are prepared for a full audit of Ginnie Mae during FY 2019.

We look forward to continuing to build our relationship with the OIG as we work to address these and any future changes facing HUD and the communities we serve. Specifically, we are focused on four areas of operational improvement: accountability, increased transparency, interagency collaboration, and a greater commitment to measuring outcomes.

These efforts will go a long way in making HUD more efficient and effective, and help to ensure the progress made this year continues to reap increasingly beneficial results. The entire HUD team is committed to tackling these challenges head-on. Working with OIG, HUD will continue to identify and implement solutions that will help ensure weaknesses impacting the audit opinion are adequately addressed.

We appreciate that the OIG is committed to HUD's missions, and is working to help provide us with actionable recommendations that will improve operations.

Appendix B

HUD's Fiscal Years 2018 and 2017 (Restated) Consolidated

Financial Statements and Notes

Financial Statements

Introduction

The principal financial statements have been prepared to report the financial position and results of operations of HUD, pursuant to the requirements of 31 U.S.C. §3515(b). While the statements have been prepared from HUD's books and records in accordance with GAAP for Federal entities and the formats prescribed by the 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.

The following financial statements are presented:

The **Consolidated Balance Sheet (BS),** as of September 30, 2018, and 2017, which presents those resources owned or managed by HUD that are available to provide future economic benefits (assets), amounts owed by HUD that will require payments from those resources or future resources (liabilities), and residual amounts retained by HUD comprising the difference (net position).

The **Consolidated Statement of Net Cost (SNC),** which presents the net cost of HUD operations for the fiscal years ended September 30, 2018, and 2017. HUD's net cost of operations includes the gross costs incurred by HUD less any exchange revenue earned from HUD activities.

The **Consolidated Statement of Changes in Net Position (SCNP),** which presents the change in HUD's net position resulting from the net cost of HUD operations, budgetary financing sources other than exchange revenues, and other financing sources for the fiscal years ended September 30, 2018, and 2017.

The **Combined Statement of Budgetary Resources (SBR),** which presents the budgetary resources available to HUD during FY 2018 and FY 2017, the status of these resources at September 30, 2018, and 2017, and the outlay of budgetary resources for the years ended September 30, 2018, and 2017.

The **Notes to the Financial Statements** provide important disclosures and details related to information reported on the statements.

Consolidated Balance Sheet
As of September 30, 2018 and 2017
(In Millions)

	2018	2017 (Restated)
Assets:		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$124,133	$88,824
Investments (Note 5)	42,992	48,118
Other Assets (Note 11)	47	20
Total Intragovernmental	$167,172	$136,962
Cash and Other Monetary Assets (Note 4)	$67	$81
Investments (Note 5)	8	44
Accounts Receivable, Net (Note 6)	648	726
Direct Loans and Loan Guarantees (Note 7)	27,233	21,946
Other Non-Credit Reform Loans (Note 8)	2,576	2,940
General Property, Plant, and Equipment, Net (Note 9)	423	412
PIH Prepayments (Note 10)	263	337
Total Assets	$198,390	$163,448
Liabilities (Note 12):		
Intragovernmental:		
Accounts Payable	$43	$26
Debt (Note 13)	26,513	29,269
Other Liabilities (Note 15)	3,142	2,122
Total Intragovernmental Liabilities	$29,698	$31,417
Accounts Payable	$1,026	$1,000
Accrued Grant Liabilities	1,495	2,503
Loan Guarantee Liability (Note 7)	18,948	20,334
Debt Held by the Public (Note 13)	3	2
Federal Employee and Veteran Benefits (Note 14)	63	65
Loss Reserves (Note 16)	21	268
Other Liabilities (Note 15)	1,185	1,295
Total Liabilities	$52,439	$56,884
Commitments and Contingencies (Note 16)	$-	$55
Net Position:		
Unexpended Appropriations - Funds from Dedicated Collections (Combined Totals) (Note 17)	$(308)	$(321)
Unexpended Appropriations - All Other Funds (Combined Totals)	82,005	53,484
Cumulative Results of Operations - Funds From Dedicated Collections (Combined Totals) (Note 17)	25,571	23,849
Cumulative Results of Operations - All Other Funds (Combined Totals)	38,683	29,552
Total Net Position - Funds from Dedicated Collections (Combined Totals) (Note 17)	**25,263**	**23,528**
Total Net Position - All Other Funds (Combined Totals)	**120,688**	**83,036**
Total Net Position	**145,951**	**106,564**
Total Liabilities and Net Position	**$198,390**	**$163,448**

The accompanying notes are an integral part of these statements.

Consolidated Statement of Net Cost
As of September 30, 2018 and 2017
(In Millions)

	2018	2017 (Restated)
COSTS		
Federal Housing Administration (FHA)		
Gross Costs	$(6,708)	$19,333
Less: Earned Revenue	(2,080)	(1,752)
Net Program Costs	(8,788)	17,581
Government National Mortgage Association (GNMA)		
Gross Costs	$69	$582
Less: Earned Revenue	(1,770)	(1,692)
Net Program Costs	(1,701)	(1,110)
Section 8 Rental Assistance		
Gross Costs	$33,770	$32,468
Less: Earned Revenue	-	-
Net Program Costs	$33,770	$32,468
Public and Indian Housing Loans and Grants (PIH)		
Gross Costs	$2,598	$2,388
Less: Earned Revenue	-	(1)
Net Program Costs	$2,598	$2,387
Homeless Assistance Grants		
Gross Costs	$2,086	$2,032
Less: Earned Revenue	(1)	(1)
Net Program Costs	$2,085	$2,031
Housing for the Elderly and Disabled		
Gross Costs	$924	$928
Less: Earned Revenue	(74)	(92)
Net Program Costs	$850	$836
Community Development Block Grants (CDBG)		
Gross Costs	$5,196	$5,760
Less: Earned Revenue	-	-
Net Program Costs	$5,196	$5,760
HOME		
Gross Costs	$740	$1,073
Less: Earned Revenue	-	-
Net Program Costs	$740	$1,073
All Other		
Gross Costs	$5,636	$5,737
Less: Earned Revenue	(39)	(34)
Net Program Costs	$5,597	$5,703
Costs not Assigned to Programs	202	185
Consolidated		
Gross Costs	$44,513	$70,486
Less: Earned Revenue	(3,964)	(3,572)
Net Cost of Operations	**$40,549**	**$66,914**

The accompanying notes are an integral part of these statements.

Consolidated Statement of Changes Net Position
As of September 30, 2018 and 2017
(In Millions)

	2018			
	Funds From Dedicated Collections (Combined Totals)	**All Other Funds (Combined Totals)**	**Eliminations**	**Consolidated Total**
Unexpended Appropriations:				
Beginning Balances	$(321)	$53,484	$-	$53,163
Adjustments:				
Beginning Balance, as Adjusted	$(321)	$53,484	$-	$53,163
Budgetary Financing Sources:				
Appropriations Received	$-	$82,725	$-	$82,725
Appropriations Transferred-in/out	179	(180)	-	(1)
Other Adjustments	-	(455)	-	(455)
Appropriations Used	(166)	(53,569)	-	(53,735)
Total Budgetary Financing Sources	$13	$28,521	$-	$28,534
Total Unexpended Appropriations	**$(308)**	**$82,005**	**$-**	**$81,697**
Cumulative Results from Operations:				
Beginning Balances	$23,849	$29,552	$-	$53,401
Beginning Balances, as Adjusted	$23,849	$29,552	$-	$53,401
Budgetary Financing Sources:				
Other Adjustments	$(2)	$-	$-	$(2)
Appropriations Used	166	53,569	-	53,735
Nonexchange Revenue	7	15	-	22
Transfers-in/out without Reimbursement	-	(447)	443	(4)
Other	-	-	-	-
Other Financing Sources (Nonexchange):				
Transfers-in/out without Reimbursement	-	443	(443)	-
Imputed Financing	1	74	-	75
Other	(11)	(2,413)	-	(2,424)
Total Financing Sources	161	51,241	-	51,402
Net Cost of Operations	1,561	(42,110)	-	(40,549)
Net Change	1,722	9,131	-	10,853
Cumulative Results of Operations	**25,571**	**38,683**	**-**	**64,254**
Net Position	**$25,263**	**$120,688**	**$-**	**$145,951**

The accompanying notes are an integral part of these statements.

Consolidated Statement of Changes Net Position
As of September 30, 2018 and 2017
(In Millions)

	2017 (Restated)			
	Funds From Dedicated Collections (Combined Totals)	**All Other Funds (Combined Totals)**	**Eliminations**	**Consolidated Total**
Unexpended Appropriations:				
Beginning Balances	$(343)	$47,258	$-	$46,915
Adjustments:				
Beginning Balance, as Adjusted	$(343)	$47,258	$-	$46,915
Budgetary Financing Sources:				
Appropriations Received	$-	$62,048	$-	$62,048
Appropriations Transferred-in/out	146	(145)	-	1
Other Adjustments	(8)	(425)	-	(433)
Appropriations Used	(116)	(55,252)	-	(55,368)
Total Budgetary Financing Sources	$22	$6,226	$-	$6,248
Total Unexpended Appropriations	**$(321)**	**$53,484**	**$-**	**$53,163**
Cumulative Results from Operations:				
Beginning Balances	$22,730	$42,605	$-	$65,335
Beginning Balances, as Adjusted	$22,730	$42,605	$-	$65,335
Budgetary Financing Sources:				
Other Adjustments	$(3)	$-	$-	$(3)
Appropriations Used	116	55,252	-	55,368
Nonexchange Revenue	2	251	-	253
Transfers-in/out without Reimbursement	-	(775)	773	(2)
Other	-	(174)	-	(174)
Other Financing Sources (Nonexchange):				
Transfers-in/out without Reimbursement	-	947	(773)	174
Imputed Financing	1	190	-	191
Other	-	(827)	-	(827)
Total Financing Sources	116	54,864	-	54,980
Net Cost of Operations	1,003	(67,917)	-	(66,913)
Net Change	1,119	(13,053)	-	(11,934)
Cumulative Results of Operations	**23,849**	**29,552**	**-**	**53,401**
Net Position	**$23,528**	**$83,036**	**$-**	**$106,564**

The accompanying notes are an integral part of these statements.

Consolidated Statement of Budgetary Resources
As of September 30, 2018
(In Millions)

	2018	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources:		
Unobligated Balance From Prior Year Budget Authority, Net	$63,620	$29,750
Appropriations (discretionary and mandatory)	82,957	-
Borrowing Authority (discretionary and mandatory)	-	8,210
Spending Authority from Offsetting Collections	11,339	25,750
Total Budgetary Resources	**$157,916**	**$63,710**
Memorandom (non-add) Entries:		
Net Adjustments to unobligated balance brought forward, Oct 1	$(3,711)	$3,870
Status of Budgetary Resources:		
New Obligations and Upward Adjustments (Total) (Note 21)	$76,563	$30,397
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	35,297	13,234
Unapportioned, Unexpired Accounts	45,306	20,079
Unexpired Unobligated Balance, End of Year	$80,603	$33,313
Expired Unobligated Balance, End of Year	750	-
Unobligated Balance, End of Year (Total)	81,353	33,313
Total Budgetary Resources	**$157,916**	**$63,710**
Outlays, Net:		
Outlays, Net (Total) (discretionary and mandatory)	56,213	(6,918)
Distributed Offsetting Receipts (-)	(1,548)	-
Agency Outlays, Net (discretionary and mandatory)	**$54,665**	**$(6,918)**

The accompanying notes are an integral part of these statements.

Consolidated Statement of Budgetary Resources
As of September 30, 2017
(In Millions)

	2017	
	Budgetary	**Non-Budgetary Credit Reform Financing Accounts**
Budgetary Resources:		
Unobligated Balance From Prior Year Budget Authority, Net	$66,251	$19,395
Appropriations (discretionary and mandatory)	62,218	-
Borrowing Authority (discretionary and mandatory)	-	8,377
Spending Authority from Offsetting Collections	17,510	37,192
Total Budgetary Resources	**$145,979**	**$64,964**
Memorandom (non-add) Entries:		
Net Adjustments to unobligated balance brought forward, Oct 1	$(2,505)	$2,317
Status of Budgetary Resources:		
New Obligations and Upward Adjustments (Total) (Note 21)	$78,648	$39,084
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	7,996	6,751
Unapportioned, Unexpired Accounts	58,485	19,129
Unexpired Unobligated Balance, End of Year	$66,481	$25,880
Expired Unobligated Balance, End of Year	850	-
Unobligated Balance, End of Year (Total)	67,331	25,880
Total Budgetary Resources	**$145,979**	**$64,964**
Outlays, Net:		
Outlays, Net (Total) (discretionary and mandatory)	56,842	(8,873)
Distributed Offsetting Receipts (-)	(1,368)	-
Agency Outlays, Net (discretionary and mandatory)	**$55,474**	**$(8,873)**

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements

Notes to Financial Statements
September 30, 2018

Note 1: Summary of Significant Accounting Policies

Reporting Entity

HUD was created in 1965 to: 1) provide housing subsidies for low and moderate-income families; 2) provide grants to states and communities for community development activities; 3) provide direct loans and capital advances for construction and rehabilitation of housing projects for the elderly and persons with disabilities; and 4) promote and enforce fair housing and equal housing opportunity. In addition, HUD insures mortgages for single family and multifamily dwellings, insures loans for home improvements and manufactured homes, and facilitates financing for the purchase or refinancing of millions of American homes.

HUD's major programs, including FHA, and Ginnie Mae were discussed in the Management Discussion & Analysis section. Also, FHA and Ginnie Mae are considered consolidating entities to HUD. The other major programs are as follows:

The Section 8 Rental Assistance programs assist low and very low-income families in obtaining decent and safe rental housing. HUD makes up the difference between what a low- and very low income family can afford and the approved rent for an adequate housing unit funded by the HCV Program.

The Low Rent Public Housing Grants program provides grants to PHAs and Tribally Designated Housing Entities (TDHEs) for construction and rehabilitation of low-rent housing. This program is a continuation of the Low Rent Public Housing Loan program which pays principal and interest on long-term loans made to PHAs and TDHEs for construction and rehabilitation of low-rent housing.

The Homeless Assistance Grants fund the formula Emergency Solutions Grant program and the competitive CoC program. Together, these programs fund the activities that comprise communities' homeless crisis response systems.

The Community Development Block Grant programs provide funds for metropolitan cities, urban counties, and other communities to use for neighborhood revitalization, economic development, disaster recovery assistance, and improved community facilities and services.

The Supportive Housing for the Elderly (Section 202) and Persons with Disabilities (Section 811) grant programs provide capital to nonprofit organizations sponsoring rental housing for the elderly and disabled. Prior to these programs being operated as grants, they were administered as 40-year loans.

The Home Investments Partnerships program provides grants to states, local governments, and Indian tribes to implement local housing strategies designed to increase home ownership and affordable housing opportunities for low- and very low-income families.

HUD also has smaller programs which provide grants, subsidy funding, and direct loans to support other HUD objectives such as fair housing and equal opportunity, energy conservation, rehabilitation of housing units, removal of lead hazards, and maintenance costs of PHA and TDHE housing projects. These smaller programs are also included within the HUD consolidated revenues and financing sources reflected on the financial statements.

Basis of Accounting and Presentation

The accompanying principal financial statements have been prepared to report the financial position, net cost, changes in net position, and budgetary resources of HUD in accordance with the *OMB Circular A-136, Financial Reporting Requirements,* and in conformance with the Federal Accounting Standards Advisory Board's *Statements of Federal Financial Accounting Standards (SFFAS).* In FY 2018, HUD changed the presentation of its funds from dedicated collections on the BS and SCNP from consolidating to combining based on the most recent guidance in the OMB Circular A-136.

These financial statements include all the accounts and transactions of HUD to include FHA, Ginnie Mae, and its grant, subsidy, and loan programs. All inter-fund accounts receivable, accounts payable, transfers in, and transfers out within these programs have been eliminated.

The financial statements are presented on the accrual and budgetary basis of accounting. Under the accrual method, HUD recognizes revenues when earned, and expenses when a liability is incurred, without regard to receipt or payment of cash. The budgetary basis of accounting recognizes the obligation of funds according to legal requirements, which in many cases occurs prior to an accrual-based transaction. The use of budgetary accounting is essential for compliance with legal requirements and controls over the use of Federal funds.

The Department's disbursement policy permits grantees/recipients to request funds to meet immediate cash needs to reimburse themselves for eligible incurred expenses and eligible expenses expected to be received and paid within three days or as subsidies payable in accordance with the Cash Management Improvement Act of 1990 (CMIA). The exception is PIH's HCV and Moving to Work programs, where funds are paid on the first day of the month to cover rental expenses for that month.

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, disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Amounts reported for net loans receivable, related foreclosed property, and the loan guarantee liability represent the Department's best estimates based on available, pertinent information.

To estimate the Allowance for Subsidy associated with loans receivable, related foreclosed property, and the Liability for Loan Guarantees, the Department uses cash flow model assumptions associated with the loan guarantees subject to the Federal Credit Reform Act of 1990 (FCRA) to estimate the cash flows associated with future loan performance. To make reasonable projections of future loan performance, the Department develops assumptions based on historical data, current and forecasted programs, and economic assumptions.

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

OCFO and PIH worked together to develop an estimation methodology to determine its quarterly Prepayment balances due to timing constraints on obtaining the actual data.

HUD implemented a grant accrual policy and continues to refine its methodologies and the underlying assumptions to develop the estimates. Grant accruals are calculated by the various program areas on a quarterly basis, and recorded in the trial balance to be included in the Financial Statements. The accruals are reversed in a later accounting period.

In third quarter FY 2018, CPD revised its methodology for estimating CDBG-DR accruals. The revised methodology uses a point estimate in conjunction with the program specific unliquidated obligations to determine a ratio. Once this ratio is determined, it is applied to the period in which an accrual is desired to be calculated. Neighborhood Stabilization Program (NSP) was not included in the accrual calculation for FY 2018 due to immaterial amounts of outlays. CPD's grant accrual estimates are statistically validated through annual execution of grantee survey responses.

Entity and Non-Entity Assets

Assets are classified as either entity or non-entity assets. Entity assets are those that HUD has authority to use for its operations. Non-entity assets are those held by HUD but unavailable for use in its operations. Non-entity assets are offset by liabilities to third parties and have no impact on net position. HUD combines its entity and non-entity assets on the balance sheet and discloses its non-entity assets in the notes.

Fund Balance with U.S. Department of the Treasury (Treasury)

HUD maintains all cash accounts with Treasury. Treasury processes cash receipts and disbursements on behalf of HUD, and HUD's accounting records are reconciled with Treasury on a monthly basis. HUD has several types of funds which include General, Revolving, Trust, and other fund types such as deposit and clearing accounts.

Ginnie Mae's cash receipts and disbursements are processed by Treasury. Cash held by Treasury represents the available budget spending authority of Ginnie Mae (obligated and unobligated balances available to finance allowable expenditures). The restricted balances represent amounts restricted for use for specific purposes. Uninvested funds in the Financing Fund consist of Funds with Treasury and/or offsetting collections that have not been disbursed. Prior to 2018, Ginnie Mae earned and collected interest on uninvested funds, which was calculated using the applicable version of the CSC2 provided by the OMB. In September 2018, Treasury clarified rules regarding the collection of interest on uninvested funds in the Financing Account. Based on additional conversations with, and clarifications from, Treasury, Ginnie Mae was not entitled to earn interest on uninvested funds without a signed borrowing agreement in accordance with Federal Credit Reform Act (FCRA). Ginnie Mae is in ongoing discussions with OMB and its legal counsel on whether the Financing Account is fully subject to the provisions of FCRA. As resolution of the matter between Ginnie Mae and OMB is pending, Treasury and Ginnie Mae agreed that Ginnie Mae will not earn and collect interest on uninvested funds in fiscal year 2018. Due to Treasury's new criteria for earning and collecting interest on uninvested funds, no interest income was recognized in fiscal year 2018 as revenue recognition criterion per ASC 605 were not fully met. At present, there is uncertainty regarding applicability of FCRA to Ginnie Mae, and whether Ginnie Mae would be required to repay prior interest income received by Ginnie Mae (amounts, if any, to be determined) or be able to earn interest in the future.

Investments

HUD limits its investments, principally comprised of investments by FHA's MMI/CMHI Fund and Ginnie Mae, to non-marketable market-based Treasury interest-bearing obligations (i.e., investments not sold in public markets). The market value and interest rates established for such investments are the same as those for similar Treasury issues, which are publicly marketed.

HUD's investment decisions are limited to Treasury policy which: 1) only allows investment in Treasury notes, bills, and bonds; and 2) prohibits HUD from engaging in practices that result in "windfall" gains and profits, such as security trading and full-scale restructuring of portfolios in order to take advantage of interest rate fluctuations.

FHA's normal policy is to hold investments in U.S. Government securities to maturity. However, in certain circumstances, FHA may have to liquidate its U.S. Government securities before maturity.

HUD reports investments in U.S. Government securities at amortized cost. Premiums or discounts are amortized into interest income over the term of the investment. HUD intends to hold investments to maturity, unless needed for operations. No provision is made to record unrealized gains or losses on these securities, because in most cases, they are held to maturity.

