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

Audit of HUD's Fiscal Year 2020 Consolidated Financial Statements

Office of Audit, Financial Audits Division
Washington, DC

Audit Report Number: 2021-FO-0003
December 4, 2020

OFFICE OF INSPECTOR GENERAL
U.S. Department of Housing and Urban Development

To: Irving L. Dennis, Chief Financial Officer, F

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From: Sarah D. Sequeira, Director, In-House Financial Audits, Financial Audits Division, GAF

Subject: Audit of HUD's Fiscal Year 2020 Consolidated Financial Statements

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 fiscal year 2020 consolidated financial statements and reports on internal control over financial reporting and compliance with laws, regulations, contracts, and grant agreements.

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, appendix 8M, requires that OIG post its reports on the OIG website. Accordingly, this report will be posted at https://www.hudoig.gov.

If you have any questions or comments about this report, please do not hesitate to call me at 202-402-3949.

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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). Our objective was to express an opinion on the fair presentation of HUD's consolidated financial statements in accordance with U.S. generally accepted accounting principles applicable to the Federal Government. This report presents our independent auditor's report on HUD's fiscal year 2020 consolidated financial statements and reports on internal control over financial reporting and compliance with laws, regulations, contracts, and grant agreements. HUD reports our opinion on its financial statements in its Fiscal Year 2020 Agency Financial Report.

As part of auditing HUD's consolidated financial statements, we are also responsible for auditing the financial statements of HUD's two component entities, the Federal Housing Administration (FHA) and the Government National Mortgage Association (Ginnie Mae). Audit results on these entities are presented in Audit Reports 2021-FO-0001 and 2021-FO-0002, respectively.

What We Found

In our opinion, HUD's fiscal year 2020 financial statements were presented fairly, in all material respects, in accordance with the U.S. generally accepted accounting principles for the Federal Government. However, we identified deficiencies that constituted one material weakness and one instance of noncompliance with applicable laws, regulations, contracts, and grant agreements. Specifically, HUD had weaknesses in its controls over financial reporting and did not always comply with Federal generally accepted accounting principles. HUD also did not comply with the Federal Financial Management Improvement Act, regarding certain requirements to establish and maintain financial management systems.

What We Recommend

This report contains a number of current recommendations for corrective actions addressed to the Offices of the Chief Financial Officer, Community Planning and Development, Housing – Federal Housing Administration, and Public and Indian Housing. The Followup on Prior Audits section contains outstanding prior-year recommendations. Most significant are those recommendations related to properly accounting for certain funding provided to HUD under the Coronavirus Aid, Relief, and Economic Security Act and improving and better documenting HUD's estimation and validation methodologies for accrued grant liabilities. Additional recommendations specific to FHA and Ginnie Mae are in separate reports identified above.

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Independent Auditor's Report

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

In our audit of the fiscal year 2020 consolidated financial statements of the U.S. Department of Housing and Urban Development (HUD), we found

- that HUD's consolidated financial statements as of and for the fiscal year ending September 30, 2020, were presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- one material weakness in internal control over financial reporting, based on the limited procedures performed; and
- one reportable instance of noncompliance with provisions of applicable laws, regulations, contracts, and grant agreements tested.

The following sections discuss in more detail (1) our report on the financial statements, which includes (a) emphasis-of-matter paragraphs related to single-year presentation of the financial statements and the Government National Mortgage Association's (Ginnie Mae) modified Federal credit reform accounting; (b) other matters paragraphs regarding required supplementary information (RSI),[1] and other information included with the financial statements;[2] (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

In accordance with the Chief Financial Officers Act of 1990, as amended, we have audited HUD's consolidated financial statements. HUD's consolidated financial statements comprise the consolidated balance sheet as of September 30, 2020; the related consolidated statement of net cost, changes in net position, and combined statement of budgetary resources for the fiscal year then ended; and the related notes to the financial statements.

We conducted our audit in accordance with U.S. generally accepted government auditing standards. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion.

1 The RSI presents management's discussion and analysis and a combining statement of budgetary resources.
2 Other information consists of information included with the financial statements, other than the RSI and our independent auditor's report.

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 U.S. generally accepted accounting principles; (2) preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles; (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, 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

Our responsibility is to express an opinion on the fair presentation of these consolidated financial statements based on our audit. We did not, however, audit the financial statements of Ginnie Mae, a component of HUD, whose statements reflect total assets constituting 10.7 percent of HUD's consolidated total assets as of September 30, 2020. Those financial statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Ginnie Mae, is based solely on the report of the other auditors.

U.S. generally accepted government auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. We are also responsible for applying certain limited procedures to the RSI and other information included with the financial statements.

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the auditor's assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit of financial statements also involves evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audits also included performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Financial Statements

In our opinion, based on our audits and the report of the other auditors, HUD's financial statements present fairly, in all material respects, HUD's financial position as of September 30, 2020, and its net cost of operations, changes in net position, and budgetary resources for the fiscal year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

The following are matters that we 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. Both matters are discussed in note 1 to the financial statements (appendix B). Our opinion was not modified with respect to these matters.

Single-Year Presentation of HUD's Financial Statements

We were engaged to audit HUD's fiscal year 2020 financial statements and not the prior-year financial statements. HUD presented single-year financial statements for fiscal year 2020 activity and did not present comparative statements. Therefore, the scope of our independent auditor's report is related to only the fiscal year 2020 financial statements.

Ginnie Mae's Modified Federal Credit Reform Accounting

Although Ginnie Mae's mortgage-backed securities (MBS) guarantee program does not follow the Federal Credit Reform Act, it uses a program, financing, liquidating, and capital reserve account to process its cash receipts and disbursements through the U.S Department of the Treasury. Ginnie Mae established this fund structure at the direction of the Office of Management and Budget (OMB) in 2012. Under this structure, OMB also instructed Ginnie Mae to annually record an upward or downward reestimate and negative subsidy payment, for budgetary purposes only. Based on these estimates, Ginnie Mae transfers money among its accounts. Ginnie Mae reflects these transfers in the spending authority from offsetting collections and new obligations and upward adjustments financial statement line items on HUD's statement of budgetary resources, and these transfers impact the amount held in fund balance with Treasury versus investments on HUD's balance sheet. Therefore, although HUD accounts for Ginnie Mae's MBS guarantee program in accordance with Statement of Federal Financial Accounting Standards (SFFAS) 51 - Insurance Programs,[3] it also performs modified credit reform accounting at the direction of OMB.

Other Matters

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

Required Supplementary Information

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the RSI be presented to supplement the financial statements. Although the RSI is not a part of the financial statements, FASAB considers this information to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with U.S. generally

[3] The accounting outlined in SFFAS 51 - Insurance Programs does not include the reestimates and negative subsidy payment transfers described above. The transfers described above are most closely related to the accounting required under SFFAS 2 - Accounting for Direct Loans and Loan Guarantees. However, Ginnie Mae does not follow SFFAS 2 and has only implemented the transfers described for budgetary purposes at the direction of OMB.

accepted government auditing standards, which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency with management's responses to the auditor's inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. We did not audit and we do not express an opinion or provide any assurance on the RSI because the limited procedures applied do not provide sufficient evidence to express an opinion or provide any assurance.

Other Information
HUD's other information contains 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 in order 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 financial statements. We did not audit and do not express an opinion or provide any assurance on the other information.

Report on Internal Control Over Financial Reporting

In connection with our audit of HUD's consolidated financial statements, we considered HUD's internal control over financial reporting, consistent with our auditor's responsibility discussed below. We performed our procedures related to HUD's internal control over financial reporting in accordance with U.S. generally accepted government auditing standards.

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 fiscal year ending September 30, 2020, 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 are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of 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 material weaknesses[4] or significant deficiencies.[5]

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4 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.

5 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.