Credit Program Receivables and Related Foreclosed Property

HUD finances mortgages and provides loans to support construction and rehabilitation of low-rent housing, principally for the elderly and disabled under the Section 202/811 program. FHA's loans receivable includes Mortgage Notes Assigned (MNAs), also described as Secretary-held notes, Purchase Money Mortgages (PMM), notes related to partial claims, and direct loans relating to the Federal Financing Bank (FFB) Risk Share Program. Under the requirements of the FCRA, PMM notes are considered to be direct loans while MNA notes are considered to be defaulted guaranteed loans. The PMM loans are generated from the sales on credit of FHA's foreclosed properties to qualified non-profit organizations. The MNA notes are created when FHA pays the lenders for claims on defaulted guaranteed loans and takes assignment of the defaulted loans for direct collections. The majority of MNAs are HECM notes. HECM loans, while not in default, are assigned to HUD when they reach 98% of their maximum claim amount. In addition, multifamily mortgages are assigned to FHA when lenders file mortgage insurance claims for defaulted notes.

Credit program receivables for direct loan programs and defaulted guaranteed loans assigned for direct collection are valued differently based on the direct loan obligation or loan guarantee commitment date. These valuations are in accordance with the FCRA and *SFFAS No. 2,* *Accounting for Direct Loans and Loan Guarantees,* as amended by *SFFAS No. 18 Amendments to Accounting Standards For Direct Loans and Loan Guarantee in Statement of Federal Financial Accounting Standards No. 2.* Those obligated or committed on or after October 1, 1991 (post-Credit Reform) are valued at the net present value of expected cash flows associated with these assets, primarily from estimated proceeds less selling and maintenance costs. The difference between the cost of these loans and properties 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 (Note 7).

Credit program receivables resulting from obligations or commitments prior to October 1, 1991, (pre-Credit Reform) are recorded at the lower of cost or fair value (net realizable value). Fair value is estimated based on the prevailing market interest rates at the date of mortgage assignment. When fair value is less than cost, discounts are recorded and amortized to interest income over the remaining terms of the mortgages or upon sale of the mortgages. Interest is recognized as income when earned. However, when full collection of principal is considered doubtful, the accrual of interest income is suspended and receipts (both interest and principal) are recorded as collections of principal. Pre-Credit Reform loans are reported net of allowance for loss and any unamortized discount. The estimate for the allowance on credit program receivables is based on historical loss rates and recovery rates resulting from asset sales, property recovery rates, and net cost of sales.

Foreclosed property acquired as a result of defaults of loans obligated or loan guarantees committed on or after October 1, 1991, is valued at the net present value of the projected cash flows associated with the property. Foreclosed property acquired as a result of defaulted loans obligated or loan guarantees committed prior to 1992 is valued at net realizable value. The estimate for the allowance for loss related to the net realizable value of foreclosed property is based on historical loss rates and recovery rates resulting from property sales, and net cost of sales.

Credit Reform Accounting

The primary purpose of the FCRA, which became effective on October 1, 1991, is to more accurately measure the cost of Federal credit programs and to place the cost of such credit programs on a basis equivalent with other Federal spending. *OMB Circular A-11, Preparation, Execution, and Submission of the Budget Part 5,* titled Federal Credit Programs, defines loan guarantee as any guarantee, insurance or other pledge with respect to the payment of all or part of the principal or interest on any debt obligation of a non-Federal borrower (Issuer) to a non-Federal lender (Investor).

The FCRA establishes the use of the program, financing, and general fund receipt accounts for loan guarantees committed and direct loans obligated after September 30, 1991, (Credit Reform). It also establishes 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 Statement of Budgetary Resources.* The budgetary accounts include the program, capital reserve and liquidating accounts, whereas the non-budgetary accounts consist of the credit reform financing accounts.

The program account is a budget account that 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 records all cash flows resulting from Credit Reform direct loans or loan guarantees. It disburses loans, collects repayments and fees, makes claim payments, holds balances, borrows from Treasury, earns or pays interest, and receives the subsidy cost payment from the program account.

The general fund receipt account is a budget account used for the receipt of amounts paid from the financing account when there are negative subsidies from the original estimate or a downward re-estimate. In most cases, the receipt account is a general fund receipt account and amounts are not earmarked for the credit program. They are available for appropriations only in the sense that all general fund receipts are available for appropriations. Any assets in this account are non-entity assets and are offset by intragovernmental liabilities. At fiscal year end, the fund balance in the general fund receipt account is transferred to Treasury's General Fund. The FHA general fund receipt accounts for the GI and SRI funds are in this category.

The capital reserve account was created to retain the MMI /CMHI negative subsidy and subsequent downward re-estimates. Specifically, the National Affordable Housing Act of 1990 (NAHA) requires that FHA maintain a 2% Capital Ratio in the MMI Fund. The Capital Ratio is defined as the ratio of economic net worth (current cash plus the present value of all future net cash flows) of the MMI fund to unamortized insurance in force (the unpaid balance of insured mortgages). Therefore, to ensure the calculated capital ratio reflects the actual strength of the MMI fund, the resources of the capital reserve account, which are considered FHA assets, are included in the calculation of the MMI fund's economic net worth.

The liquidating account is a budget account that records all cash flows to and from FHA resulting from pre-Credit Reform direct loans or loan guarantees. Liquidating account collections in any year are only available 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 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 the GI/SRI liquidating account with permanent indefinite authority to cover any resource shortages.

Property, Plant, and Equipment, Net

Property, Plant, and Equipment, Net (PP&E) is composed of capital assets used in providing goods or services. PP&E is stated at cost less accumulated depreciation. Acquisitions of PP&E include assets purchased or assets acquired through other means, such as through transfer in from another Federal entity, donation, devise (a will or clause of a will disposing of property), judicial process, exchange between a Federal entity and a non-Federal entity, and forfeiture.

Liabilities

Liabilities represent actual and estimated amounts to be paid as a result of transactions or events that have already occurred. However, no liabilities can be paid by HUD without budget authority. Liabilities for which an appropriation has not been enacted are classified as liabilities not covered by budgetary resources, and there is no certainty that an appropriation will be enacted.

Borrowings

As further discussed in other notes, several of HUD's programs have the authority to borrow funds from Treasury for program operations. These borrowings, representing unpaid principal balances and future accrued interest, are reported as debt in HUD's consolidated financial statements. The Department also borrowed funds from the private sector to assist in the construction and rehabilitation of low rent housing projects under the PIH Low Rent Public Housing Loan Program. Repayments of these long-term borrowings have terms up to 40 years.

Liability for Loan Guarantees

The net potential future losses related to FHA's central business of providing mortgage insurance are accounted for as 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 LLG and the pre-Credit Reform LLR.

The LLG is calculated as the net present value of anticipated cash outflows for defaults, such as claim payments, premium refunds, property costs to maintain foreclosed properties less anticipated cash inflows such as premium receipts, proceeds from asset sales and principal, and interest on Secretary-held notes.

HUD records loss estimates for its single-family LLR and multifamily LLR mortgage insurance programs operated through FHA. FHA records loss estimates for its single-family programs to provide for anticipated losses incurred (e.g., claims on insured mortgages where defaults have taken place, but claims have not yet been filed). 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 properties.

Ginnie Mae also establishes loss reserves to the extent that management believes issuer defaults are probable and FHA, USDA, and PIH insurance or guarantees are insufficient to recoup Ginnie Mae expenditures. Ginnie Mae also maintains an allowance for probable incurred losses related to non-pooled mortgage loans. The allowance for loan losses involves significant management judgment and estimates of credit losses inherent in the mortgage loan portfolio.

Federal Employees Compensation Act Liabilities

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred a work-related injury or occupational disease, and to beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by the U.S. Department of Labor (DOL), which pays valid claims and subsequently seeks reimbursement from HUD for these paid claims.

The FECA liability consists of two components. The first component is based on actual claims paid by the DOL but not yet reimbursed by HUD. The second component is the estimated liability for future worker's compensation as a result of past events. HUD reports both components in "Other Liabilities" on the Consolidated Balance Sheet.

Accrued Unfunded Leave

Annual leave and compensatory time are accrued as earned and the liability is reduced as leave is taken. The liability at year-end reflects cumulative leave earned but not taken, priced at current wage rates. Earned leave deferred to future periods is to be funded by future appropriations. To the extent that current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of leave are expensed as taken.

Operating Revenue and Financing Sources

HUD finances operations principally through appropriations, collection of premiums and fees on its FHA and Ginnie Mae programs, and interest income on its mortgage notes, loans, and investment portfolio.

Appropriations for Grant and Subsidy Programs

HUD receives both annual and multi-year appropriations and recognizes those appropriations as revenue when related expenses are incurred. Accordingly, HUD recognizes grant-related revenue and related expenses as recipients perform under their contracts. HUD recognizes subsidy-related revenue and related expenses when the underlying assistance (e.g., provision of a Section 8 rental unit by a housing owner) is provided or upon disbursal of funds to PHAs.

Ginnie Mae Fees

Fees received for Ginnie Mae's guaranty of MBS are recognized as earned. Commitment fees represent income that Ginnie Mae earns for providing approved issuers with authority to pool mortgages into Ginnie Mae MBS. The authority Ginnie Mae provides issuers expires 12 months from issuance for single family issuers and 24 months from issuance for multifamily issuers. Ginnie Mae receives commitment fees as issuers request commitment authority and recognizes the commitment fees as earned as issuers use their commitment authority, with the balance deferred until earned or expired (whichever occurs first). Fees from expired commitment authority are not returned to issuers.

Imputed Financing Sources

In certain instances, operating costs of HUD are paid out of funds appropriated to other Federal agencies. For example, the Office of Personnel Management (OPM), by law, pays certain costs of retirement programs. When costs that are identifiable to HUD and directly attributable to HUD operations are paid for by other agencies, HUD recognizes these amounts as operating expenses. In addition, HUD recognizes an imputed financing source on the Consolidated Statement of Changes in Net Position to reflect the funding of HUD operations by other Federal agencies.

Appropriations and Monies Received from Other HUD Programs

The National Housing Act of 1990, as amended, provides for appropriations from Congress to finance the operations of GI and Special Risk Insurance (SRI) funds. For Credit Reform loan guarantees, appropriations to the GI and SRI funds are provided at the beginning of each fiscal year to cover estimated losses on insured loans during the year. For pre-Credit Reform loan guarantees, FHA has permanent, indefinite appropriation authority to finance any shortages of resources needed for operations.

Monies received from other HUD programs, such as interest subsidies and rent supplements, are recorded as revenue for the liquidating accounts when services are rendered. Monies received for the financing accounts are recorded as additions to the Liability for Loan Guarantee or the Allowance for Subsidy when collected.

Full Cost Reporting

SFFAS No. 4, Managerial Cost Accounting Concepts and Standards, for the Federal Government, requires that full costing of program outputs be included in Federal agency financial statements. Full cost reporting includes direct, indirect, and inter-entity costs. For purposes of the consolidated department financial statements, HUD estimated each responsible segment's share of the program costs or resources provided by HUD or other Federal agencies.

Retirement Plans

HUD's employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). FERS went into effect pursuant to Public Law 99-335 on January 1, 1987. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired before January 1, 1984, can elect to either join FERS and Social Security or remain in CSRS. HUD expenses its contributions to the retirement plans.

A primary feature of FERS is that it offers a savings plan whereby HUD automatically contributes 1% of pay and matches any employee contribution up to 5% of an individual's basic pay. Under CSRS, employees can contribute up to $18,500 per year of their pay to the savings plan, but there is no corresponding matching by HUD. Although HUD funds a portion of the benefits under FERS relating to its employees and makes the necessary withholdings from them, it has no liability for future payments to employees under these plans, nor does it report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities applicable to its employees' retirement plans.

Fiduciary Activities

Fiduciary activities are the collection or receipt, and the management, protection, accounting, investment, and disposition by the Federal Government of cash or other assets in which non-Federal individuals or entities have an ownership interest that the Federal Government must uphold. Fiduciary assets are not assets of the Federal Government.

Ginnie Mae has immaterial fiduciary activities which involve the collection or receipt and subsequent disposition of cash in which non-Federal entities have an ownership interest. Fiduciary assets are not assets of Ginnie Mae or the Federal Government. The fiduciary assets held by Ginnie Mae include unclaimed MBS Certificate Holders payments and escrow funds held in trust. These amounts were $31 million (estimated) and $39 million at September 30, 2018 and 2017, respectively.

Net Cost

Net cost consists of gross costs and earned revenue. Gross costs and earned revenue are classified as intragovernmental (exchange transactions between HUD and other entities within the Federal Government) or public (exchange transactions between HUD and non-Federal entities).

Net program costs are gross costs less revenue earned from activities. HUD determines gross cost and earned revenue by tracing amounts back to the specific program office. Administrative overhead costs of funds unassigned are allocated based on full-time employee equivalents of each program.

Net Position

Net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations include undelivered orders and unobligated balances, except for amounts in financing accounts, liquidating accounts, and trust funds. Cumulative results of operations represent the net difference since inception between: 1) expenses; and 2) revenues and financing sources.

Funds from Dedicated Collections

Funds from Dedicated Collections are financed by specifically identified revenues, often supplemented by other financing sources that are originally provided to the Federal Government by a non-Federal source, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes, and must be accounted for separately from the Federal Government's general revenues.

Allocation Transfers

HUD is a party to allocation transfers with other Federal agencies as a transferring (parent) entity and/or a receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. Parent agencies report both the proprietary and budgetary activity, but the child agency does not report any financial activity related to budget authority allocated from the parent agency to the child agency. HUD is the child for two allocation transfers, the Appalachian Regional Commission and the

Department of Transportation. *Under SFFAS No. 47 Reporting Entity,* HUD does not consider the parent agency as a disclosure entity or a related party. HUD provides financial information to the parent agency monthly to facilitate their reporting consolidation.

Reclassifications

FY 2018 presentation changes on the Financial Statements (FS) and Financial Notes (Notes) have been made to gain a greater understanding of HUD's financial position. Certain prior year amounts have been reclassified to align with the revised July 2018 *OMB Circular A-136.* For further information regarding FHA and Ginnie Mae reclassifications, please refer to the standalone *FY 2018 Annual Report* for each.

Note 2: Non-Entity Assets

Non-entity assets consist of assets that belong to other entities but are included in the HUD consolidated financial statements and are offset by various liabilities to accurately reflect the Department's net position. The Department's non-entity assets principally consist of: 1) escrow monies collected by FHA that are either deposited at Treasury or in minority-owned banks or invested in Treasury securities; and 2) cash remittances from Section 8 bond refunding deposited in the General Fund of the Treasury.

HUD's non-entity assets as of September 30, 2018 and 2017, were as follows:

(In Millions)	2018	2017 (Restated)[17]
Intragovernmental		
Fund Balance with Treasury	$26	$32
Total Intragovernmental	$26	$32
Public		
Cash and Other Monetary Assets	$22	$27
Accounts Receivable, Net	302	275
Loan Receivables and Related Foreclosed Property, Net	15	74
Total Public	$339	$376
Total Non Entity Assets	$365	$408
Total Entity Assets[17a]	198,025	163,040
Total Assets	**$198,390**	**$163,448**

[17] FHA corrected a discounting rate error in its Homeowners Equity Conversion Mortgage (HECM) Return on Assets (ROA) cash flow model. In the published 2017 Agency Financial Report (AFR) this Note was understated by $1,696 million.

[17a] The error impacted the "Total Entity Assets" line; the line amount increased from $161,342 million to $163,040 million.

Note 3: Fund Balance with Treasury

The Treasury performs cash management activities for all Federal agencies. The net activity represents Fund Balance with Treasury. HUD's fund balances by fund type as of September 30, 2018 and 2017, were as follows:

(In Millions)	2018	2017 (Restated)[18]
Status of Fund Balance with Treasury		
Unobligated Balance		
Available[18a]	$47,821	$14,161
Unavailable[18b]	24,142	31,055
Obligated Balance not yet Disbursed[18c]	52,149	43,582
Non-Budgetary FBWT	21	26
Total	**$124,133**	**$88,824**

The Department's Fund Balance with Treasury includes receipt accounts established under current Federal Credit Reform legislation and cash collections deposited in restricted accounts that cannot be used by HUD for its programmatic needs. These designated funds established by the Department of Treasury are classified as suspense and/or deposit funds and consist of accounts receivable balances due from the public. An SBR is not prepared for these funds since any cash remittances received by the Department are not defined as budgetary resources.

In addition to fund balance, contract and investment authority are also a part of HUD's funding sources. Contract authority permits an agency to incur obligations in advance of an appropriation, offsetting collections, or receipts to make outlays to liquidate the obligations. HUD has permanent, indefinite contract authority. Since Federal securities are considered the equivalent of cash for budget purposes, investments in them are treated as a change in the mix of assets held, rather than as a purchase of assets. Obligated and unobligated balances reported for the status of Fund Balance with Treasury do not agree with obligated and unobligated balances reported in the Combined SBR. The budgetary balances are also supported by amounts other than Fund Balance with Treasury, such as investments, borrowings authority, and budgetary receivables. Additionally, the unobligated balances include collections related to Ginnie Mae which are not available to HUD unless approved by Congress.

[18] HUD corrected its accounting standard general ledger crosswalk to align with Treasury's crosswalk for this Note. These corrections resulted in reclassifications between Unobligated Balance Available, Unobligated Balance Unavailable, and Obligated Balance not yet Disbursed lines. The overall impact did not change the 2017 "Total" line.

[18a] The Unobligated Balance Available line decreased from $14,637 million to $14,161 million with a net effect of ($476 million).

[18b] The Unobligated Balance Unavailable line decreased from $31,130 million to $31,055 million with a net effect of ($75 million).

[18c] The Obligated Balance not yet Disbursed line increased from $43,031 million to $43,582 million with a net effect of $551 million.

An immaterial difference exists between HUD's recorded Fund Balances with Treasury and Treasury's records. Consistent with Treasury's guidance, the Department temporarily adjusts its records to agree with Treasury's balances at the end of the accounting period. The adjustments are reversed at the beginning of the following accounting period.

In FY 2017, HUD implemented a project which identify differences between the general ledger and sub-ledger balances. As of September 30, 2018, HUD has resolved, researched and analyzed, a significant amount of current and historical balances.

Note 4: Cash and Other Monetary Assets

Cash and other monetary assets of FHA consist of 1) escrow monies collected that are deposited in minority-owned banks, 2) deposits in transit, and 3) advances and prepayments. As of September 30, 2018, escrow monies and deposits in transit were $22 million and $12 million, respectively. As of September 30, 2017, escrow monies and deposits in transit were $27 million and $14 million, respectively

Cash and other monetary assets of Ginnie Mae consist of cash that is received by its Master Sub servicers but has not yet been transmitted to Ginnie Mae. As of September 30, 2018, and 2017, deposits in transit were $33 million and $40 million respectively.

Note 5: Investments

The U.S. Government non-marketable intra-governmental securities are comprised of short-term securities. Short-term securities have an original maturity date of less than one year. The amortized cost and estimated market value of investments in debt securities as of September 30, 2018 and 2017, were as follows:

(In Millions)	Cost	Amortized (Premium)/ Discount Net	Accrued Interest	Net Investments	Market Value
FY 2018	$42,754	$236	$2	$42,992	$42,971
FY 2017	$48,020	$51	$47	$48,118	$48,023

Investments in Private-Sector Entities

Investments in private-sector entities are the result of FHA's Risk Sharing Debentures as discussed in Note 1.

The following table presents financial data on FHA's investments in Risk Sharing Debentures and securities held outside Treasury as of September 30, 2018 and 2017:

(In Millions)	Beginning Balance	Net Acquisitions	Share of Earnings or Loss	Return of Investment	Redeemed	Ending Balance
2018						
Securities Held Outside of Treasury	$13	$-	$-	$-	$(13)	$-
601 Program	-	-	-	-	-	-
Risk Sharing Debentures	31	-	(17)	-	(6)	8
Total	**$44**	**$-**	**$(17)**	**$-**	**$(19)**	**$8**
2017 (Restated)[19]						
Securities Held Outside of Treasury[19a]	$-	$13	$-	$-	$-	$13
601 Program	-	-	-	-	-	-
Risk Sharing Debentures[19b]	31	-	-	-	-	31
Total	**$31**	**$13**	**$-**	**$-**	**$-**	**$44**

Note 6: Accounts Receivable, Net

The Department's Accounts Receivable represents FHA Partial Claims and Generic Debt Receivables, Ginnie Mae Fees and Interest Receivables, and Other Receivables. FHA Partial Claims are paid 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. The Generic Debt is mainly comprised of receivables from various sources, the largest of which are Single Family Claims, Single Family Indemnification, and Single-Family Restitutions. Ginnie Mae Fees consists of accrued guaranty fees and accrued interest on uninvested funds. Interest Receivable are accruals of interest on mortgage loans Held For Investment (HFI) at the contractual rate and records an allowance on accrued interest to the extent that it is probable that interest will not be recoverable per insurance guidelines for insured loans and is uncollectable for conventional loans.

[19] HUD reclassified its amount in the Risk Sharing Debentures line to its Securities Held Outside of Treasury line under Net Acquisitions column to align with FHA's FY 2017 Note 5 Investments.

[19a] The Securities Held Outside of Treasury line increased from $0 to $13 million for the Net Acquisitions.

[19b] The Risk Sharing Debentures line decreased from $13 million to $0 for the Net Acquisitions.

A 100% allowance for loss is established for all delinquent accounts 90 days and over for bond refunding. The allowance for loss methodology adjusts the total delinquencies greater than 90 days by the effects of economic stress factors, which include likely payoffs, foreclosures, bankruptcies, and hardships of the project. Adjustments to the bond refunding allowance for loss account are done every quarter to ensure they are deemed to be necessary.

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

Other Receivables

Other Receivables represents Section 8 year-end settlements, claims to cash from the public, state and local authorities for bond refunding, Section 236 excess rental income, sustained audit findings, refunds of overpayment, FHA insurance premiums, and foreclosed property proceeds. Sustained audit costs include sustained audit findings, refunds of overpayment, settlements receivable, and foreclosed property proceeds due from the public.

The following shows accounts receivable as reflected on the Balance Sheet as of September 30, 2018 and 2017:

	2018			2017		
(In Millions)	Gross Accounts Receivable	Allowance for Loss	Total, Net	Gross Accounts Receivable	Allowance for Loss	Total, Net
Intragovernmental	$-	$-	$-	$-	$-	$-
Public						
FHA Partial Claims and Generic Debt Receivables[20]	$343	$(206)	$137	$529	$(309)	$220
Ginnie Mae Fees and Interest Receivables	200	(43)	157	226	(69)	157
Other Receivables	355	(1)	354	350	(1)	349
Total Accounts Receivable	**$898**	**$(250)**	**$648**	**$1,105**	**$(379)**	**$726**

[20] Due to a shift in activity in FHA's receivables, the FHA Partial Claims and Settlement Receivables title changed to FHA Partial Claims and Generic Debt Receivables for FY 2017 and 2018.

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

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

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 Section 223(a)(7)) provide FHA insurance to approved lenders to facilitate the construction, rehabilitation, repair, refinancing, and purchase of multifamily housing projects such as apartment rentals, and cooperatives. Healthcare programs (Section 232 and Section 242) enable low-cost financing of health care facility projects and improve access to quality healthcare by reducing the cost of capital.

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

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

For FHA foreclosed property the average number of days in inventory for sold cases is 136 days in FY 2018 and 146 days in FY 2017. The total number of foreclosed properties on-hand as September 30, 2018 is 7,968 and as of September 30, 2017 was 11,205. Foreclosed properties are primarily Single-Family properties.

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, 2018 is comprised of only Single Family properties. There are no Multifamily 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 Code of Federal Regulations (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)).

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

Flexible Subsidy Fund

There are four parts to the calculation of allowance for loss: Part one is the Loss rate for loans written-off; Part two is the Loss rate for restructured loans; Part three is the Loss rate for loans paid-off; and Part four is the Loss rate for loans delinquent or without repayment activity for 30 years. Loss rates for parts one and three are based on actual historical data derived from the previous three years. The loss rates for parts two and four are provided by or agreed to by the Housing Office of Evaluation.

Housing for the Elderly and Disabled Program

There are three parts to the calculation of allowance for loss: Part one is the Loss rate for loans issued a Foreclosure Hearing Letter; Part two is the Loss rate for the estimated number of foreclosures in the current year; and Part three is the Loss rate for loans delinquent for more than 180 days. Loss rates for parts one and two are determined by actual historical data from the previous five years. Loss rates for part three are determined or approved by the Housing Office of Evaluation.

Direct loan obligations or loan guarantee commitments made after FY 1991, and the resulting direct loans or defaulted guaranteed loans, are governed by the FCRA and are recorded as the net present value of the associated cash flows (i.e., interest rate differential, interest subsidies, estimated delinquencies and defaults, fee offsets, and other cash flows).

The subsidy rates disclosed pertain only to the current year's cohorts. These rates cannot be applied to the direct loans and guarantees of loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans and loan guarantees reported in the current year result from disbursement of loans from both current year cohorts and prior year(s) cohorts. The subsidy expense reported in the current year also includes modifications and re-estimates.

Direct Loan Programs

In FY 2015, FHA began a FFB Risk Sharing Program, an inter-agency partnership between HUD, FFB, and the Housing Finance Authorities (HFAs). The FFB Risk Sharing program provides funding for multifamily mortgage loans insured by FHA. Under this program, FHA records a direct loan from the public and borrowing from FFB. The program does not change the basic structure of Risk Sharing Program; it only substitutes FFB as the funding source. The HFAs would originate and service the loans and share in any losses.

Prior to FY 2015, FHA's Direct Loans were a result of PMMs. The Direct loan receivables were 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.

FHA's technical re-estimate amounts for loan guarantee liabilities reflected in loan guarantee liability tables may have a reconciling difference due to the inclusion of the interest expense component in its Schedule of Reconciling Loan Guarantee Liability balances. The following is an analysis of loan receivables, loan guarantees, liability for loan guarantees, and the nature and amounts of the subsidy costs associated with the loans and loan guarantees for September 30, 2018 and 2017:

A. List of HUD's Direct Loan and/or Guarantee Programs:

1. FHA operates these programs primarily through the insurance funds: Mutual Mortgage Insurance (MMI), General Insurance (GI), Special Risk Insurance (SRI), Cooperative Management Housing, Hope for Housing (H4H), and Home Equity Conversation Mortgage (HECM), with MMI fund being the largest.

    a) MMI/CMHI Direct Loan Program

    b) GI/SRI Direct Loan Program

    c) MMI/CMHI Loan Guarantee Program

d) GI/SRI Loan Guarantee Program

e) H4H Loan Guarantee Program

f) HECM Loan Guarantee Program

2. Housing for the Elderly and Disabled – provides funding to develop and subsidize rental housing with the availability of supportive services for very low-income elderly and adults with disabilities.

3. All Other:

a) **CPD Revolving Fund:** Provides a single fund to assist in the efficient liquidation of assets acquired under various housing and urban development programs.

b) **Flexible Subsidy Fund:** Federal aid for troubled multifamily housing projects, as well as capital improvement funds for both troubled and stable subsidized projects.

c) **Section 108 Loan Guarantees:** Loan guarantee provision of the CDBG program. Under this section, HUD offers communities a source of financing for certain community development activities, such as housing rehabilitation, economic development, and large-scale physical development projects.

d) **Indian Housing Loan Guarantee Fund:** Established in 1992 to facilitate homeownership and increase access to capital in Native American Communities. A home mortgage product specifically designed for American Indian and Alaska Native families, Alaska villages, tribes, or tribally designated housing entities.

e) **Loan Guarantee Recovery Fund:** Provides certain nonprofit organizations with a source of financing to rebuild property damaged or destroyed by acts of arson or terrorism.

f) **Native Hawaiian Housing Loan Guarantee Fund:** Established in 2000 to facilitate homeownership on Hawaiian home lands. The Section 184A Native Hawaiian Housing Loan Guarantee program is a mortgage product specifically for Native Hawaiians on Hawaiian home lands.

g) **Title VI Indian Housing Loan Guarantee Fund:** Assists Indian Housing Block Grant (IHBG) recipients in financing additional construction or development, including new housing, rehabilitation, infrastructure, community facilities, land acquisition, architectural and engineering plans, and financing costs.

h) **Green Retrofit Direct Loan Program:** Grants and loans were made available to eligible property owners to make energy and green retrofit investments in property and to maintain energy efficient technologies.

i) **Emergency Homeowners' Loan Program:** Provides mortgage payment relief to eligible homeowners experiencing a drop-in income of at least 15% directly resulting from involuntary unemployment or underemployment due to adverse economic conditions and/or a medical emergency.

B. Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method)

Direct Loan Programs (In Millions)	2018				
	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans
FHA					
b) GI/SRI Direct Loan Program	$8	$14	$(4)	$-	$18
Housing for the Elderly and Disabled	$788	$11	$(9)	$-	$790
All Other					
a) CPD Revolving Fund	$-	$-	$-	$1	$1
b) Flexible Subsidy Fund	340	49	(37)	-	352
Total	**$1,136**	**$74**	**$(50)**	**$1**	**$1,161**

Direct Loan Programs (In Millions)	2017				
	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans
FHA					
b) GI/SRI Direct Loan Program	$8	$13	$(4)	$-	$17
Housing for the Elderly and Disabled	$954	$12	$(7)	$3	$962
All Other					
a) CPD Revolving Fund	$5	$-	$(5)	$2	$2
b) Flexible Subsidy Fund	368	53	(42)	-	379
Total	**$1,335**	**$78**	**$(58)**	**$5**	**$1,360**

C. Direct Loans Obligated After-1991

Direct Loan Programs (In Millions)	2018				
	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Costs (Present Value)	Foreclosed Property	Value of Assets Related to Direct Loans
FHA					
a) MMI/CHMI Direct Loan Program	$-	$-	$-	$-	$-
b) GI/SRI Direct Loan Program	1,666	4	203	-	1,873
All Other					
a) Green Retrofit Program	$51	$1	$(42)	$-	$10
b) Emergency Homeowners' Relief Fund	2	-	(4)	-	(2)
c) EHLP Assigned Loans Receipt Account	15	-	-	-	15
Total	**$1,734**	**$5**	**$157**	**$-**	**$1,896**

Direct Loan Programs (In Millions)	2017				
	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Costs (Present Value)	Foreclosed Property	Value of Assets Related to Direct Loans
FHA					
a) MMI/CHMI Direct Loan Program	$-	$-	$-	$-	$-
b) GI/SRI Direct Loan Program	1,192	3	37	-	1,232
All Other					
a) Green Retrofit Program	$54	$1	$(54)	$-	$1
b) Emergency Homeowners' Relief Fund	18	-	(19)	-	(1)
c) EHLP Assigned Loans Receipt Account	75	-	-	-	75
Total	**$1,339**	**$4**	**$(36)**	**$-**	**$1,307**

D. Total Amount of Direct Loans Disbursed (Post-1991)

Direct Loan Programs (In Millions)	Current Year	Prior Year
FHA Risk Sharing Program	$473	$639
All Other		
a) Green Retrofit Program	$-	$-
b) Emergency Homeowners' Relief Fund	-	-
Total	**$473**	**$639**

E. Subsidy Expense for Direct Loans by Program and Component

1. Subsidy Expense for New Direct Loans Disbursed

Direct Loan Programs (In Millions)	2018				
	Interest	Defaults	Fees	Other	Total
FHA Risk Sharing Program	$(76)	$-	$17	$18	$(41)
All Other					
a) Green Retrofit Program	$-	$-	$-	$-	$-
b) Emergency Homeowners' Relief Fund	-	-	-	-	-
Total	**$(76)**	**$-**	**$17**	**$18**	**$(41)**

Direct Loan Programs (In Millions)	2017				
	Interest	Defaults	Fees	Other	Total
FHA Risk Sharing Program	$(76)	$1	$(18)	$21	$(72)
All Other					
a) Green Retrofit Program	$-	$-	$-	$-	$-
b) Emergency Homeowners' Relief Fund	-	-	-	-	-
Total	**$(76)**	**$1**	**$(18)**	**$21**	**$(72)**

2. Modifications and Re-estimates

Direct Loan Programs (In Millions)	2018			
	Total Modifications	Interest Rate Re-estimates	Technical Re-estimates	Total Re-estimates
FHA Risk Sharing Program	$-	$-	$(103)	$(103)
All Other				
a) Green Retrofit Program	$-	$-	$(11)	$(11)
b) Emergency Homeowners' Relief Fund	-	-	-	-
Total	**$-**	**$-**	**$(114)**	**$(114)**

Direct Loan Programs (In Millions)	2017 (Restated)			
	Total Modifications	Interest Rate Re-estimates	Technical Re-estimates[21]	Total Re-estimates
FHA Risk Sharing Program	$-	$-	$64	$64
All Other				
a) Green Retrofit Program	$-	$-	$-	$-
b) Emergency Homeowners' Relief Fund	-	-	-	-
Total	**$-**	**$-**	**$64**	**$64**

[21] In FY 2018, FHA combined its Subsidy and Interest Expense components to be consistent with the OMB Circular A-136 guidance. The change in presentation caused the Technical Re-estimates column to be understated by $3M in the FY 2017 published AFR. As a result, this Note's 2017 Technical Re-estimates for FHA Risk Sharing Program increased from $61 million to $64 million.

3. Total Direct Loan Subsidy Expense

Direct Loan Programs (In Millions)	Current Year	Prior Year (Restated)[22]
FHA Risk Sharing Program	$(144)	$(8)
All Other		
a) Green Retrofit Program	$(11)	$-
b) Emergency Homeowners' Relief Fund	-	-
Total	**$(155)**	**$(8)**

F. Subsidy Rates for Direct Loans by Program and Component:

Budget Subsidy Rates for Direct Loans

	2018				
Direct Loan Programs	Interest	Defaults	Other Collections	Other	Total
FHA Risk Sharing Program	-13.9%	0.0%	2.7%	3.0%	-8.2%
Green Retrofit Program (HUD Appropriation 86X4589)	41.0%	42.6%	0.0%	-1.3%	82.3%
Emergency Homeowners' Relief fund (HUD Appropriation 86X4357)	0.0%	0.0%	0.0%	97.7%	97.7%

	2017				
Direct Loan Programs	Interest	Defaults	Other Collections	Other	Total
FHA Risk Sharing Program	-13.9%	0.0%	-1.0%	3.7%	-11.2%
Green Retrofit Program (HUD Appropriation 86X4589)	41.0%	42.6%	0.0%	-1.3%	82.3%
Emergency Homeowners' Relief fund (HUD Appropriation 86X4357)	0.0%	0.0%	0.0%	97.7%	97.7%

[22] The FHA presentation change on Note 7E2 flows through to this Note, causing a decrease in the FHA Risk Sharing Program line with a net effect of $3 million. The line decreased from its original 2017 amount of ($11 million) to the restated amount of ($8 million).

G. Schedule for Reconciling Subsidy Cost Allowance Balances (Post-1991 Direct Loans)

	2018		
(In Millions)	FHA Programs	All Other Financing Only	Total
Beginning Balance, Changes, and Ending Balance			
Beginning Balance of Subsidy Cost Allowance	$(37)	$73	$36
Add: subsidy expense for direct loans disbursed during reporting years by component:			
(a) Interest rate differential costs	$(76)	$-	$(76)
(b) Default Costs (net of recoveries)	-	-	-
(c) Fees and Other Collections	17	-	17
(d) Other Subsidy Costs	18	-	18
Total of the above subsidy expense components	$(41)	$-	$(41)
Adjustments:			
(a) Loan Modifications	$-	$-	$-
(b) Fees Received	1	-	1
(c) Foreclosed Properties Acquired	-	-	-
(d) Loans Written Off	-	(15)	(15)
(e) Subsidy Allowance Amoritization	(3)	-	(3)
(f) Other	(20)	-	(20)
Ending balance of the subsidy cost allowance before re-estimates	$(100)	$58	$(42)
Add or subtract subsidy re-estimates by component:			
(a) Interest Rate Re-estimate	$-	$-	$-
(b) Technical Default Re-estimate	(100)	(11)	(111)
Adjustment prior years' credit subsidy re-estimates	(3)	-	(3)
Total of the Above Re-estimate Components	$(103)	$(11)	$(114)
Ending Balance of the Subsidy Costs Allowance	**$(203)**	**$47**	**$(156)**

Beginning Balance, Changes, & Ending Balance (In Millions)	2017 (Restated) FHA Programs	All Other Financing Only	Total[23]
Beginning Balance of Subsidy Cost Allowance	$(24)	$88	$64
Add: subsidy expense for direct loans disbursed during reporting years by component:			
(a) Interest rate differential costs	$(76)	$-	$(76)
(b) Default Costs (net of recoveries)	1	-	1
(c) Fees and Other Collections	(18)	-	(18)
(d) Other Subsidy Costs	21	-	21
Total of the above subsidy expense components	$(72)	$-	$(72)
Adjustments:			
(a) Loan Modifications	$-	$-	$-
(b) Fees Received	3	-	3
(c) Foreclosed Properties Acquired	-	-	-
(d) Loans Written Off	-	(15)	(15)
(e) Subsidy Allowance Amoritization	(4)	-	(4)
(f) Other	(4)	-	(4)
Ending balance of the subsidy cost allowance before re-estimates	$(101)	$73	$(28)
Add or subtract subsidy re-estimates by component:			
(a) Interest Rate Re-estimate	$-	$-	$-
(b) Technical Default Re-estimate	113	-	113
Adjustment prior years' credit subsidy re-estimates[23]	(49)	-	(49)
Total of the Above Re-estimate Components	64	-	64
Ending Balance of the Subsidy Costs Allowance	**$(37)**	**$73**	**$36**

[23] FHA adjusted its subsidy cost allowance to correct a carryover error from prior years. This impacted the Adjustment prior years' credit subsidy re-estimates line for an immaterial amount of $23 thousand. Since the AFR is in millions, there was no change to the line amount or Note.

H. Defaulted Guaranteed Loans from Pre-1992 Guarantees

(In Millions)	2018 Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan and Interest Losses	Foreclosed Property, Net	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
FHA					
MMI/CMHI					
a) Single Family	$18	$-	$(4)	$4	$18
b) Multi Family	-	-	-	-	-
c) HECM	-	-	-	-	-
GI/SRI					
a) Single Family	$-	$-	$(4)	$9	$5
b) Multi Family	1,503	234	(616)	(5)	1,116
c) HECM	3	1	(2)	(2)	-
Total	**$1,524**	**$235**	**$(626)**	**$6**	**$1,139**

(In Millions)	2017 Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan and Interest Losses	Foreclosed Property, Net	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
FHA					
MMI/CMHI					
a) Single Family	$19	$-	$(4)	$5	$20
b) Multi Family	-	-	-	-	-
c) HECM	-	-	-	-	-
GI/SRI					
a) Single Family	$-	$-	$(3)	$9	$6
b) Multi Family	1,614	231	(682)	-	1,163
c) HECM	3	1	(1)	(2)	1
Total	**$1,636**	**$232**	**$(690)**	**$12**	**$1,190**

I. Defaulted Guaranteed Loans from Post-1991 Guarantees

	2018				
(In Millions)	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property, Net	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
FHA					
MMI/CMHI					
a) Single Family	$11,810	$-	$(5,682)	$1,001	$7,129
b) Multi Family	-	-	-	-	-
c) HECM	10,098	6,707	(5,208)	82	11,679
GI/SRI					
a) Single Family	$416	$-	$(201)	$23	$238
b) Multi Family	694	-	(315)	27	406
c) HECM	3,983	2,297	(2,812)	108	3,576
H4H					
a) Single Family	$6	$-	$(5)	$-	$1
All Other					
a) Indian Housing Loan Guarantee	$-	$-	$-	$7	$7
b) Native Hawaiian Housing Loan Guarantee	-	-	-	1	1
Total	**$27,007**	**$9,004**	**$(14,223)**	**$1,249**	**$23,037**

(In Millions)	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	2017 (Restated) Allowance for Subsidy Cost (Present Value)[24]	Foreclosed Property, Net	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
FHA					
MMI/CMHI					
a) Single Family	$11,160	$-	$(6,133)	$1,437	$6,464
b) Multi Family	-	-	-	-	-
c) HECM[24a]	6,992	4,176	(3,931)	36	7,273
GI/SRI					
a) Single Family	$416	$1	$(225)	$35	$227
b) Multi Family	645	(1)	(272)	1	373
c) HECM[24b]	3,701	1,981	(2,022)	79	3,739
H4H					
a) Single Family	$5	$-	$(5)	$-	$-
All Other					
a) Indian Housing Loan Guarantee	$-	$-	$-	$13	$13
b) Native Hawaiian Housing Loan Guarantee	-	-	-	-	-
Total	**$22,919**	**$6,157**	**$(12,588)**	**$1,601**	**$18,089**

	2018	2017 (Restated)
Total Credit Program Receivables and Related Foreclosed Property, Net[24c]	**$27,233**	**$21,946**

[24] FHA corrected a discounting rate error in its HECM ROA cash flow model. This correction impacted FHA's MM/CMHI HECM and GI/SRI HECM lines under the Allowance for Subsidy Cost (Present Value) column causing a total net decrease of $1,696 million.

[24a] FHA's MM/CMHI HECM line decreased from ($5,052 million) to ($3,931 million) with net effect of $1,120 million.

[24b] FHA's GI/SRI HECM line decreased from ($2,598 million) to ($2,022 million) with net effect of $576 million.

[24c] Total Credit Program Receivables and Related Foreclosed Property, Net line increased from $20,249 million to $21,946 million with net effect of $1,697 million.