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. generally accepted accounting principles and assets are safeguarded against loss from unauthorized acquisition, use, or disposition and (2) 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
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 and significant deficiencies or to express an opinion on the effectiveness of HUD's internal control over financial reporting. Given these limitations, other deficiencies in internal control that might be material weaknesses or significant deficiencies may exist that have not been identified.

During our fiscal year 2020 audit, we identified deficiencies in HUD's internal control over financial reporting that collectively rose to the level of a material weakness. We have communicated these matters to HUD management. Exhibit I and two separate audit reports[6] contain details regarding internal control over financial reporting by HUD's components, the Federal Housing Administration (FHA) and Ginnie Mae. We also identified other deficiencies in HUD's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. Nonetheless, these deficiencies warrant HUD management's attention. We have communicated these matters to HUD management and, where appropriate, will report on them separately.

Material Weakness

HUD Had Weaknesses in Its Controls Over Financial Reporting and Did Not Always Comply With Federal Generally Accepted Accounting Principles
HUD's internal controls over financial reporting had weaknesses, and HUD did not properly account for or have adequate accounting support for certain assets and liabilities. Specifically, HUD did not (1) follow Federal generally accepted accounting principles when accounting for Housing Choice Voucher Program (HCVP) Coronavirus Aid, Relief, and Economic Security (CARES) Act administrative funds, (2) sufficiently document estimation model assumptions used in the Office of Community Planning and

[6] Details on these matters are included in exhibit I of this report and in Audit Report 2021-FO-0001, Audit of the Federal Housing Administration's Fiscal Years 2020 and 2019 Financial Statements, issued November 12, 2020, and Audit Report 2021-FO-0002, Audit of the Government National Mortgage Association's Fiscal Year 2019 Financial Statements, issued November 16, 2020.

Development (CPD) accrued grant liabilities estimate or adequately validate the estimate, (3) record all reductions in the guaranteed loan principal outstanding balance for loans in the Section 184 Indian Home Loan Guarantee program, (4) recognize all financial events resulting from the Office of Public and Indian Housing (PIH) cash management process, or (5) ensure that its accounts receivables were complete or that it had adequate support for the net realizable value of its accounts receivable. These deficiencies occurred because of continued weaknesses in HUD's internal controls and insufficient financial management controls and systems. As a result, several financial statement line items were misstated or at risk of material misstatement as of September 30, 2020.

Further, Ginnie Mae, a component entity of HUD, had a significant deficiency in the design of its organizational structure for two key functions, estimation model development and model verification, within its model risk governance in appropriately mitigating inherent risk when employing complex models for significant estimates for financial reporting. The component auditor determined that the model development and verification functions reside within the same office. This control design deficiency potentially prevents an effective challenge to models used to develop significant estimates for financial reporting. As a result, these significant and complex models may not have the rigorous review necessary to achieve Ginnie Mae's objectives and adequately address related risks.[7]

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.

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

In connection with our audit of HUD's consolidated financial statements, we tested compliance with selected provisions of applicable laws, 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 U.S. generally accepted government auditing standards.

Management's Responsibility

HUD 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

[7] Audit Report 2020-FO-0002, Audit of Ginnie Mae's Fiscal Year 2020 Financial Statements, issued November 16, 2020

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 one instance of noncompliance for fiscal year 2020 that is reportable under U.S. generally accepted government auditing standards. We also noted other matters related to HUD's compliance with the Antideficiency Act and the Improper Payments Elimination and Recovery Act of 2010. 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. Exhibit II contains details of HUD's noncompliance with applicable laws, regulations, contracts, and grant agreements.

HUD's Financial Management System Did Not Comply With the Federal Financial Management Improvement Act
HUD's noncompliance with the Federal Financial Management Improvement Act (FFMIA) continued in fiscal year 2020. Specifically, HUD's financial management system did not comply with the three section 803(a) elements of FFMIA. Section 803(a) requires agencies subject to the Chief Financial Officers Act to establish and maintain financial management systems that substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the U.S. Standard General Ledger (USSGL) at the transaction level. We noted a number of instances of FFMIA noncompliance within HUD's financial management system. HUD's continued noncompliance was due to its having ineffectively designed and operating internal controls over financial reporting and unimplemented recommendations for corrective action from longstanding issues related to component and program offices' system weaknesses.