J. Guaranteed Loans Outstanding

1. Guaranteed Loans Outstanding:

Loan Guarantees Programs (In Millions)	2018	
	Outstanding Principal Guaranteed Loans Face Value	Amount of Outstanding Principal Guaranteed
FHA		
a) MMI/CMHI Funds	$1,323,003	$1,193,001
b) GI/SRI Funds	147,748	133,744
c) H4H Program	75	66
All Other	8,651	8,647
Total	**$1,479,477**	**$1,335,458**

Loan Guarantees Programs (In Millions)	2017 (Restated)	
	Outstanding Principal Guaranteed Loans Face Value[25]	Amount of Outstanding Principal Guaranteed[25a]
FHA		
a) MMI/CMHI Funds	$1,273,156	$1,154,481
b) GI/SRI Funds	136,283	123,018
c) H4H Program	81	73
All Other[25b,25c]	$8,226	$8,222
Total	**$1,417,746**	**$1,285,794**

[25] HUD performed an analysis on Section 108-Loan Guarantee and Section 184A- Native Hawaiian Housing Loan Guarantee programs comparing its program office reports to general ledger reports. The analysis determined that the programs were overstated by $191million and understated by $12 million respectively. The correction to these programs resulted in a net decrease of ($179 million) on the All Other lines.

[25a] Ibid.

[25b] The All Other line under the Outstanding Principal Guaranteed Loans Face Value column decreased from $8,405 million to $8,226 million.

[25c] The All Other line under the Amount of Outstanding Principal Guaranteed column decreased from $8,401 million to $8,222 million.

2. Home Equity Conversion Mortgage Loans Outstanding:

Loan Guarantee Programs (In Millions)	2018 Current Year Endorsements	Cumulative Current Outstanding Balance	Cumulative Maximum Potential Liability
FHA Programs	**$16,189**	**$100,088**	**$143,889**

Loan Guarantee Programs (In Millions)	2017 Current Year Endorsements	Cumulative Current Outstanding Balance	Cumulative Maximum Potential Liability
FHA Programs	**$17,691**	**$103,597**	**$147,582**

3. New Guaranteed Loans Disbursed:

Loan Guarantee Programs (In Millions)	2018 Principal of Guaranteed Loans, Face Value	2018 Amount of Principal Guaranteed
FHA		
a) MMI/CMHI Funds	$209,118	$207,176
b) GI/SRI Funds	18,425	18,349
c) H4H Program	-	-
All Other	676	676
Total	**$228,219**	**$226,201**

Loan Guarantee Programs (In Millions)	2017 (Restated) Principal of Guaranteed Loans, Face Value[26]	2017 (Restated) Amount of Principal Guaranteed[26a]
FHA		
a) MMI/CMHI Funds	$250,925	$248,307
b) GI/SRI Funds	16,884	16,807
c) H4H Program	-	-
All Other[26b]	883	883
Total	**$268,692**	**$265,997**

[26] The analysis performed on Section 184A- Native Hawaiian Housing Loan Guarantee program comparing its program office reports to general ledger reports also impacted this Note. The correction to this program resulted in a net increase of $12 million on the All Other lines

[26a] Ibid.

[26b] The All Other line under the Principal of Guaranteed Loans, Face Value and Amount of Principal Guaranteed columns increased from $871 million to $883 million.

K. Liability for Loan Guarantees

1. Liability for Loan Guarantees (Estimated Future Default Claims for Pre-1992 Guarantees):

Loan Guarantee Programs (In Millions)	2018		
	Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims	Liabilities for Loan Guarantees, for Post 1991 Guarantees, (Present Value)	Total Liabilities For Loan Guarantees
FHA Programs	$1	$18,720	$18,721
All Other	-	227	227
Total	**$1**	**$18,947**	**$18,948**

Loan Guarantee Programs (In Millions)	2017		
	Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims	Liabilities for Loan Guarantees, for Post 1991 Guarantees, (Present Value)	Total Liabilities For Loan Guarantees
FHA Programs	$8	$20,059	$20,067
All Other	-	267	267
Total	**$8**	**$20,326**	**$20,334**

L. Subsidy Expense for Post-1991 Guarantees

1. Subsidy Expense for Loan Guarantees:

Loan Guarantee Programs (In Millions)	2018				
	Endorsement Amount	Default Component	Fees Component	Other Component	Subsidy Amount
FHA					
a) MMI/CMHI Funds, Excluding HECM	$209,118	$5,062	$(13,681)	$1,966	$(6,653)
b) MMI/CMHI Funds, HECM	16,189	635	(714)	-	(79)
c) GI/SRI Funds	18,424	206	(854)	-	(648)
d) H4H Program	-	-	-	-	-
All Other	-	14	(10)	-	4
Total	**$243,731**	**$5,917**	**$(15,259)**	**$1,966**	**$(7,376)**

Loan Guarantee Programs (In Millions)	2017 (Restated)				
	Endorsement Amount[27]	Default Component	Fees Component	Other Component	Subsidy Amount
FHA					
a) MMI/CMHI Funds, Excluding HECM	$250,925	$6,074	$(19,525)	$2,359	$(11,092)
b) MMI/CMHI Funds, HECM	17,691	1,250	(1,308)	-	(58)
c) GI/SRI Funds[27a]	16,883	214	(890)	-	(676)
d) H4H Program	-	-	-	-	-
All Other	-	20	(13)	-	7
Total	**$285,499**	**$7,558**	**$(21,736)**	**$2,359**	**$(11,819)**

2. Modification and Re-estimates

Loan Guarantee Programs (In Millions)	2018			
	Total Modifications	Interest Rate Re-estimates	Technical Re-estimates	Total Re-estimates
FHA				
a) MMI/CMHI Funds	$-	$-	$(506)	$(506)
b) GI/SRI Funds	-	-	(1,002)	(1,002)
All Other	-	(20)	(25)	(45)
Total	**$-**	**$(20)**	**$(1,533)**	**$(1,553)**

Loan Guarantee Programs (In Millions)	2017 (Restated)			
	Total Modifications	Interest Rate Re-estimates	Technical Re-estimates[28,29]	Total Re-estimates
FHA				
a) MMI/CMHI Funds[28a,29a]	$-	$-	$23,182	$23,182
b) GI/SRI Funds[28b,29b]	-	-	5,916	5,916
All Other	-	-	(22)	(22)
Total[30]	**$-**	**$-**	**$29,076**	**$29,076**

27 HUD corrected a mathematical error on FHA's GI/SRI Funds Endorsement Amount line; this impact was at the HUD consolidated level only. The line was overstated by $250,904 million in the FY 2017 published AFR. The total Endorsement Amount column has now decreased from $536,403 million to $285,499 million to properly reflect FHA's actual 2017 amount.

27a FHA's GI/SRI Funds line decreased from $267,787 million to $16,883 million.

28 FHA's correction of the discounting rate error in its Homeowners Equity Conversion Mortgage (HECM) Return on Assets (ROA) cash flow model impacted this Note as well. The correction created a total net decrease of $1,696 million to the Technical Re-estimates column.

29 FHA's presentation change to combine its Subsidy and Interest Expense components for consistency with the OMB Circular A-136 guidance impacted this Note as well. The change in presentation caused a total net increase of $5,989 million in the Technical Re-estimates column.

29a FHA's MM/CMHI Funds line increased from $21,112 million to $24,303 million with net effect of $3,191 million.

29b FHA's GI/SRI Funds line increased from $3,693 million to $6,492 million with net effect of $2,799 million.

30 The net impact of a, b is a increase of $4,293 million on the total line of the Technical Re-estimates column from $24,783 million to $29,076 million.

3. Total Loan Guarantee Subsidy Expense

Loan Guarantee Programs (In Millions)	Current Year	Prior Year (Restated)[31]
FHA		
a) MMI/CMHI Funds[31a]	$(7,238)	$12,032
b) GI/SRI Funds[31b]	(1,650)	5,240
c) H4H Program	-	-
All Other	(41)	(15)
Total	**$(8,929)**	**$17,257**

M. Subsidy Rates for Loan Guarantees by Programs and Component

Budget Subsidy Rates for Loan Guarantees:

	2018			
Loans Guarantee Programs	Default	Fees and Other Collections	Other	Total
FHA Administrated Programs				
MMI/CMHI Funds				
Single Family - Forward	2.4%	-5.6%	0.0%	-3.2%
Single Family - HECM	3.9%	-4.4%	0.0%	-0.5%
Multifamily - Section 213	2.4%	-5.6%	0.0%	-3.2%
GI/SRI Funds				
Title I - Manufactured Housing	5.8%	-10.2%	0.0%	-4.4%
Title I - Property Improvements	4.4%	-5.8%	0.0%	-1.4%
Apartments - NC/SC	2.2%	-3.8%	0.0%	-1.6%
Tax Credit Projects	0.9%	-2.5%	0.0%	-1.6%
Apartments - Refinance	0.3%	-4.2%	0.0%	-3.9%
HFA Risk Share	0.0%	0.3%	0.0%	0.3%
Other Rentals[32]	0.9%	-4.6%	0.0%	-3.7%
Healthcare				
FHA Full Insurance - Health Care	1.5%	-8.5%	0.0%	-7.0%
Health Care Refinance	0.7%	-6.6%	0.0%	-5.9%
Hospitals	1.5%	-6.8%	0.0%	-5.3%
Other HUD Programs				
CDBG, Section 108(b)	2.4%	-2.4%	0.0%	0.0%
Loan Guarantee Recovery Fund	50.0%	0.0%	0.0%	50.0%
Indian Housing Loan Guarantee Fund	3.4%	-3.9%	0.8%	0.3%
Hawaiian Home Guarantee Loan Fund	0.7%	-1.0%	0.0%	-0.3%
Title VI Indian Housing Loan Guarantee	11.5%	0.0%	0.0%	11.5%

[31] FHA's correction of the discounting rate error and presentation change disclosures on Note 7L2 flows through to this Note. These changes created a total net increase of $4,293 million.

[31a] FHA's MM/CMHI Funds line increased from $9,961 million to $12,032 million with net effect of $2,070 million.

[31b] FHA's GI/SRI Funds line decreased from $3,017 million to $5,240 million with net effect of $2,223 million.

[32] Due to presentation change by FHA in FY 2018 "Other Rentals" has been categorized from under Healthcare category to GI/SRI Funds category.

Loan Guarantee Program	2017 (Restated)			
	Default	Fees and Other Collections	Other	Total
FHA Programs				
MMI/CMHI				
Single Family - Forward	2.4%	-6.8%	0.0%	-4.4%
Single Family - HECM	7.1%	-7.4%	0.0%	-0.3%
Multi Family - Section 213	2.4%	-6.8%	0.0%	-4.4%
GI/SRI Funds				
Title I - Manufactured Housing	6.2%	-10.0%	0.0%	-3.8%
Title I - Property Improvements	4.7%	-5.7%	0.0%	-1.0%
Apartments - NC/SC	1.5%	-4.3%	0.0%	-2.8%
Tax Credit Projects	1.0%	-2.6%	0.0%	-1.6%
Apartments - Refinance	0.3%	-4.2%	0.0%	-3.9%
HFA Risk Share	0.0%	-1.1%	0.0%	-1.1%
Other Rentals[33]	1.5%	-5.0%	0.0%	-3.5%
Healthcare[34]				
FHA Full Insurance - Health Care	2.5%	-8.4%	0.0%	-5.9%
Health Care Refinance	1.5%	-6.7%	0.0%	-5.2%
Hospitals	1.1%	-6.7%	0.0%	-5.6%
All Other Programs				
CDBG, Section 108(b)	2.6%	-2.6%	0.0%	0.0%
Loan Guarantee Recovery Fund	50.0%	0.0%	0.0%	50.0%
Indian Housing Loan Guarantee Fund	3.8%	-3.9%	0.0%	-0.1%
Native Hawaiian Home Guarantee Loan Fund	0.7%	-1.0%	0.0%	-0.3%
Title VI Indian Housing Loan Guarantee	11.2%	0.0%	0.0%	11.2%

33 Ibid.

34 In FY 2018, FHA included its Health Care Refinance percentages in this Note. For comparative purpose, the FY 2017 information has been updated to include the Healthcare percentages.

N. Schedule for Reconciling Loan Guarantee Liability Balances (Post-1991 Loan Guarantees)

Beginning Balance, Changes, and Ending Balance (In Millions)	2018	2017 (Restated)[35]
Beginning balance of the loan guarantee liability	$20,883	$(503)
Add: subsidy expense for guaranteed loans disbursed during the reporting years by component:		
(b) Default costs (net of recoveries)	5,917	7,558
(c) Fees and Other Collections	(15,259)	(21,736)
(d) Other subsidy costs	1,966	2,359
Total of the above subsidy expense components	**$(7,376)**	**$(11,819)**
Adjustments:		
(b) Fees Received	14,023	14,580
(d) Foreclosed Properties and Loans Acquired[35a]	10,358	10,432
(e) Claims Payments to Lenders	(17,724)	(21,218)
(f) Interest Accumulation on the Liability Balance	441	282
(g) Other[35b]	281	53
Ending Balance of the Loan Guarantee Liability before re-estimates	**$20,886**	**$(8,193)**
Add or Subtract subsidy re-estimates by component:		
(a) Interest Rate Re-estimate	(20)	-
(b) Technical Default Re-estimate[35c]	(9,561)	3,259
(c) Adjustment of prior years' credit subsidy re-estimates	8,028	25,817
Total of the above re-estimate components	**(1,553)**	**29,076**
Ending Balance of the Loan Guarantee Liability	**$19,333**	**$20,883**
Adjustment for Unrealized Ginnie Mae claims from defaulted loans	**$(385)**	**$(549)**
Ending Balance of the Loan Guarantee Liability	**$18,948**	**$20,334**

O. Administrative Expenses

Loan Guarantee Programs (In Millions)	2018	2017 (Restated)
FHA[36]	$723	$708
All Other	-	-
Total	**$723**	**$708**

[35] FHA's correction of the discounting rate error on Note 7L2 flows through to this Note. Additionally, FHA reclassified $8M of its Loan Loss Reserve for Technical Default Re-estimate to the Loan Loss Reserve Adjustments line. These disclosures are reclassifications with an impact $0 to the total Note amount for FY 2017.

[35a] Adjustments: Foreclosed Properties and Loans Acquired line increased from $10,432 million to $8,735 million with net effect of $1,697 million.

[35b] Adjustments: Other line increased from $45 million to $53 million with net effect of $8 million.

[35c] Add or Subtract subsidy re-estimates by component: Adjustments of prior year's credit subsidy re-estimates line decreased from $4,964 million to $3,259 million with net effect of ($1,705 million).

[36] HUD corrected its FY 2017 cost allocation methodology to properly re-allocate FHA and Non-FHA expenses. As a result of the re-allocation, FHA's Administrative Expenses increased by $174 million. FHA's total increased from $534 million to $708 million.

Note 8: Other Non-Credit Reform Loans

The following shows HUD's Other Non-Credit Reform Loans Receivable as of September 30, 2018 and 2017:

	2018		
(In Millions)	Ginnie Mae Reported Balances	Allowance for Loan Losses Due to Payment of Probable Claims by FHA	Value of Assets Related to Loans
Mortgage Loans Held for Investment	$2,684	$(328)	$2,356
Properties Held for Sale, Net	25	-	25
Foreclosed Property	208	(28)	180
Short Sale Claims Receivable	44	(29)	15
Total	**$2,961**	**$(385)**	**$2,576**

	2017		
(In Millions)	Ginnie Mae Reported Balances	Allowance for Loan Losses Due to Payment of Probable Claims by FHA	Value of Assets Related to Loans
Mortgage Loans Held for Investment	$3,071	$(454)	$2,617
Properties Held for Sale, Net	45	-	45
Foreclosed Property	309	(49)	260
Short Sale Claims Receivable	65	(47)	18
Total	**$3,490**	**$(550)**	**$2,940**

Other Non-Credit Reform Loans consist of Ginnie Mae Advances Against Defaulted Mortgage-Backed Security Pools, Mortgage Loans Held for Investment, Properties Held for Sale, Short Sale Claims Receivable, and Foreclosed Property. Below is a description of each type of asset recorded by Ginnie Mae.

Mortgage Loans Held for Investment

When a Ginnie Mae issuer defaults, terminated and extinguished, Ginnie Mae steps into the role of the issuer and assumes all servicing rights and obligations of the issuer's entire Ginnie Mae guaranteed portfolio, including making timely pass through payments. Ginnie Mae utilizes a Master Sub-servicer (MSS) to service these portfolios. There are currently two MSS for terminated and extinguished issuers that service the terminated and extinguished issuer portfolio (of pooled and non-pooled loans).

In its role as servicer, Ginnie Mae assesses individual loans within its pooled portfolio to determine whether the loan must be purchased out of the pool. Ginnie Mae must purchase mortgage loans out of the MBS pool when the mortgage loans are ineligible for insurance by the FHA, RD, VA, or PIH, as well as loans that have been modified beyond the trial modification period. Additionally, Ginnie Mae has the option to purchase mortgage loans out of the MBS pool when the mortgage loans are insured but are delinquent for more than 90 days.

Ginnie Mae has the ability and the intent to hold acquired loans for the foreseeable future or until maturity, therefore, the mortgage loans are classified as HFI. Ginnie Mae reports the carrying value of HFI loans on the Balance Sheets at the unpaid principal balance (UPB) along with accrued interest, net of cost basis adjustments, and net of allowance for loan losses including accrued interest, as required by GAAP. In the event that Ginnie Mae decides to sell the loans currently recognized on Ginnie Mae's Balance Sheets, Ginnie Mae will reclassify the applicable loans from HFI to Held for Sale (HFS). For loans which Ginnie Mae initially classified as HFI and subsequently transfers to HFS, those loans would be recognized at the lower of cost or fair value until sold, with any related cash flows classified as operating activities. At September 30, 2018 and 2017, Ginnie Mae had no loans classified as HFS.

Ginnie Mae performs periodic and systematic reviews of its loan portfolios to identify credit risks and assess the overall collectability of the portfolios to determine the estimated uncollectible portion of the recorded investment on the loans when 1) available information at each balance sheet date, indicates that it is probable a loss has occurred and 2) the amount of the loss can be reasonably estimated.

For large groups of homogeneous loans that are collectively evaluated (pursuant to requirements in Accounting Standards Codification (ASC) 450-20: Contingencies – Loss Contingencies), Ginnie Mae establishes the allowance for loan losses and records an allowance against both principal and interest (P&I) payments similar to loss contingencies. When Ginnie Mae determines that it is probable a credit loss will occur, and that loss can be reasonably estimated, Ginnie Mae recognizes the estimated amount of the incurred loss in the allowance for loan losses. Ginnie Mae aggregates its mortgage loans based on common risk characteristics, primarily by the type of insurance (FHA, VA, RD, PIH) associated with the loan, as each has a different recovery rate. Ginnie Mae also categorizes uninsured loans separately from insured loans. The allowance for loan losses estimate is calculated using statistical models that are based on historical loan performance and insurance recoveries. The estimate also includes qualitative factors, where applicable.

This allowance for losses represents management's best estimate of probable credit losses inherent in Ginnie Mae's mortgage loan portfolio. The allowance is netted against the recorded investment on mortgage loans.

Ginnie Mae considers a loan to be impaired when, based on current information, it is probable that amounts due, including interest, will not be recovered in accordance with the contractual terms of the loan agreement (pursuant to requirements under ASC: 310-10 Receivables – Overall). Ginnie Mae measures impairment based on the present value of expected future cash flows.

Per GAAP, Ginnie Mae is required to measure impairment based on the fair value of the underlying collateral less cost to sell when Ginnie Mae determines that foreclosure is probable or if the repayment of the loan is expected to be provided solely through the sale of underlying collateral (e.g., uninsured loans).

Due to lack of required data at September 30, 2018, Ginnie Mae was unable to obtain an updated fair value of the underlying collateral to fully comply with GAAP requirements for impaired loans outlined above.

Please note that management is currently assessing current and historic loan accounting for potential restatement.

Advances against Defaulted Mortgage-Backed Security Pools

Advances represent pass-through payments made to the MSS or issuers to fulfill Ginnie Mae's guarantee of timely P&I payments to MBS security holders, including payments made to active and non-defaulted issuers under a Ginnie Mae approved disaster relief program extended to support issuers impacted by natural disasters. Ginnie Mae reports advances net of an allowance to the extent that management believes advances will not be collected. The allowance is calculated based on expected recovery amounts from any mortgage insurance per established insurance rates, Ginnie Mae's collectability experience, and other economic factors.

Once Ginnie Mae purchases loans from the pools, the associated advances are recorded within the appropriate asset class along with the mortgage loan balance.

Properties Held for Sale, Net

Properties held for sale represent assets for which Ginnie Mae has received the title of the underlying collateral (e.g., completely foreclosed upon and repossessed) and intends to sell the collateral. The acquired properties are typically either RD insured or uninsured conventional loans[37]. For instances in which Ginnie Mae does not convey the property to the insuring agency, Ginnie Mae holds the title until the property is sold. As the properties are available for immediate sale in their current condition and are actively marketed for sale, they are to be recorded at the fair value of the asset less the estimated cost to sell with subsequent declines in the fair value

[37] Properties from foreclosed FHA and VA insured loans are usually conveyed to the insuring agency subsequent to foreclosure.

below the initial acquired property cost basis recorded through the use of a valuation allowance. The Properties HFS balance is one of the line items for which Ginnie Mae Management is currently performing an assessment related to the recognition and measurement as compared to GAAP requirements. Currently, Ginnie Mae does not have access to broker price opinions or other fair value data for acquired properties. A further assessment of data availability is currently being performed.

Foreclosed Property

Ginnie Mae records foreclosed property when the MSS receives title to a residential real estate property that has completed the foreclosure process in its respective legal jurisdiction, or when the mortgagor conveys all interest in the property to Ginnie Mae through its MSS to satisfy the loan through completion of a deed in lieu of foreclosure process or similar legal agreement. These properties differ from acquired properties as Ginnie Mae intends to convey the property to an insuring agency, instead of marketing and selling the properties through the MSS. The claimed asset is measured based on the amount of the loan outstanding balance, P&I, expected to be recovered from the insuring agency. Once the claims receivable is established, Ginnie Mae periodically assesses its collectability by utilizing statistical models and Ginnie Mae's most recent historical loss experience. Ginnie Mae records an allowance for foreclosed property that represents the expected unrecoverable amounts within the portfolio. Foreclosed property less the allowance for foreclosed property is the amount that Ginnie Mae determines to be collectible. Management is currently assessing current and historic accounting practices for potential restatement.

Short Sale Claims Receivable

As an alternative to foreclosure, a property may be sold for an agreed-upon price, at which the net proceeds fall short of the debts secured by liens against the property. Accordingly, short sale proceeds are often times insufficient to fully pay off the mortgage. Ginnie Mae's MSS analyze mortgage loans for factors such as delinquency, appraised value of the property collateralizing the loan, and market locale of the underlying property to identify loans that may be short sale eligible. Short sale transactions are analyzed and approved by the Office of Issuer and Portfolio Management (OIPM) at Ginnie Mae. For FHA insured loans, for which the underlying property was sold in a short sale, the FHA, which is the largest insurer for Ginnie Mae, typically pays Ginnie Mae the difference between the proceeds received from the sale and the total contractual amount of the mortgage loan and delinquent interest payments at the debenture rate (less the first two months of delinquent month's interest). Ginnie Mae records a short sale claims receivable while it awaits repayment of this amount from the insuring agencies. Short sales on VA, RD, and PIH insured loans follow a similar process in which the claims receivable amount is determined in accordance with the respective agency guidelines.

Ginnie Mae will recognize an allowance for uncollectable amounts against short sale claim receivables when it believes the collection of the full receivable is doubtful. This allowance represents the unrecoverable amounts within the portfolio and incorporates expected recovery based on the underlying insuring agency guidelines and historical loss experience. The short sales receivable less the allowance for short sales receivable is the amount that Ginnie Mae determines to be collectible. Once claims are collected, GAAP requires Ginnie Mae to charge-off any uncollectable amounts against the allowance for short sale claims receivables. Management is currently assessing current and historic accounting practices for potential restatement.

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

PP&E consists of furniture, fixtures, equipment, and data processing software used in providing goods and services that have an estimated useful life of two or more years. Purchases of $100,000 (PP&E) and $1,750,000 Internal Use Software (IUS) or more are recorded as an asset and depreciated over their estimated useful life on a straight-line basis with no salvage value for general property, plant and equipment. Generally, the Department's assets are depreciated over a four-year period for PP&E and a seven year period for IUS, unless it can be demonstrated that the estimated useful life is significantly greater than the specified time period.

The following shows general property, plant, and equipment as of September 30, 2018 and 2017:

	2018		
(In Millions)	Cost	Accumulated Depreciation and Amortization	Book Value
Equipment	$5	$(2)	$3
Equipment - Ginnie Mae	2	(1)	1
Leasehold Improvements	1	-	1
Leasehold Improvements - Ginnie Mae	-	-	-
Internal Use Software	80	(72)	8
Internal Use Software - Ginnie Mae	180	(137)	43
Internal Use Software in Development	325	-	325
Internal Use Software in Development - Ginnie Mae	42	-	42
Capital Leases - Ginnie Mae	1	(1)	-
Total	**$636**	**$(213)**	**$423**

(In Millions)	2017		
	Cost	Accumulated Depreciation and Amortization	Book Value
Equipment	$6	$(2)	$4
Equipment - Ginnie Mae	4	(3)	1
Leasehold Improvements	1	-	1
Leasehold Improvements - Ginnie Mae	-	-	-
Internal Use Software	79	(71)	8
Internal Use Software - Ginnie Mae	168	(120)	48
Internal Use Software in Development	311	-	311
Internal Use Software in Development - Ginnie Mae	39	-	39
Capital Leases - Ginnie Mae	1	(1)	-
Total	**$609**	**$(197)**	**$412**

Note 10: PIH Prepayments

HUD's assets include the Department's estimates for RNP balances maintained by PHA under the HCV Program. The voucher program is the Federal Government's major program for assisting very low-income families, the elderly, and the disabled to afford decent, safe and sanitary housing in the private market. RNP balances represent disbursements to PHAs that are in excess of their expenses. PHAs can use RNP balances to cover any valid Housing Assistance Program (HAP) expenses.

In FY 2018, OCFO and PIH developed and implemented an estimation methodology to calculate the prepayment balance. PHAs have 45 calendar days after the end of the month to report their expenses, which creates delays in utilizing actuals for the Prepayment Balance calculation. The estimation methodology uses the beginning balance of the RNP report, PHA's cash funding amount from the trial balance, PHA's expenses from the Voucher Management System (VMS) Data Report and adjusted for expenses greater than funding received. The estimation calculation is completed on a quarterly basis.

PIH has estimated RNP balances of $263 million for FY 2018, consisting of $241 million for the HCV Program and $22 million for the Moving to Work Program. In FY 2017, the estimated RNP balance of $337 million consisted of $211 million for the HCV Program and $126 million for the Moving to Work Program.

Note 11: Other Assets

The following shows HUD's Other Assets as of September 30, 2018 and 2017:

(In Millions)	2018				
	FHA	Ginnie Mae	Section 8	All Other	Total
Intragovernmental Assets:					
Other Assets	$-	$-	$2	$45	$47
Total Intragovernmental Assets	**$-**	**$-**	**$2**	**$45**	**$47**
Public:					
Escrow Monies Deposited at Minority-Owned Banks	$-	$-	$-	$-	$-
Other Assets	-	-	-	-	-
Total	**$-**	**$-**	**$2**	**$45**	**$47**

(In Millions)	2017				
	FHA	Ginnie Mae	Section 8	All Other	Total
Intragovernmental Assets:					
Other Assets	$-	$-	$3	$17	$20
Total Intragovernmental Assets	**$-**	**$-**	**$3**	**$17**	**$20**
Public:					
Escrow Monies Deposited at Minority-Owned Banks	$-	$-	$-	$-	$-
Other Assets	-	-	-	-	-
Total	**$-**	**$-**	**$3**	**$17**	**$20**

Intragovernmental Other Assets primarily represent the Department's Research and Technology, Policy Development, and Research program with other federal agencies. Other Assets with the public represent FHA's: 1) escrow monies collected that are deposited in minority-owned banks; 2) deposits in transit; and 3) advances and prepayments.

Note 12: Liabilities Not Covered by Budgetary Resources

The following shows HUD's liabilities as of September 30, 2018 and 2017:

(In Millions)	2018	2017 (Restated)[38,39]
Intragovernmental		
Accounts Payable	$-	$-
Other Intragovernmental Liabilities	19	14
Total Intragovernmental Liabilities	**$19**	**$14**
Public		
Federal Employee and Veteran Benefits	$63	$65
Loss Reserves	21	268
Other Liabilities[38a]	76	138
Total Public Liabilities	**$160**	**$471**
Total Liabilities Not Covered by Budgetary Resources	$179	$485
Total Liabilities Covered by Budgetary Resources	49,123	54,268
Total Liabilities Not Requiring Budgetary Resources[39a]	3,137	2,131
Total Liabilities	**$52,439**	**$56,884**

HUD's Other governmental liabilities principally consist of Ginnie Mae's deferred revenue and the Department's payroll costs. Pursuant to the July 2018 OMB Circular A-136, this note includes the category "Total Liabilities Not Requiring Budgetary Resources". This category includes HUD's deposit, clearing, unavailable general fund receipt accounts, and FHA's special receipt account.

Note 13: Debt

Several HUD programs have the authority to borrow funds from Treasury for program operations. Additionally, the National Housing Act authorizes FHA, in certain cases, to issue debentures in lieu of cash to pay claims. Also, PHAs and TDHEs borrowed funds from the private sector and the FFB to finance construction and rehabilitation of low-rent housing. HUD is repaying these borrowings on behalf of the PHAs and TDHEs.

38 In HUD's FY 2017 year-end legal letter, a case was noted as set to be paid out through the Treasury Judgement Fund. HUD corrected its Contingent Liability for FY 2017, as it was overstated by $136 million. The Public- Other Liabilities line decreased from $275 million to $138 million.

38a Ibid.

39 FHA's correction of the discounting rate error caused a cohort in the General Insurance to go from a upward to a downward re-estimate. The downward-re-estimate created a payable to Treasury. This payable increased the Total Liabilities Not Requiring Budgetary Resources line from $2,070 to $2,131 million with a net effect of $61 million.

39a Ibid.

FHA borrows from the Bureau of the Fiscal Service's (BFS) Federal Investments and Borrowings Branch, which facilitates loans to federal agencies on behalf of the Department of the Treasury. The FCRA permits agencies to borrow from Treasury to support credit programs. Collections and disbursements with the public are transacted in FHA's financing accounts and are considered a means-of-financing (non-budgetary). When cash balances are insufficient to support its operations, FHA borrows from Treasury. When there is sufficient cash in the financing accounts, FHA can opt to repay principal. Repayments of principal can be made throughout the fiscal year.

Both interest revenue and expense are accrued at FHA's Single Effective Rate (SER). FHA's single effective rates range from 1.02% to 7.59%. Interest revenue is based on the cash balances in the financing accounts, whereas interest expense is based on the principal balances for the entire fiscal year (effective date of October 1st of the current fiscal year), regardless of the actual transaction date.

The following shows HUD borrowings, and borrowings by PHAs/TDHEs for which HUD is responsible for repayment, as of September 30, 2018:

	2018		
(In Millions)	Beginning Balance	Net Borrowings	Ending Balance
Debt to the Federal Financing Bank	$1,187	$484	$1,671
Debt to the U.S. Treasury	28,082	(3,240)	24,842
Held by the Public	2	1	3
Total	$29,271	$(2,755)	$26,516

	2018
	Ending Balance
Classification of Debt:	
Intragovernmental Debt	$26,513
Debt Held by the Public	3
Total	**$26,516**

The following shows HUD borrowings, and borrowings by PHAs/TDHEs for which HUD is responsible for repayment, as of September 30, 2017:

	2017		
(In Millions)	Beginning Balance	Net Borrowings	Ending Balance
Debt to the Federal Financing Bank	$555	$632	$1,187
Debt to the U.S. Treasury	30,447	(2,365)	28,082
Held by the Public	8	(6)	2
Total	$31,010	$(1,739)	$29,271

	2017
	Ending Balance
Classification of Debt:	
Intragovernmental Debt	$29,269
Debt Held by the Public	2
Total	**$29,271**

Interest paid on borrowings as of September 30, 2018 and 2017 was $1,128 million and $1,166 million, respectively. The purpose of these borrowings is discussed in the following paragraphs.

Borrowings from Treasury

In accordance with Credit Reform accounting, FHA borrows from 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 re-estimates and when available cash is less than claim payments due. These borrowings carried interest rates ranging from 1.02% to 7.59% during FY 2018.

HUD's Other Programs with outstanding aggregate borrowings are the Indian Housing Loan Guarantee Program, the Native Hawaiian Housing Block Grant Program, the Emergency Homeowner's Loan Program, and the Green Retrofit Program.

Borrowings from the Federal Financing Bank and the Public

During the 1960s to 1980s, PHAs obtained loans from the private sector and from the FFB to finance development and rehabilitation of low rent housing projects. HUD is repaying these borrowings on behalf of the PHAs, through the Low Rent Public Housing Program. For borrowings from the public, interest is payable throughout the year. All FFB borrowings had been repaid.

Starting in FY 2015, FHA began a FFB Risk Share program, an inter-agency partnership between HUD, FFB, and the HFAs. The FFB Risk Share Program provides funding for multifamily mortgage loans insured by FHA. Under this program, FHA records a direct loan from the public and borrowing from FFB. The program does not change the basic structure of Risk Sharing; it only substitutes FFB as the funding source. The HFAs would originate and service the loans and share in any losses.

Note 14: Federal Employee and Veterans' Benefits

HUD is a non-administering agency; therefore, it relies on cost factors and other actuarial projections provided by the DOL and OPM. HUD's imputed costs consist of two components, pension and health care benefits. During FY 2018 HUD recorded imputed costs of $76 million which consisted of $28 million for pension and $48 million for health care benefits. During FY 2017, HUD recorded imputed costs of $53 million which consisted of $15 million for pension and $38 million for health care benefits. These amounts are reported by OPM and charged to expense with a corresponding amount considered as an imputed financing source in the Statement of Changes in Net Position. In addition to the imputed costs, HUD recorded a net benefit expense totaling $247 million for FY 2018 and $248 million for FY 2017.

HUD accrues the portion of the estimated liability for disability benefits assigned to the agency under the Federal Employee Compensation Act (FECA), administered and determined by the DOL. The liability, based on the net present value of estimated future payments based on a study conducted by DOL, was $63 million as of September 30, 2018 and $65 million as of September 30, 2017. Future payments on this liability are to be funded by future financing sources.

Note 15: Other Liabilities

The following shows HUD's Other Liabilities as of September 30, 2018 and 2017:

(In Millions)	2018 Non Current	2018 Current	2018 Total
Intragovernmental Liabilities			
FHA Special Receipt Account Liability	$-	$2,787	$2,787
Unfunded FECA Liability	13	-	13
Employer Contributions and Payroll Taxes Payable	-	9	9
Miscellaneous Receipts Payable to Treasury	-	324	324
Advances to Federal Agencies	-	9	9
Intragovernmental Other Liabilities	**$13**	**$3,129**	**$3,142**
Other Liabilities			
FHA Other Liabilities	$-	$290	$290
FHA Escrow Funds Related to Mortgage Notes Current	-	291	291
Ginnie Mae Deferred Income	446	25	471
Deferred Credits	-	2	2
Deposit Funds	1	10	11
Accrued Unfunded Annual Leave	76	-	76
Accrued Funded Payroll Benefits	-	33	33
Contingent Liability	-	-	-
Other	7	4	11
Total	**$543**	**$3,784**	**$4,327**

(In Millions)	2017 (Restated) Non Current	2017 (Restated) Current	2017 (Restated) Total
Intragovernmental Liabilities			
FHA Special Receipt Account Liability[40]	$-	$1,734	$1,734
Unfunded FECA Liability	14	-	14
Employer Contributions and Payroll Taxes Payable	-	9	9
Miscellaneous Receipts Payable to Treasury	-	351	351
Advances to Federal Agencies	-	14	14
Intragovernmental Other Liabilities	**$14**	**$2,108**	**$2,122**
Other Liabilities			
FHA Other Liabilities	$-	$340	$340
FHA Escrow Funds Related to Mortgage Notes Current	-	296	296
Ginnie Mae Deferred Income	436	26	462
Deferred Credits	-	2	2
Deposit Funds	-	14	14
Accrued Unfunded Annual Leave	76	-	76
Accrued Funded Payroll Benefits	-	33	33
Contingent Liability[41]	55	-	55
Other	8	9	17
Total	**$589**	**$2,828**	**$3,417**

[40] FHA's correction of the discounting rate error caused a cohort in the General Insurance to go from a upward to a downward re-estimate. The downward-re-estimate created a payable to Treasury. The FHA Special Receipt Account Liability under the Current column increased from $1,673 million to $1,734 million with net effect of $61 million.

[41] In HUD's FY 2017 year-end legal letter, a case was noted as set to be paid out through the Treasury Judgement Fund. HUD corrected its Contingent Liability for FY 2017, as it was overstated by $136 million. The Contingent Liability under the Non-Current column line decreased from $192 million to $55 million with net effect of ($136 million).

Special Receipt Account Liability

The special receipt account liability is created from negative subsidy endorsements and downward credit subsidy in the GI/SRI special receipt account.

Other Liabilities

As of September 30, 2018, FHA's Other Liabilities consisted of liabilities for premiums collected on unendorsed cases of $212 million and miscellaneous liabilities of $78 million, which include disbursements in transit and unearned premium revenue. In addition, FHA had liabilities for escrow funds related to mortgage notes totaling $291 million. As of September 30, 2017, FHA premiums collected on unendorsed cases were $243 million, miscellaneous liabilities were $97 million, and escrow funds related to mortgage notes were $296 million. Premiums collected for unendorsed cases represent liabilities associated with premiums collections for cases that have yet to be endorsed.

Other liabilities currently consist mostly of suspense funds, receipt accruals, and payroll-related costs. Other liabilities non-current is Ginnie Mae's Banco Popular liability for potential loan portfolio representation and warranty issues. Ginnie Mae may enter into business transactions and agreements, such as the sale of an MSR or loan portfolio, which provide certain representations and warranties associated with underlying loans. If there is a breach of these contractual obligations, Ginnie Mae may be required to repurchase certain loans or provide other compensation.

Note 16: Contingencies

Lawsuits and Other

HUD is party to a number of claims and tort actions related to lawsuits brought against it concerning the implementation or operation of its various programs. The Department recorded a contingent liability in its financial statements of $0 as of September 30, 2018 and $55[42] million as of September 30, 2017. HUD is party to various other cases currently listed below as "reasonably possible":

- Boaz Housing Authority – $132.5 million
- Housing Authority of the City of New Haven – $22.3 million
- Park Properties Associates (amount of loss unknown) – $7.8 million is amount claimed
- San Antonio Housing Authority – $2.8 million
- Anaheim Gardens (amount of loss unknown)

[42] In HUD's FY 2017 year-end legal letter, a case was noted as set to be paid out through the Treasury Judgement Fund. HUD corrected its Contingent Liability for FY 2017, as it was overstated by $136M. The Commitments and Contingencies line decreased from $192M to $55M with net effect of ($136M).

If HUD receives an adverse decision on Boaz Housing Authority, Housing Authority of the City of New Haven, and San Antonio Housing Authority, then these payments will be made from Treasury's Judgment Fund. Other ongoing suits cannot be reasonably determined at this time, and in the opinion of management and general counsel, the ultimate resolution of the other pending litigation will not have a material effect on the Department's financial statements.

The general counsel has reviewed FHA's and Ginnie Mae's claims for FY 2018 and determined that as of September 30, 2018 and 2017, the ultimate resolution of legal actions would not affect HUD's consolidated financial statements. As a result, no contingent liability has been recorded for FHA. In addition, Ginnie Mae has concluded that they have no contingent liabilities as of September 30, 2018.

MBS Loss Liability

Liability for loss on MBS program guaranty (MBS loss liability) represents the loss contingency that arises from the guaranty obligation that Ginnie Mae has to the MBS holders due to probable issuer default and/or loan default. As of September 30, 2018, Ginnie Mae recorded loss reserves of $21.4 million, and $268.4 million in 2017. The issuers have the obligation to make timely principal and interest payments to MBS certificate holders. However, in the event whereby the issuer and/or loan defaults, Ginnie Mae steps in and continues to make the contractual payments to investors. The contingent aspect of the guarantee is measured under ASC Subtopic 450-20, Contingencies – Loss Contingencies.

Ginnie Mae's OER utilizes the issuer risk grade model to assist in the analysis of potential defaults. The issuer risk grade model assigns each issuer an internal risk grade using an internally developed proprietary risk-rating methodology. The objective of the methodology is to identify those Ginnie Mae issuers that display an elevated likelihood of default relative to their peers. To this end, the methodology assigns each active issuer a risk grade ranging from one to eight, with one representing a low probability of default and eight representing an elevated probability of default. As the risk grade rating approaches an elevated probability of default, Ginnie Mae further evaluates the financial condition of the issuer and considers whether an accrual of the loss contingency is required.

Note 17: Funds from Dedicated Collections

Funds from dedicated collections are financed by specifically identified revenues and are required by statute to be used for designated activities or purposes.

Ginnie Mae

Ginnie Mae is a government corporation, whose MBS guarantee program's operations are funded by various off-setting collections, such as guaranty, commitment, multiclass, new issuer, civil penalty, servicing, and pool transfer fees. These collections are dedicated for Ginnie Mae use to administer its MBS guarantee program.

RAD Conversion Program

RAD conversion program was created in order to give PHAs a powerful tool to preserve and improve public housing properties and address a nationwide backlog of deferred maintenance. RAD also gives program owners the opportunity to enter into long-term contracts that facilitate the financing of improvements.

Rental Housing Assistance Fund

The Housing and Urban Development Act of 1968 authorized the Secretary to establish a revolving fund into which rental collections in excess of the established basic rents for units in Section 236 subsidized projects would be deposited. The Housing and Community Development Amendment of 1978 authorized the Secretary, subject to approval in appropriation acts, to transfer excess rent collections received after 1978 to the Troubled Projects Operating Subsidy Program, renamed the Flexible Subsidy Fund. Prior to that time, collections were used for paying tax and utility increases in Section 236 projects. The Housing and Community Development Act of 1980, amended the 1978 Amendment, authorizing the transfer of excess rent collections regardless of when collected.

Flexible Subsidy

The Flexible Subsidy Fund assists financially troubled subsidized projects under certain FHA authorities. The subsidies are intended to prevent potential losses to the FHA fund resulting from project insolvency, and to preserve these projects as a viable source of housing for low- and moderate-income tenants.

American Recovery and Reinvestment Act Programs (Recovery Act)

The Recovery Act included 17 programs at HUD which are distributed across three themes that align with the broader Recovery goals. A further discussion of HUD's accomplishments for the Recovery Act program can be found on the HUD website, specifically on the Recovery page. Previously, all programs were categorized as Funds from Dedicated Collections. In FY 2017, two programs (Working Capital Fund Recovery Act and Green Retrofit Program) were changed to Other Funds based on exclusions noted in SFFAS No. 27 Identifying and Reporting Dedicated Collections.

Manufactured Housing Fees Trust Fund

The National Manufactured Housing Construction and Safety Standards Act of 1974, as amended by the Manufactured Housing Improvement Act of 2000, authorizes development and enforcement of appropriate standards for the construction, design, and performance of manufactured homes to assure their quality, durability, affordability, and safety.

Fees are charged to the manufacturers for each manufactured home transportable section produced and will be used to fund the costs of all authorized activities necessary for the consensus committee (HUD) and its agents to carry out all aspects of the manufactured housing legislation. The fee receipts are permanently appropriated and have helped finance a portion of the direct administrative expenses incurred in program operations. Activities are initially financed via transfer from the Manufactured Housing General Fund.

(In Millions)	2018								
	Ginnie Mae	Tenant Based Rental Assistance	Project Based Rental Assistance	Rental Housing Assistance	Flexible Subsidy	Manufactured Housing Fees Trust Fund	Recovery Act Funds	Other	Total Dedicated Collections (Combined)
Balance Sheet									
Fund Balance with Treasury	$5,322	$36	$30	$13	$523	$25	$1	$-	$5,950
Cash and Monetary Assets	33	-	-	-	-	-	-	-	33
Investments	16,295	-	-	-	-	-	-	-	16,295
Accounts Receivable	158	-	-	4	-	-	-	-	162
Loans Receivable	-	-	-	-	352	-	-	-	352
Other Non-Credit Reform Loans Receivable	2,961	-	-	-	-	-	-	-	2,961
General Property, Plant and Equipment	86	-	-	-	-	-	-	-	86
Total Assets	**$24,855**	**$36**	**$30**	**$17**	**$875**	**$25**	**$1**	**$-**	**$25,839**
Debt - Intragovernmental	$-	$-	$-	$-	$-	$-	$-	$-	$-
Accounts Payable - Intragovernmental	23	-	-	-	-	-	-	-	23
Accounts Payable - Public	46	-	-	-	-	5	-	-	51
Loss Liability	21	-	-	-	-	-	-	-	21
Other Liabilities - Public	481	-	-	-	-	-	-	-	481
Total Liabilities	$571	$-	$-	$-	$-	$5	$-	$-	$576
Unexpended Appropriations	$-	$38	$30	$-	$(376)	$-	$-	$-	$(308)
Cumulative Results of Operations	24,284	(2)	-	17	1,251	20	1	-	25,571
Total Net Position	$24,284	$36	$30	$17	$875	$20	$1	$-	$25,263
Total Liabilities and Net Position	**$24,855**	**$36**	**$30**	**$17**	**$875**	**$25**	**$1**	**$-**	**$25,839**
Statement of Net Cost for the Period Ended									
Gross Costs	$69	$102	$65	$-	$(8)	$11	$(11)	$-	$228
Less Earned Revenues	(1,770)	-	-	-	(4)	(15)	-	-	(1,789)
Net Costs	**$(1,701)**	**$102**	**$65**	**$-**	**$(12)**	**$(4)**	**$(11)**	**$-**	**$(1,561)**
Statement of Changes in Net Position for the Period Ended									
Net Position Beginning of Period	$22,581	$22	$32	$15	$861	$16	$1	$-	$23,528
Correction of Errors	-	-	-	-	-	-	-	-	-
Appropriations Received	-	-	-	-	-	-	-	-	-
Transfers In/Out	-	116	63	-	-	-	-	-	179
Imputed Costs	1	-	-	-	-	-	-	-	1
Donations and Forfeitures	-	-	-	-	-	-	-	-	-
Penalties, Fines, and Administrative Fees Revenue	3	-	-	2	2	-	-	-	7
Other Adjustments	(2)	-	-	-	-	-	(11)	-	(13)
Net Costs	1,701	(102)	(65)	-	12	4	11	-	1,561
Change in Net Position	$1,703	$14	$(2)	$2	$14	$4	$-	$-	$1,735
Net Position End of Period	**$24,284**	**$36**	**$30**	**$17**	**$875**	**$20**	**$1**	**$-**	**$25,263**

(In Millions)	Ginnie Mae	Tenant Based Rental Assistance	Project Based Rental Assistance	Rental Housing Assistance	Flexible Subsidy	Manufactured Housing Fees Trust Fund	Recovery Act Funds	Other	Total Dedicated Collections (Combined)
	2017								
Balance Sheet									
Fund Balance with Treasury	$2,331	$22	$32	$11	$482	$18	$1	$-	$2,897
Cash and Monetary Assets	40	-	-	-	-	-	-	-	40
Investments	17,277	-	-	-	-	-	-	-	17,277
Accounts Receivable	159	-	-	4	-	-	-	-	163
Loans Receivable	-	-	-	-	379	-	-	-	379
Other Non-Credit Reform Loans Receivable	3,490	-	-	-	-	-	-	-	3,490
General Property, Plant and Equipment	88	-	-	-	-	-	-	-	88
Total Assets	**$23,385**	**$22**	**$32**	**$15**	**$861**	**$18**	**$1**	**$-**	**$24,334**
Debt - Intragovernmental	$-	$-	$-	$-	$-	$-	$-	$-	$-
Accounts Payable - Intragovernmental	11	-	-	-	-	-	-	-	11
Accounts Payable - Public	52	-	-	-	-	2	-	-	54
Loss Liability	269	-	-	-	-	-	-	-	269
Other Liabilities - Public	472	-	-	-	-	-	-	-	472
Total Liabilities	$804	$-	$-	$-	$-	$2	$-	$-	$806
Unexpended Appropriations	$-	$23	$32	$-	$(376)	$-	$-	$-	$(321)
Cumulative Results of Operations	22,581	(1)	-	15	1,237	16	1	-	23,849
Total Net Position	$22,581	$22	$32	$15	$861	$16	$1	$-	$23,528
Total Liabilities and Net Position	**$23,385**	**$22**	**$32**	**$15**	**$861**	**$18**	**$1**	**$-**	**$24,334**
Statement of Net Cost for the Period Ended									
Gross Costs	$582	$73	$49	$-	$(6)	$8	$-	$-	$706
Less Earned Revenues	(1,692)	-	-	-	(3)	(14)	-	-	(1,709)
Net Costs	**$(1,110)**	**$73**	**$49**	**$-**	**$(9)**	**$(6)**	**$-**	**$-**	**$(1,003)**
Statement of Changes in Net Position for the Period Ended									
Net Position Beginning of Period	$21,473	$12	$18	$14	$851	$10	$9	$-	$22,387
Correction of Errors	-	-	-	-	-	-	-	-	-
Appropriations Received	-	-	-	-	-	-	-	-	-
Transfers In/Out	-	83	63	-	-	-	-	-	146
Imputed Costs	1	-	-	-	-	-	-	-	1
Donations and Forfeitures	-	-	-	-	-	-	-	-	-
Penalties, Fines, and Administrative Fees Revenue	-	-	-	1	1	-	-	-	2
Other Adjustments	(3)	-	-	-	-	-	(8)	-	(11)
Net Costs	1,110	(73)	(49)	-	9	6	-	-	1,003
Change in Net Position	$1,108	$10	$14	$1	$10	$6	$(8)	$-	$1,141
Net Position End of Period	**$22,581**	**$22**	**$32**	**$15**	**$861**	**$16**	**$1**	**$-**	**$23,528**

Note 18: Legal Arrangements Affecting the Use of Unobligated Balances

Pursuant to Title III of the National Housing Act, Ginnie Mae collections from Commitment and Multiclass fees are credited to offsetting collections in the Program Account. The portion of Commitment and Multiclass fees collection in excess of the enacted amounts available of annual and/or no-year S&E spending are precluded from being available for obligation. The amount of Commitment and Multiclass fees precluded from obligation were $734 million and $634 million as of September 30, 2018 and 2017 respectively. The following table presents the precluded funds from obligation activities and balances for FY 2018 and FY 2017:

(In Millions)	2018	2017
Precluded Obligations Balance, Beginning	$634	$523
Collections	100	111
Precluded Obligations Balance, Ending	**$734**	**$634**

Note 19: Net Costs of HUD's Cross-Cutting Programs

This note provides a categorization of net costs for several major program areas whose costs were incurred among HUD's principal organizations previously discussed under Section 1 of the report. Costs incurred under HUD's other programs represent activities which support the Department's strategic goal to develop and preserve quality, healthy, and affordable homes.

The following table shows the cross-cutting of HUD's major program areas that incur costs that cross multiple program areas as of September 30, 2018 and 2017:

	2018				
HUD's Cross Cutting Programs (In Millions)	**Public & Indian Housing**	**Housing**	**Community Planning & Development**	**Other**	**Consolidated**
Section 8 Rental Assistance					
Intragovernmental Gross Costs	$77	$41	$-	$-	$118
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	$77	$41	$-	$-	$118
Gross Costs with the Public	21,804	11,761	83	4	33,652
Earned Revenues	-	-	-	-	-
Net Costs with the Public	$21,804	$11,761	$83	$4	$33,652
Net Program Costs	**$21,881**	**$11,802**	**$83**	**$4**	**$33,770**

Public and Indian Housing Loans and Grants (PIH)					
Intragovernmental Gross Costs	$15	$-	$-	$-	$15
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	$15	$-	$-	$-	$15
Gross Costs with the Public	2,583	-	-	-	2,583
Earned Revenues	-	-	-	-	-
Net Costs with the Public	$2,583	$-	$-	$-	$2,583
Net Program Costs	**$2,598**	**$-**	**$-**	**$-**	**$2,598**
Homeless Assistance Grants					
Intragovernmental Gross Costs	$-	$-	$5	$-	$5
Intragovernmental Earned Revenues	-	-	(1)	-	(1)
Intragovernmental Net Costs	$-	$-	$4	$-	$4
Gross Costs with the Public	-	-	2,081	-	2,081
Earned Revenues	-	-	-	-	-
Net Costs with the Public	$-	$-	$2,081	$-	$2,081
Net Program Costs	**$-**	**$-**	**$2,085**	**$-**	**$2,085**
Housing for the Elderly and Disabled					
Intragovernmental Gross Costs	$-	$4	$-	$-	$4
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	$-	$4	$-	$-	$4
Gross Costs with the Public	-	917	-	3	920
Earned Revenues	-	(1)	-	(73)	(74)
Net Costs with the Public	$-	$916	$-	$(70)	$846
Net Program Costs	**$-**	**$920**	**$-**	**$(70)**	**$850**
Community Development Block Grants (CDBG)					
Intragovernmental Gross Costs	$-	$-	$52	$-	$52
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	$-	$-	$52	$-	$52
Gross Costs with the Public	67	-	5,077	-	5,144
Earned Revenues	-	-	-	-	-
Net Costs with the Public	$67	$-	$5,077	$-	$5,144
Net Program Costs	**$67**	**$-**	**$5,129**	**$-**	**$5,196**

HOME					
Intragovernmental Gross Cost	$-	$-	$2	$-	$2
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	$-	$-	$2	$-	$2
Gross Costs with the Public	-	-	738	-	738
Earned Revenues	-	-	-	-	-
Net Costs with the Public	$-	$-	$738	$-	$738
Net Program Costs	**$-**	**$-**	**$740**	**$-**	**$740**
Other					
Intragovernmnetal Gross Costs	$78	$32	$32	$71	$213
Intragovernmental Earned Revenue	(12)	-	(1)	(7)	(20)
Intragovernmental Net Costs	$66	$32	$31	$64	$193
Gross Costs with the Public	4,756	300	542	(175)	5,423
Earned Revenues	-	(19)	-	-	(19)
Net Costs with the Public	$4,756	$281	$542	$(175)	$5,404
Net Program Costs	**$4,822**	**$313**	**$573**	**$(111)**	**$5,597**
Costs Not Assigned To Programs	**$98**	**$47**	**$57**	**$-**	**$202**
Net Program Costs (Including indirect costs)	**$4,920**	**$360**	**$630**	**$(111)**	**$5,799**
Eliminations					
Intragovernmnetal Gross Costs	$-	$-	$-	$-	$-
Intragovernmental Earned Revenue	-	-	-	-	-
Intragovernmental Net Costs	**$-**	**$-**	**$-**	**$-**	**$-**

The accompanying notes are an integral part of these statements

Figures may not add to totals because of rounding.

HUD's Cross Cutting Programs (In Millions)	2017 (Restated)				
	Public & Indian Housing	Housing	Community Planning & Development	Other	Consolidated[43]
Section 8 Rental Assistance					
Intragovernmental Gross Costs	$88	$150	$-	$(56)	$182
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	$88	$150	$-	$(56)	$182
Gross Costs with the Public	20,959	11,262	83	(18)	32,286
Earned Revenues	-	-	-	-	-
Net Costs with the Public	$20,959	$11,262	$83	$(18)	$32,286
Net Program Costs	**$21,047**	**$11,412**	**$83**	**$(74)**	**$32,468**
Public and Indian Housing Loans and Grants (PIH)					
Intragovernmental Gross Costs	$15	$-	$-	$-	$15
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	$15	$-	$-	$-	$15
Gross Costs with the Public	2,339	-	-	34	2,373
Earned Revenues	-	-	-	-	-
Net Costs with the Public	$2,339	$-	$-	$34	$2,373
Net Program Costs	**$2,354**	**$-**	**$-**	**$34**	**$2,388**
Homeless Assistance Grants					
Intragovernmental Gross Costs	$-	$-	$11	$-	$11
Intragovernmental Earned Revenues	-	-	(1)	-	(1)
Intragovernmental Net Costs	$-	$-	$10	$-	$10
Gross Costs with the Public	-	-	2,021	1	2,022
Earned Revenues	-	-	-	-	-
Net Costs with the Public	$-	$-	$2,021	$1	$2,022
Net Program Costs	**$-**	**$-**	**$2,031**	**$1**	**$2,032**
Housing for the Elderly and Disabled					
Intragovernmental Gross Costs	$-	$13	$-	$(4)	$9
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	$-	$13	$-	$(4)	$9
Gross Costs with the Public	-	920	1	(2)	919
Earned Revenues	-	(3)	-	(89)	(92)
Net Costs with the Public	$-	$917	$1	$(91)	$827
Net Program Costs	**$-**	**$930**	**$1**	**$(95)**	**$836**

[43] HUD corrected its FY 2017 cost allocation methodology to properly re-allocate FHA and Non-FHA expenses. As a result of the re-allocation, Non-FHA expenses experienced a net decrease of ($188 million).Additionally, a correction was made for a duplicate allocation of the Working Capital Fund (WCF) expenses which resulted in a net increase of $14 million. The net effect of both corrections was ($174 million).

Community Development Block Grants (CDBG)					
Intragovernmental Gross Costs	$-	$-	$50	$-	$50
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	$-	$-	$50	$-	$50
Gross Costs with the Public	61	-	5,638	11	5,710
Earned Revenues	-	-	-	-	-
Net Costs with the Public	$61	$-	$5,638	$11	$5,710
Net Program Costs	**$61**	**$-**	**$5,688**	**$11**	**$5,760**
HOME					
Intragovernmental Gross Cost	$-	$-	$4	$-	$4
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	$-	$-	$4	$-	$4
Gross Costs with the Public	-	-	1,070	-	1,070
Earned Revenues	-	-	-	-	-
Net Costs with the Public	$-	$-	$1,070	$-	$1,070
Net Program Costs	**$-**	**$-**	**$1,074**	**$-**	**$1,074**
Other					
Intragovernmnetal Gross Costs	$227	$97	$39	$46	$409
Intragovernmental Earned Revenue	(9)	(1)	(3)	(50)	(63)
Intragovernmental Net Costs	$218	$96	$36	$(4)	$346
Gross Costs with the Public	4,709	283	472	(94)	5,370
Earned Revenues	-	(18)	-	-	(18)
Net Costs with the Public	$4,709	$265	$472	$(94)	$5,352
Net Program Costs	**$4,927**	**$361**	**$508**	**$(98)**	**$5,698**
Costs Not Assigned To Programs	$62	$81	$42	$-	$185
Net Program Costs (Including indirect costs)	**$4,989**	**$442**	**$550**	**$(98)**	**$5,883**
Eliminations					
Intragovernmnetal Gross Costs	$-	$-	$-	$-	$-
Intragovernmental Earned Revenue	-	-	-	-	-
Intragovernmental Net Costs	**$-**	**$-**	**$-**	**$-**	**$-**

The accompanying notes are an integral part of these statements

Figures may not add to totals because of rounding.

Note 20: Undelivered Orders and Commitments under HUD's Grant, Subsidy, and Loan Programs

Contractual Commitments

HUD has entered into extensive long-term commitments that consist of legally binding agreements to provide grants, subsidies, or loans. Commitments become liabilities when all actions required for payment under an agreement have occurred. The mechanism for funding subsidy commitments generally differs depending on whether the agreements were entered into before or after 1988.

With the exception of the Housing for the Elderly and Disabled and Low Rent Public Housing Loan Programs (which have been converted to grant programs), Section 235/236 Programs, and a portion of "All Other" programs, HUD management expects all of the programs to continue incurring new commitments under authority granted by Congress in future years. However, estimated future commitments under such new authority are not included in the amounts below.

Prior to fiscal year 1988, HUD's subsidy programs, primarily the Section 8 Program and Section 235/236 Programs, operated under contract authority. Each year, Congress provided HUD the authority to enter into multiyear contracts within annual and total contract limitation ceilings. HUD then drew on permanent indefinite appropriations to fund the current year's portion of those multiyear contracts. Because of the duration of these contracts (up to 40 years), significant authority existed to draw on the permanent indefinite appropriations. Beginning in FY 1988, the Section 8 and Section 235/236 Programs began operating under multiyear budget authority whereby the Congress appropriates the funds "up-front" for the entire contract term in the initial year.

HUD's commitment balances are based on the amount of unliquidated obligations recorded in HUD's accounting records with no provision for changes in future eligibility, and thus are equal to the maximum amounts available under existing agreements and contracts. Unexpended appropriations and cumulative results of operations shown in the BS is comprised of funds with Treasury which are available to fund existing commitments that were provided through "up-front" appropriations, and also include permanent, indefinite appropriations received in excess of amounts used to fund the pre-1988 subsidy contracts and offsetting collections.

FHA enters into long-term contracts for both program and administrative services. FHA funds these contractual obligations through unexpended appropriations, permanent, indefinite authority, and offsetting collections. The appropriated funds are primarily used to support administrative contract expenses while the permanent indefinite authority and the offsetting collections are used for program services. The permanent indefinite authority for FHA as of September 30, 2018 and 2017, was $86 million and $81 million, respectively. The offsetting collections for FHA's undelivered orders as of September 30, 2018 and 2017, were $2,612 million and $2,584 million, respectively. The offsetting collection for Ginnie Mae's undelivered orders as of September 30, 2018 and 2017, were $1,028 million and $679 million, respectively.

The following table shows HUD's unpaid obligations and contractual commitments under its grant, subsidy, and loan programs as of September 30, 2018 and 2017:

(In Millions)	2018 Federal	2018 Non-Federal	2018 Total	2017 Federal	2017 Non-Federal	2017 Total
Federal Housing Administration (FHA)	$31	$2,814	$2,845	$18	$2,790	$2,808
Government National Mortgage Association (GNMA)	103	925	1,028	91	588	679
Section 8 Rental Assistance	-	8,211	8,211	-	8,269	8,269
Public and Indian Housing Loans and Grants (PIH)	-	5,058	5,058	-	4,187	4,187
Homeless Assistance Grants	1	2,608	2,609	-	2,351	2,351
Housing for the Elderly and Disabled	2	1,250	1,252	2	1,386	1,388
Community Development Block Grants (CDBG)	-	21,712	21,712	-	14,755	14,755
HOME	17	2,856	2,873	17	2,121	2,138
Section 235 & 236 Other	-	443	443	-	592	592
All Other	96	2,984	3,080	91	2,318	2,409
Total	**$250**	**$48,861**	**$49,111**	**$219**	**$39,357**	**$39,576**

The following table shows HUD's paid obligations and contractual commitments under its grant, subsidy, and loan programs as of September 30, 2018 and 2017:

(In Millions)	2018 Federal	2018 Non-Federal	2018 Total	2017 Federal	2017 Non-Federal	2017 Total
Federal Housing Administration (FHA)	$-	$-	$-	$-	$-	$-
Government National Mortgage Association (GNMA)	-	-	-	-	-	-
Section 8 Rental Assistance	2	263	265	3	336	339
Public and Indian Housing Loans and Grants (PIH)	-	-	-	-	-	-
Homeless Assistance Grants	-	-	-	-	-	-
Housing for the Elderly and Disabled	-	-	-	-	-	-
Community Development Block Grants (CDBG)	-	-	-	-	-	-
HOME	-	-	-	-	-	-
Section 235 & 236 Other	-	-	-	-	-	-
All Other	45	-	45	18	-	18
Total	**$47**	**$263**	**$310**	**$21**	**$336**	**$357**

Administrative Commitments

In addition to the above contractual commitments, HUD has entered into administrative commitments which are the reservation of funds for specific projects (including those for which a contract has not yet been executed) to obligate all or part of those funds. Administrative commitments become contractual commitments upon contract execution. The following table shows HUD's administrative commitments as of September 30, 2018 and 2017:

(In Millions)	2018	2017
Federal Housing Administration (FHA)	$-	$-
Government National Mortgage Association (GNMA)	-	7
Section 8 Rental Assistance	96	91
Public and Indian Housing Loans and Grants (PIH)	19	31
Homeless Assistance Grants	153	278
Housing for the Elderly and Disabled	110	135
Community Development Block Grants (CDBG)	29,129	2,077
HOME	489	612
Section 235 & 236 Other	-	-
All Other	277	435
Total	**$30,273**	**$3,666**

Note 21: Apportionment Categories of Obligations Incurred

Budgetary resources are usually distributed in an account or fund by specific time periods, activities, projects, objects, or a combination of these categories. Resources apportioned by fiscal quarters are classified as Category A apportionments. Apportionments by any other category would be classified as Category B apportionments.

HUD's categories of obligations incurred as of September 30, 2018:

(In Millions)	Category A	Category B	Total
2018			
Direct	$954	$102,684	$103,638
Reimbursable	1	3,320	3,321
Total	**$955**	**$106,004**	**$106,959**

HUD's categories of obligations incurred as of September 30, 2017:

(In Millions)	Category A	Category B	Total
2017			
Direct	$1,041	$112,341	$113,382
Reimbursable	-	4,350	4,350
Total	**$1,041**	**$116,691**	**$117,732**

Note 22: Explanation of Differences between the Statement of Budgetary Resources and the Budget of the United States Government

The President's Budget containing actual FY 2018 data is not available for comparison to the SBR. Actual FY 2018 data will be available at a later date at https://www.whitehouse.gov/omb/budget/. For FY 2017, an analysis to compare HUD's SBR to the President's Budget of the U.S. was performed to identify any differences. The following shows the difference between Budgetary Resources to the President's Budget for FY 2017.

(In Millions)	Budgetary Resources	New Obligations and Upward Adjustments	Distributed Offsetting Receipts	Net Outlays
Per the FY 2017 Statement of Budgetary Resources (SBR)	$210,943	$117,731	$1,369	$47,969
Expired Funds in SBR not included in the Preseident's Budget	(1,062)	-	-	-
Offsetting receipts not included in the President's Budget	-	-	(236)	-
Timing difference related to the recordation of Borrowing Authority	-	-	-	-
Miscellaneous Differences	1	2	-	5
Budget of the U.S. Government	**$ 209,882**	**$117,733**	**$1,133**	**$47,974**

Note 23: Budget and Accrual Reconciliation

During FY 2018, FASAB issued Standards for Federal Financial Accounting Standard (SFFAS No. 53, Budget and Accrual Reconciliation) which requires a reconciliation of HUD's net outlays on a budgetary basis to its net cost of operations during the reporting period. The reconciliation, called the Budget and Accrual Reconciliation replaces the Statement of Financing (SOF) net disclosure, which reconciled the budgetary resources obligated (and some non-budgetary resources) and the net cost of operations. Although this standard is effective FY 2019, HUD chose the early adoption of the Budget and Accrual Reconciliation in FY 2018.

The Budget and Accrual Reconciliation for September 30, 2018 is as follows:

(In Millions)	2018		
	Intragovernmental	**With the Public**	**Total**
Net Operating Cost	$(379)	$40,928	$40,549
Components of Net Operating Cost Not Part of the Budgetary Outlays			
Property, plant, and equipment depreciation	-	(22)	(22)
Property, plant, and equipment disposal & reevaluation	-	-	-
Unrealized valuation loss/(gain) on investment in GSE's	-	-	-
Year-end credit reform subsidy re-estimates	-	-	-
Other	-	-	-
Increase/(decrease) in assets:			
Accounts receivable	-	(78)	(78)
Loans receivable	-	4,759	4,759
Other assets	27	(87)	(60)
Investments	140	(36)	104
(Increase)/Decrease in Liabilities not affecting Budgetary Outlays:			
Accounts payable	(23)	(25)	(48)
Salaries and benefits	-	-	-
Insurance and guarantee program liabilities	-	1,550	1,550
Environmental and disposal liabilities	-	-	-
Other liabilities (Unfunded leave, unfunded FECA, actuarial FECA)	(1,020)	1,363	343
Other Financing Sources			
Federal employee retirement benefit costs paid by OPM and imputed to agency	(75)	-	(75)
Transfers out (in) without reimbursement	4	-	4
Other imputed finance	-	-	-
Total Components of Net Operating Cost Not Part of the Budgetary Outlays	**$(947)**	**$7,424**	**$6,477**
Components of the Budgetary Outlays That Are Not Part of Net Operating Cost			
Effect of prior year agencies credit reform subsidy re-estimate	-	-	-
Acquisition of capital assets	-	32	32
Acquisition of inventory	-	-	-
Acquisition of other assets	-	-	-
Debt and equity securities	-	-	-
Other	2,731	(329)	2,402
Total Components of the Budgetary Outlays That Are Not Part of Net Operating Cost	**$2,731**	**$(297)**	**$2,434**
Other Temporary Timing Differences	(1,713)	-	(1,713)
Total Other Temporary Timing Differences	**$(1,713)**	**$-**	**$(1,713)**
Net Outlays (Calculated Total)	**$(308)**	**$48,055**	**$47,747**
Related Amounts on the Statement of Budgetary Resources			
Outlays, Net (Total) (discretionary and mandatory) (SBR 4190)			49,295
Distributed offsetting receipts (SBR 4200)			(1,548)
Outlays, Net (SBR 4210)	**$-**	**$-**	**$47,747**

Note 24: Restatement of the Department's Fiscal Year 2017 Financial Statements and Notes

Restatement of Fiscal Year 2017 Financial Statements

In FY 2018, FHA corrected material misstatements to recognize the effects of a discounting error in the HECM ROA cash flow model used to calculate the recovery rate applied to the annual financial statement re-estimate. FHA discovered that it improperly discounted the cash flows in the HECM ROA model back to the cohort year of endorsement, instead of discounting back to the year of forecast, September 30, 2017, which resulted in the rates for the return on note assets to be lower, leading to less favorable estimates of FHA's financial performance. This adjustment also caused a cohort in the GI fund to go from an upward re-estimate to a downward re-estimate. The downward re-estimate in the GI fund created a payable to Treasury. This correction impacted the BS, the SNC and the SCNP and related notes. The BS was understated on the Direct Loan and Loan Guarantees line by $1,696 million and understated on the Other Liabilities line in the amount of $ 61 million. The SNC was overstated on the Gross Cost line by $1,696 million. The SCNP was overstated on the Net Cost of Operations line by $1,696 million and understated on the Other Financing Resources line by $ 61 million. HUD's Notes 2 Non-Entity Assets, 7 Direct Loan and Loan Guarantees, 12 Liabilities Not Covered by Budgetary Resources, and 15 Other Liabilities were impacted.

In FY 2018, to be consistent with *OMB Circular A-136*, FHA combined the Subsidy and Interest Expense components in its FHA Note 7 Schedule for Reconciling Loan Guarantee Liability Balances and Schedule for Reconciling Subsidy Cost Allowance Balances. *OMB Circular A-136 Financial Reporting* Requirements illustrative guidance supports the combined presentation. In FY 2017, FHA presented its Technical Re-Estimate Subsidy Expense and Interest components as two separate line items in HUD's Note. This presentation change caused parts of HUD's Note 7 Direct Loan and Loan Guarantees to be understated for FY 2017 by $3 million and $5,989 million, respectively. In conjunction with the Re-estimate presentation change, FHA changed its presentation of the Pre-Credit Reform LLR, as it appeared in Note 7 Direct Loans and Loan Guarantees, Non-Federal Borrowers, specifically the *Schedule for Reconciling Loan Guarantee Liability Balances.* FHA reclassified $8 million from the LLR Technical Default Re-estimate to LLR Adjustments Other line. Additionally, in Note 7, FHA reduced its FY 2017 prior year (PY) Credit Subsidy Re-estimates by $24 thousand to correct a carryover error from PYs.

The Department corrected a material misstatement in Note 7 Direct Loans and Loan Guarantees on the Subsidy Expense for Loan Guarantees-FHA's GI/SRI Funds line. This line was overstated by $250,903 million due to a mathematical error. The correction was captured in FHA's Standalone Note 7 in FY 2017. The adjustment was not captured in the HUD Consolidated Note 7 Direct Loan and Loan Guarantees in FY 2017; the information was not received until mid- November 2017 after the consolidated FS and Notes were completed.

In FY 2018, under the Sub-ledger to GL clean-up initiative, an analysis was performed using HUD's program office reports (sub-ledger) to Oracle (general ledger) to determine the amount of the loan guarantee level by cohort. The analysis determined that a net decrease in the amount of $179 million was needed to be applied to Outstanding Principal Guaranteed in Note 7 Direct Loan and Loan Guarantees for FY 2017. HUD's programs impacted were Section 108 Loan Guarantee and Section 184A Native Hawaiian Housing Loan Guarantee. Section 108 was overstated by $191 million and Section 184A was understated by $12 million. As a result of these adjustments posted in Oracle, the loan guarantee levels tie to the program office reports.

The Department corrected an allocation issue identified by OIG, FHA, and OCFO Accounting dealing with FY 2017 Cost Allocation methodology and entries. The correction was to accurately reflect the allocation of indirect costs within the Office of Housing. In FY 2017, $188 million was allocated primarily to the Non-FHA component but should have been allocated to the FHA component. This misstatement impacted the consolidated SNC's Gross Costs and Cost not Assigned to Program lines. The FHA cylinder was understated by $188 million. The Housing Non-FHA cylinders (Section 8, HED, and Other) were overstated in total by $188 million. The overall impact to the consolidated SNC and SCNP was zero. The consolidated SCNP had no overall impact since the presentation is not broken out by cylinders. HUD's Note 19 Cross Cutting was impacted by the $188 million for Section 8, HED, and Other; this Note only includes the HUD Proper component. OCFO corrected a duplicate allocation of the Working Capital Fund (WCF) expenses in the amount of $42 million. This duplicate allocation overstated expenses in FHA by $14 million and HUD Proper by $28 million. The duplication impacted the consolidated SNC Gross Costs line for FHA and HUD Proper. The overall impact to the consolidated SNC and SCNP was zero.

In FY 2018, the Department identified a prior year accounting crosswalk error in Note 3B Status of Fund Balance with Treasury; the total net impact of the error is zero. The error required reclassifications between the Unobligated Balance Available, Unobligated Balance Unavailable, and Obligated Balance not yet Disbursed. In FY 2017, the Unobligated Balance Available was overstated by $476 million, the Unobligated Balance Unavailable was overstated by $75 million, and the Obligated Balance not yet Disbursed was understated by $551 million. Additionally, the Department identified another reclassification in Note 5 Investments in Private-Sector Entities in the amount of $13 million to properly align with

FHA's FY 2017 Note 5. The $13 million has been reclassified under the Net Acquisition column from Risk Sharing Debentures to Securities Held Outside of Treasury for FY 2017.

The Department corrected a material misstatement identified by OIG in Note 16 Contingencies. The year-end FY 2017 Management Schedules had verbiage stating that the Public Housing Authorities Directors Association lawsuit against HUD would be paid out through the Treasury Judgment Fund. HUD did not remove the contingent liability and record the imputed cost. The BS's The BS's Other Liabilities and Commitments and Contingencies lines were overstated and the SCNP's Imputed Financing-All Other line was understated by $136 million. HUD's Note 12 Liabilities Not Covered by Budgetary Resources "Public-Other Liabilities" line was overstated by $136 million. Note 15 Other Liabilities "Contingent Liability" line under the "Current" column was overstated by $136 millions. Finally, Note 16 Contingencies was overstated by $136 million in FY 2017.

Due to data limitations, Ginnie Mae is unable to report its non-pooled loan portfolio balances in compliance with GAAP requirements for FYs 2018 and 2017. Ginnie Mae misapplied accounting principles related to loan impairment guidance, which caused inappropriate values to be considered in calculating the loan loss allowance. Ginnie Mae made progress to improve the accounts for non pooled management loan portfolio in 2018. Management will assess the financial statements balances related to non-pooled assets in FY 2019, which may result in restatements.

U.S. Department of Housing And Urban Development
Balance Sheet (Restated)
As of September 30, 2017

(In Millions)	September 2017 Consolidated Financial Statements (without Restatement)	September 2017 Consolidated Financial Statements (with Restatement)	Impact of September 2017 Restatements
Assets:			
Intragovernmental:			
Fund Balance with Treasury (Note 3)	$88,824	$88,824	$-
Investments (Note 5)	48,118	48,118	-
Other Assets (Note 11)	20	20	-
Total Intragovernmental	**$136,962**	**$136,962**	**$-**
Cash and Other Monetary Assets (Note 4)	$81	$81	$-
Investments (Note 5)	44	44	-
Accounts Receivable, Net (Note 6)	726	726	-
Direct Loans and Loan Guarantees (Note 7)	20,250	21,946	(1,696)
Other Non-Credit Reform Loans (Note 8)	2,940	2,940	-
General Property, Plant, and Equipment, Net (Note 9)	412	412	-
PIH Prepayments (Note 10)	337	337	-
Total Assets	**$161,752**	**$163,448**	**$(1,696)**
Liabilities (Note 12):			
Intragovernmental:			
Accounts Payable	$26	$26	$-
Debt (Note 13)	29,269	29,269	-
Other Liabilities (Note 15)	2,061	2,122	(61)
Total Intragovernmental Liabilities	**$31,356**	**$31,417**	**$(61)**
Accounts Payable	$1,000	$1,000	$-
Accrued Grant Liabilities	2,503	2,503	-
Loan Guarantee Liability (Note 7)	20,334	20,334	-
Debt Held by the Public (Note 13)	2	2	-
Federal Employee and Veteran Benefits (Note 14)	65	65	-
Loss Reserves (Note 16)	268	268	-
Other Liabilities (Note 15)	1,432	1,295	137
Total Liabilities	**$56,960**	**$56,884**	**$76**
Commitments and Contingencies (Note 16)	$192	$55	$137
Net Position:	0	0	0
Unexpended Appropriations - Funds from Dedicated Collections (Combined Totals) (Note 17)	$(321)	$(321)	$-
Unexpended Appropriations - All Other Funds (Combined Totals)	53,484	53,484	-
Cumulative Results of Operations - Funds From Dedicated Collections (Combined Totals) (Note 17)	23,849	23,849	-
Cumulative Results of Operations - All Other Funds (Combined Totals)	27,780	29,552	(1,772)
Total Net Position - Funds from Dedicated Collections (Combined Totals) (Note 17)	**23,528**	**23,528**	**-**
Total Net Position - All Other Funds (Combined Totals)	**81,264**	**83,036**	**(1,772)**
Total Net Position	**104,792**	**106,564**	**(1,772)**
Total Liabilities and Net Position	**$161,752**	**$163,448**	**$(1,696)**

The accompanying notes are an integral part of these statements

Figures may not add to totals because of rounding.

U.S. Department of Housing And Urban Development
Statement of Net Cost (Restated)
For the Year Ended September 30, 2017

(In Millions)	September 2017 Consolidated Financial Statements (without Restatement)	September 2017 Consolidated Financial Statements (with Restatement)	Impact of September 2017 Restatements
COSTS			
Federal Housing Administration (FHA)			
Gross Costs	$20,855	$19,333	$1,522
Less: Earned Revenue	(1,752)	(1,752)	-
Net Program Costs	19,103	17,581	1,522
Government National Mortgage Association (GNMA)			
Gross Costs	$582	$582	$-
Less: Earned Revenue	(1,692)	(1,692)	-
Net Program Costs	(1,110)	(1,110)	-
Section 8 Rental Assistance			
Gross Costs	$32,600	$32,468	$132
Less: Earned Revenue	-	-	-
Net Program Costs	32,600	32,468	132
Public and Indian Housing Loans and Grants (PIH)			
Gross Costs	$2,389	$2,388	$1
Less: Earned Revenue	(1)	(1)	-
Net Program Costs	2,388	2,387	1
Homeless Assistance Grants			
Gross Costs	$2,033	$2,032	$1
Less: Earned Revenue	(1)	(1)	-
Net Program Costs	2,032	2,031	1
Housing for the Elderly and Disabled			
Gross Costs	$935	$928	$7
Less: Earned Revenue	(92)	(92)	-
Net Program Costs	843	836	7
Community Development Block Grants (CDBG)			
Gross Costs	$5,764	$5,760	$4
Less: Earned Revenue	-	-	-
Net Program Costs	5,764	5,760	4
HOME			
Gross Costs	$1,074	$1,073	$1
Less: Earned Revenue	-	-	-
Net Program Costs	1,074	1,073	1
All Other			
Gross Costs	$5,765	$5,737	$28
Less: Earned Revenue	(34)	(34)	-
Net Program Costs	5,731	5,703	28
Costs not Assigned to Programs	**185**	**185**	**-**
Consolidated			
Gross Costs	$72,182	$70,486	$1,696
Less: Earned Revenue	(3,572)	(3,572)	-
Net Cost of Operations	**$68,610**	**$66,914**	**$1,696**

The accompanying notes are an integral part of these statements

Figures may not add to totals because of rounding.

U.S. Department of Housing And Urban Development
Statement of Changes in Net Position (Restated)
For the Year Ended September 30, 2017

(In Millions)	September 2017 Consolidated Financial Statements (without restatement)	September 2017 Consolidated Financial Statements (with restatement)	Impact of September 2017 Restatements
Unexpended Appropriations:			
Beginning Balances	$46,915	$46,915	$-
Adjustments:			
Beginning Balance, as Adjusted	$46,915	$46,915	$-
Budgetary Financing Sources:			
Appropriations Received	$62,048	$62,048	$-
Appropriations Transferred-in/out	1	1	-
Other Adjustments	(433)	(433)	-
Appropriations Used	(55,368)	(55,368)	-
Total Budgetary Financing Sources	$6,248	$6,248	$-
Total Unexpended Appropriations	**$53,163**	**$53,163**	**$-**
Cumulative Results from Operations:			
Beginning Balances	$65,335	$65,335	$-
Beginning Balances, as Adjusted	$65,335	$65,335	$-
Budgetary Financing Sources:			
Other Adjustments	$(3)	$(3)	$-
Appropriations Used	55,368	55,368	-
Nonexchange Revenue	253	253	-
Transfers-in/out without Reimbursement	(2)	(2)	-
Other	-	(174)	174
Other Financing Sources (Nonexchange):			
Transfers-in/out without Reimbursement	-	174	(174)
Imputed Financing	54	191	(137)
Other	(766)	(827)	61
Total Financing Sources	54,904	54,980	(76)
Net Cost of Operations	(68,610)	(66,914)	(1,696)
Net Change	(13,706)	(11,934)	(1,772)
Cumulative Results of Operations	**51,629**	**53,401**	**(1,772)**
Net Position	**$104,792**	**$106,564**	**$(1,772)**

The accompanying notes are an integral part of these statements

Figures may not add to totals because of rounding.

Required Supplementary Stewardship Information (RSSI)

Introduction

This narrative provides information on resources utilized by HUD that do not meet the criteria for information required to be reported or audited in HUD's financial statements but are, nonetheless, important to understand investments made by HUD for the benefit of the nation. The stewardship objective requires that HUD also report on the broad outcomes of its actions associated with these resources. Such reporting will provide information that will help the reader to better assess the impact of HUD's operations and activities.

HUD's stewardship reporting responsibilities extend to the investments made by a number of HUD programs in Non-Federal Physical Property, Human Capital, and Research and Development. Due to the relative immateriality of the amounts and in the application of the related administrative costs, most of the investments reported reflect direct program costs only. The investments addressed in this narrative are attributable to programs administered through the following divisions/departments:

- Community Planning and Development (CPD),
- Public and Indian Housing (PIH), and
- Office of Lead Hazard Control and Healthy Homes (OLHCHH).

Overview of HUD's Major Programs

CPD seeks to develop viable communities by promoting integrated approaches that provide decent housing, a suitable living environment, and expanded economic opportunities for low- and moderate-income persons. HUD makes stewardship investments through the following CPD programs:

- **CDBG** are provided to state and local communities, which use these funds to support a wide variety of community development activities within their jurisdictions. These activities are designed to benefit low- and moderate-income persons, aid in the prevention of slums and blight, and meet other urgent community development needs. State and local communities use the funds as they deem necessary, as long as the use of these funds meet at least one of these objectives. A portion of the funds supports the acquisition, construction or rehabilitation of permanent, residential structures that qualify as occupied by and benefiting low- and moderate-income persons, while other funds help to provide employment and job training to low- and moderate-income persons.

- **Disaster Grants/CDBG-DR** is a CDBG program that helps state and local governments recover from major natural disasters. A portion of these funds can be used to acquire, rehabilitate, construct, or demolish physical property.
- **HOME** provides formula grants to states and localities (used often in partnership with local nonprofit groups) to fund a wide range of activities that build, buy, and/or rehabilitate affordable housing for low-income persons.
- **Homeless – CoC** The Supportive Housing Program (SHP) was repealed and replaced by the CoC Program effective FY 2012. The CoC is a body of stakeholders in a specific geographic area that plans and implements homeless assistance strategies (including the coordination of resources) to address the critical needs of homeless persons and facilitate their transition to jobs and independent living.
- **Emergency Solutions Grants (ESG)** provide formula funding to local units of government for homelessness prevention and to improve the number and quality of emergency and transitional shelters for homeless individuals and families.
- **NSP** stabilizes communities that have suffered from foreclosures and abandonment. This includes providing technical assistance (NSP TA) as well as the purchase and redevelopment of foreclosed and abandoned homes and residential properties.
- **Housing Opportunities for People with HIV/AIDS** provides education assistance and an array of housing subsidy assistance and supportive services to assist low-income families and individuals who are living with the challenges of HIV/AIDS and risks of homelessness.
- **Rural Innovation Fund** offers grants throughout the nation to address distressed housing conditions and concentrated poverty. The grants promote an 'entrepreneurial approach' to affordable housing and economic development in rural areas by providing job training, homeownership counseling, and affordable housing to residents of rural and tribal communities.
- **Community Compass (formerly One CPD)** provides technical assistance and capacity building to CPD grantees including onsite and remote training, workshops, and 1:1 assistance.

PIH ensures safe, decent, and affordable housing, creates opportunities for residents' self-sufficiency and economic independence, and assures the fiscal integrity of all program participants. HUD makes stewardship investments through the following PIH programs:

- **Indian Community Development Block Grants (ICDBG)** provide funds to Indian organizations to develop viable communities, including decent housing, a suitable living environment, and economic opportunities, principally for low and moderate-income recipients.
- **The Native Hawaiian Housing Block Grant (NHHBG)** program provides an annual block grant to the Department of Hawaiian Home Lands (DHHL) for a range of affordable housing activities to benefit low-income Native Hawaiians eligible to reside on the Hawaiian home lands. The DHHL has the authority under the NHHBG program to develop new and innovative affordable housing initiatives and programs based on local needs, including down payment and other mortgage assistance programs, transitional housing, domestic abuse shelters, and revolving loan funds.
- **IHBG** provide funds needed to allow tribal housing organizations to maintain existing units and to begin development of new units to meet their critical long-term housing needs.
- **HOPE VI Revitalization Grants (HOPE VI)** provide support for the improvement of the living environment of public housing residents in distressed public housing units. Some investments support the acquisition, construction or rehabilitation of property owned by the PHA, state or local governments, while others help to provide education and job training to residents of the communities targeted for rehabilitation.
- **Choice Neighborhoods** grants transform distressed neighborhoods and public and assisted projects into viable and sustainable mixed-income neighborhoods by linking housing improvements with appropriate services, schools, public assets, transportation, and access to jobs.
- **The PH Capital Fund** provides grants to PHAs to improve the physical conditions and to upgrade the management and operation of existing public housing.

OLHCHH program seeks to eliminate childhood lead poisoning caused by lead-based paint hazards and to address other childhood diseases and injuries, such as asthma, unintentional injury, and carbon monoxide poisoning, caused by substandard housing conditions.

- **The Lead Technical Assistance Division,** in support of the Departmental Lead Hazard Control program, supports technical assistance and the conduct of technical studies and demonstrations to identify innovative methods to create lead-safe housing at reduced cost. In addition, these programs are designed to increase the awareness of lead professionals, parents, building owners, housing and public health professionals, and others with respect to lead-based paint and related property-based health issues.

- **Lead Hazard Control Grants** help state and local governments and private organizations and firms control lead-based paint hazards in low-income, privately owned rental, and owner-occupied housing. The grants build program and local capacity and generate training opportunities and contracts for low-income residents and businesses in targeted areas.

Required Supplementary Stewardship Information (RSSI) Reporting – HUD's Major Programs

Non-Federal Physical Property

Investment in Non-Federal Physical Property: Non-Federal physical property investments support the purchase, construction, or major renovation of physical property owned by state and local governments. These investments support HUD's strategic goals to increase the availability of decent, safe, and affordable housing and to strengthen communities. Through these investments, HUD serves to improve the quality of life and economic vitality. The table below summarizes material program investments in Non-Federal Physical Property for fiscal years 2014 through 2018.

Investments in Non-Federal Physical Property
Fiscal Year 2014 – 2018
(In Millions)

Program	2014	2015	2016	20167	2018
CPD					
CDBG	$986	$922	$996	$992	$1,068
Disaster Grants[44]	$323	$398	$386	$289	$281
HOME	$24	$18	$14	$10	$9
SHP/CoC - Homeless[45]	$1	$0	$3	$2	$0
NSP[46]	$1	$1	$1	$0	$1
RIF[47]	$1	$0	$0	$0	$0
PIH					
ICDBG[48]	$56	$59	$57	$55	$0
NHHBG	$10	$9	$0	$2	$2
IHBG[49]	$253	$312	$242	$280	$170
HOPE VI[50]	$17	$28	$12	$27	$13
Choice Neighborhoods	$22	$43	$70	$49	$48
PH Capital Fund	$1,706	$1,916	$1,830	$1,698	$1,792
TOTAL	$3,400	$3,706	$3,611	$3,404	$3,384

[44] Disasters are unpredictable, which causes material fluctuations. Grantees make action plan amendments which results in adjustments to DRGR. This and differences in the timeliness of reporting results in the prior years' numbers being updated.
[45] In the FY 2017 CoC Competition, which is the most recent data provided in this report, no funding was awarded for new capital projects.
[46] FY 2017 amount was not material to be included in the AFR. FY 2018 DRGR introduced a new status for NSP grants, closed with Program Income. Grantees are expending the PI from these closed grants. This program will continue for approximately five years.
[47] Amount reported for FY 2015 is not material to be included in the AFR. More than 15 grantees completed their projects before FY 2015 as the grant period drew to a close. The final reporting period for the RIF program was September 30, 2015.
[48] Amounts here are reported under the fiscal year in which they were appropriated, not necessarily the fiscal year in which they were awarded or expended. Grants funded in FY 2018 were not awarded until FY 2019, as Office of Native American Programs is putting a 2- year NOFA through clearance.
[49] Historical amounts were updated to reflect corrections made since the last report. Amounts expended vary from year to year because annual grant amounts vary depending on funding levels, and grantees are free to expend funds on whatever activities address their current priorities
[50] The final HOPE VI appropriation was in 2011. Except for grants awarded before 2001, all HOPE VI funds have been expended or have been canceled and returned to Treasury. Obligations will decrease each year until all HOPE VI grants have exhausted all funds. Due to a change in methodology, the amounts from FY 2014 through FY 2017 have been revised.

Human Capital

Investment in Human Capital: Human Capital investments support education and training programs that are intended to increase or maintain national economic productive capacity. These investments support HUD's strategic goals, which are to promote self-sufficiency and asset development of families and individuals; improve community quality of life and economic vitality; and ensure public trust in HUD. The following table summarizes material program investments in Human Capital, for fiscal years 2014 through 2018.

Investments in Human Capital
Fiscal Year 2014 – 2018
(In Millions)

Program	2014	2015	2016	2017	2018
CPD					
CDBG	$26	$25	$21	$32	$30
Disaster Grants[51]	$750	$347	$386	$251	$232
ESG	$3	$3	$3	$5	$4
SHP/CoC - Homeless	$26	$25	$16	$15	$14
HOPWA[52]	$1	$0	$0	$0	$0
Community Compass[53]	$29	$38	$48	$54	$46
PIH					
IHBG[54]	$1	$2	$1	$8	$4
HOPE VI[55]	$0	$8	$5	$4	$1
Choice Neighborhoods[56]	$3	$5	$12	$9	$12
OLHCHH					
Lead Technical Assistance	$1	$0	$0	$0	$0
TOTAL	$840	$453	$492	$378	$343

[51] New grantees received significant TA in FY 2016. In FY 2017, they are well established, hence the decrease. Homeownership Assistance for LMI is not being included in the training data.

[52] Expenditures in FY 2015 through FY 2018 are not material to be included in the AFR.

[53] The decrease in FY 2018 aligns with training data below where the program saw an increase of online self-paced trainings which do not incur costs.

[54] In FY 2017 and FY 2018, ONAP focused on providing much more contracted technical assistance directly to tribes at their locations. There was a decrease in grantee demand for technical assistances and new training development in FY 2018 relative to FY 2017, which resulted in decreased expenditures.

[55] Except for grants awarded before 2001, all HOPE VI funds have been expended or have been canceled and returned to Treasury. Future expenditures will decrease until all grants have expended all funds. Due to a change in methodology, the amounts from FY 2014 through FY 2017 have been revised.

[56] In FY 2018, an additional five grantees have begun to report development expenditures after being awarded a grant in 2017. Typically, there is a lag of time of 6 months to a year from the time of grant award to the time that physical development can start.

Results of Human Capital Investments: The following table presents the results (number of people trained) of human capital investments made by HUD's CPD, PIH, and OLHCHH programs for FYs 2014 through 2018.

Investments in Human Capital
Number of People Trained
Fiscal Year 2014 – 2018

Program	2014	2015	2016	2017	2018
CPD					
CDBG	$26	$25	$21	$32	$30
SHP/CoC - Homeless[57]	$750	$347	$386	$251	$232
HOPWA	$3	$3	$3	$5	$4
NSP TA[58]	$26	$25	$16	$15	$14
RIF[59]	$1	$0	$0	$0	$0
Community Compass	$29	$38	$48	$54	$46
PIH					
NHHBG[60]	$1	$2	$1	$8	$4
IHBG[61]	$0	$8	$5	$4	$1
HOPE VI (see table on pages 125 and 126)	$3	$5	$12	$9	$12
Choice Neighborhoods (see table on page 126)					
OLHCHH					
Lead Technical Assistance[62]	$1	$0	$0	$0	$0
TOTAL	$840	$453	$492	$378	$343

57 SHP/CoC – Homeless results are expressed in terms of percentage of persons exiting the programs having employment income. FY 2015 – FY 2018: Goals are changing, and the data is not available to compare to the prior year based on the old goal.

58 In FY 2014, TA was separated from the NSP programs to capture all the resources required to produce training products. In FY 2014 and going forward, NSP will use the activity Public Services to capture the investment in human capital. This resulted in revisions to the amounts for FY 2014 and FY 2015. In FY 2014, NSP began closing these grants. Expenditures under investments for human capital, in FY 2014 through FY 2018, are not material to be included in the AFR.

59 More than 15 grantees completed their projects before FY 2015 as the grant period drew to a close. The final reporting period for the RIF program was September 30, 2015. Expenditures under investments for human capital, in FY 2014 through FY 2015, are not material to be included in the AFR.

60 A lack of S&E funding prevented ONAP from offering training in FY 2014-2015. Grantee received training from HUD staff and, in FY 2016, from two contracted training providers. In FY 2017 and FY 2018, ONAP focused on providing technical assistance directly to the grantee. Expenditures under investments for human capital, in FY 2016 through FY 2018, are not material to be included in the AFR.

61 New training funds were offered through a NOFA competition for contractors to provide training in FY 2015 through FY 2018. Fewer grantees attended trainings in FY 2018 versus FY 2017, some of which can be attributed to grantee increasingly forgoing travel in order to save money for IHBG construction and program administration.

62 In FY 2018, the OLHCHH hosted its National Healthy Homes Conference, Program Mgrs. school, and New Grantee Orientation. There were 1,500 people trained at the National Healthy Homes Conference. There were 100 people trained at the New Grantee Orientation and 350 people trained at the Program Managers School.

HOPE VI/Choice Neighborhoods Results of Investments in Human Capital: Since the inception of the HOPE VI program in FY 1993, the program has made significant investments in Human Capital related initiatives (i.e., education and training). The following table and continuation on the next page presents HOPE VI's key performance information for fiscal years 2014 through 2018, reported as cumulative since the program's inception.

Key Results of HOPE VI Program Activities
Fiscal Years 2014 – 2018

HOPE VI Service	2014 Enrolled	2014 Completed	Percent Completed	2015 Enrolled	2015 Completed	Percent Completed
Employment Preparation, Placement & Retention[63]	85,997	N/A	N/A	87,005	N/A	N/A
Job Skills Training Programs	35,001	18,536	53%	35,364	18,685	53%
High School Equivalent Education	18,389	5,315	29%	18,533	5,334	29%
Entrepreneurship Training	3,746	1,649	44%	3,755	1,654	44%
Homeownership Counseling	16,650	7,160	43%	**16,837**	7,350	44%
HOPE VI Service	**2016 Enrolled**	**2016 Completed**	**% Completed**	**2017 Enrolled**	**2017 Completed**	**% Completed**
Employment Preparation, Placement & Retention[64]	87,564	N/A	N/A	87,861	N/A	N/A
Job Skills Training Programs	35,675	18,877	53%	35,748	18,917	53%
High School Equivalent Education	18,705	5,381	29%	18,792	5,390	29%
Entrepreneurship Training	3,795	1,682	44%	3,803	1,684	44%
Homeownership Counseling	17,399	7,804	45%	17,410	7,805	45%

[63] Completion data for this service is not provided, as all who enroll are considered recipients of the training.
[64] Ibid.

Key Results of HOPE VI Program Activities
Fiscal Years 2014 – 2018 (Continued)

HOPE VI Service	2018 Enrolled	2018 Completed	Percent Completed
Employment Preparation, Placement & Retention[65]	87,873	N/A	N/A
Job Skills Training Programs	35,749	18,920	53%
High School Equivalent Education	18,795	5,393	29%
Entrepreneurship Training	3,803	1,684	44%
Homeownership Counseling	17,413	7,805	45%

The following table presents Choice Neighborhoods cumulative performance information for fiscal years 2014 through 2018.

Key Results of Choice Neighborhoods Program Activities
Fiscal Years 2014 – 2018

Choice Neighborhoods Service	2014[66]	2015	2016	2017	2018[67]
Current Total Original Assisted Residents	5,813	7,017	10,089	13,446	10,132
Current Total Original Assisted Residents in Case Management	2,900	3,063	4,882	7,596	6,750
High School Graduation Rate[68]	N/A	N/A	N/A	N/A	N/A
Number of Residents (in Case Management) Who Completed Job Training or Other Workforce Development Programs	411	867	343	119	90

[65] 2014 was the first year of reporting results for Choice Neighborhoods Human Capital Investments.
[66] Ibid.
[67] The reduction in FY 2018 is due to CN's first five grantees completing their grant term as well as to the end of their reporting metrics.
[68] Program level High School Graduation Rate data is currently not available for 2014 through 2018, due to metric only requiring individual grantees to enter rates and not numerator and denominator.

Research and Development

Investments in Research and Development: Research and development investments support (a) the search for new knowledge and/or (b) the refinement and application of knowledge or ideas, pertaining to development of new or improved products or processes. Research and development investments are intended to increase economic productive capacity or yield other future benefits. As such, these investments support HUD's strategic goals, which are to increase the availability of decent, safe, and affordable housing in America's communities; and ensure public trust in HUD.

The following table summarizes HUD's research and development investments, for fiscal years 2014 through 2018.

Investments in Research and Development
Fiscal Year 2014 – 2018
(In Millions)

Program	2014	2015	2016	20167	2018
OLHCHH					
Lead Hazard Control[69]	$3	$4	$5	$6	$3
TOTAL	$3	$4	$5	$6	$3

Results of Investments in Research and Development: In support of HUD's lead hazard control initiatives, the OLHCHH program has conducted various studies. Such studies have contributed to an overall reduction in the per-housing unit cost of lead hazard evaluation and control efforts over the last decade. More recently, as indicated in the following table, increased supply and labor costs have contributed to increases in the per-housing unit cost through FY 2016. The per-housing unit cost varies by geographic location and the grantees' level of participation in control activities. These studies have also led to the identification of the prevalence of related hazards.

Results of Research and Development Investments
Fiscal Year 2014 – 2018

Program	2014	2015	2016	20167	2018
OLHCHH					
Lead Hazard Control Per-Housing Unit Cost	**$7,755**	**$8,909**	**$9,048**	**$8,437**	**$8,046**
TOTAL	$7,755	$8,909	$9,048	$8,437	$8,046

[69] In FY 2013, there was a significant increase in Healthy Homes Technical Studies (HHTS) grant awards, and those grants are being closed out. In FY 2017, the FY 2013 grantee transactions made up 80% of the HHTS transactions. In FY 2018, that number dropped to 45%.

Required Supplementary Information

Consolidated Statement of Budgetary Resources
As of September 30, 2018
(In Millions)
Page 1 of 2

	FHA	Ginnie Mae	Section 8 Rental Assistance	PIH	Homeless Assistance Grants	Housing for the Elderly and Disabled	CDBG
Budgetary Resources:							
Unobligated Balance From Prior Year Budget Authority, Net	$31,750	$14,154	$907	$201	$3,015	$236	$9,906
Appropriations (discretionary and mandatory)	2,078	-	33,720	3,460	2,513	908	31,345
Borrowing Authority (discretionary and mandatory)	-	-	-	-	-	-	-
Spending Authority from Offsetting Collections	8,157	2,837	-	-	1	256	-
Total Budgetary Resources	**$41,985**	**$16,991**	**$34,627**	**$3,661**	**$5,529**	**$1,400**	**$41,251**
Memorandom (non-add) Entries:							
Status of Budgetary Resources:							
Unobligated Balance, End of Year:							
Apportioned, Unexpired Accounts	57	180	1,084	103	2,481	172	29,213
Unapportioned, Unexpired Accounts	27,141	16,437	163	104	6	434	28
Unexpired Unobligated Balance, End of Year	$27,198	$16,617	$1,247	$207	$2,487	$606	$29,241
Expired Unobligated Balance, End of Year	34	1	-	11	554	12	2
Unobligated Balance, End of Year (Total)	27,232	16,618	1,247	218	3,041	618	29,243
Total Budgetary Resources	**$41,985**	**$16,991**	**$34,627**	**$3,661**	**$5,529**	**$1,400**	**$41,251**
Outlays, Net:							
Outlays, Net (Total) (discretionary and mandatory)	6,499	(2,715)	33,273	2,532	2,054	669	5,890
Distributed Offsetting Receipts (-)	(1,183)	-	(1)	-	-	-	-
Agency Outlays, Net (discretionary and mandatory)	**$5,316**	**$(2,715)**	**$33,272**	**$2,532**	**$2,054**	**$669**	**$5,890**

The accompanying notes are an integral part of these statements.

Consolidated Statement of Budgetary Resources
As of September 30, 2018
(In Millions)

	HOME	All Other	Budgetary Total	FHA Non-Budgetary	Ginnie Mae Non-Budgetary	Other Non-Budgetary Credit Reform Accounts	Total Non-Budgetary Credit Reform Accounts	Total
Budgetary Resources:								
Unobligated Balance From Prior Year Budget Authority, Net	$646	$2,805	$63,620	$25,254	$4,086	$410	$29,750	$93,370
Appropriations (discretionary and mandatory)	1,362	7,571	82,957	-	-	-	-	82,957
Borrowing Authority (discretionary and mandatory)	-	-	-	8,204	-	6	8,210	8,210
Spending Authority from Offsetting Collections	-	88	11,339	23,677	2,007	66	25,750	37,089
Total Budgetary Resources	**$2,008**	**$10,464**	**$157,916**	**$57,135**	**$6,093**	**$482**	**$63,710**	**$221,626**
Memorandom (non-add) Entries:								
Net Adjustments to unobligated balance brought forward, Oct 1	$2	$91	$(3,711)	$462	$3,439	$(31)	$3,870	$159
Status of Budgetary Resources:								
New Obligations and Upward Adjustments (Total) (Note 21)	$1,486	$7,850	$76,563	$27,357	$2,928	$112	$30,397	$106,960
Unobligated Balance, End of Year:								
Apportioned, Unexpired Accounts	495	1,512	35,297	10,485	2,670	79	13,234	48,531
Unapportioned, Unexpired Accounts	2	991	45,306	19,293	495	291	20,079	65,385
Unexpired Unobligated Balance, End of Year	$497	$2,503	$80,603	$29,778	$3,165	$370	$33,313	$113,916
Expired Unobligated Balance, End of Year	25	111	750	-	-	-	-	750
Unobligated Balance, End of Year (Total)	522	2,614	81,353	29,778	3,165	370	33,313	114,666
Total Budgetary Resources	**$2,008**	**$10,464**	**$157,916**	**$57,135**	**$6,093**	**$482**	**$63,710**	**$221,626**
Outlays, Net:								
Outlays, Net (Total) (discretionary and mandatory)	944	7,067	56,213	(7,665)	706	41	(6,918)	49,295
Distributed Offsetting Receipts (-)	-	(364)	(1,548)	-	-	-	-	(1,548)
Agency Outlays, Net (discretionary and mandatory)	**$944**	**$6,703**	**$54,665**	**$(7,665)**	**$706**	**$41**	**$(6,918)**	**$47,747**

The accompanying notes are an integral part of these statements.