Other Matters

Potential Noncompliance With the Antideficiency Act
As of September 30, 2020, HUD had 13 cases of potential or confirmed Antideficiency Act violations under investigation by its Office of the Chief Financial Officer (OCFO). The Act prohibits Federal employees from making or authorizing an expenditure in excess of the amount available in the appropriation or fund or in excess of the amount permitted by agency regulations.[8] Of the 13 cases, 9 carried forward from prior years, and 4 were identified during fiscal year 2020. At fiscal yearend, HUD was assessing 9 of the 13 cases with OMB's Office of General Counsel.

Noncompliance With the Improper Payments Elimination and Recovery Act of 2010 Our Improper Payments Elimination and Recovery Act of 2010 (IPERA) audit[9] found that fiscal year 2019 marked the seventh consecutive year in which HUD did not comply with IPERA. Specifically, it did not (1) publish improper payments estimates for all programs

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8 Antideficiency Act, 31 U.S.C. (United States Code) 1341(a)(1)(A) and 1517(a)

9 Audit Report 2020-AT-0001, Compliance With the Improper Payments Elimination and Recovery Act, issued May 14, 2020

it identified as susceptible to significant improper payments and (2) meet annual reduction targets for each program assessed to be at risk and estimated for improper payments. Despite continued efforts, this condition occurred because HUD did not have an effective process to comply with all IPERA requirements. HUD continued its plans to address many of the prior-year IPERA compliance issues, including hiring a contractor in fiscal year 2018 to help bring the program into compliance, and closed all open recommendations on September 30, 2020. In its Fiscal Year 2020 Agency Financial Report, HUD reported that it believes it is compliant with IPERA for fiscal year 2020. Our audit of HUD's compliance with the Payment Integrity Information Act of 2019[10] for fiscal year 2020 will be conducted in fiscal year 2021.

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 2020 and 2019 financial statements. Our report,[11] dated November 12, 2020, includes an unmodified opinion on FHA's financial statements. In addition, we reported no material weaknesses or significant deficiencies in internal control over financial reporting and no instances of noncompliance with laws, regulations, and contracts.

Results of the Audit of Ginnie Mae's Financial Statements

An independent certified public accounting firm performed a separate audit of Ginnie Mae's fiscal year 2020 financial statements. Its report on Ginnie Mae's financial statements,[12] dated November 16, 2020, includes an unmodified opinion on these financial statements. In addition, the accounting firm reported one significant deficiency in internal control over financial reporting and no instances of noncompliance with laws, regulations, and contracts.

Auditee Comments and Our Evaluation

On November 23, 2020, the Chief Financial Officer (CFO) provided formal comments to our report. The CFO's formal response, in its entirety, along with our evaluation are presented in appendix A.

The CFO recognized the Department's success in achieving an unmodified audit opinion on its fiscal year 2020 financial statements and the Department's continued progress in the execution

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[10] The Payment Integrity Information Act of 2019, enacted March 2, 2020, repealed IPERA.

[11] Audit Report 2021-FO-0001, Audit of Federal Housing Administration's Fiscal Years 2020 and 2019 Financial Statements, issued November 12, 2020

[12] Audit Report 2020-FO-0002, Audit of Ginnie Mae's Fiscal Year 2020 Financial Statements, issued November 16, 2020

of its financial transformation plan to restore sound financial management and transparency. The CFO also acknowledged that deficiencies remain which require further enhancement of HUD's internal control environment to ensure high standards of integrity and transparency in reporting its financial performance.

We look forward to working with HUD during the audit resolution process as it develops and implements corrective action plans to address reported deficiencies and continues with its financial transformation efforts.

Kim Randall

Kimberly Randall
Deputy Assistant Inspector General for Audit
Washington, DC

December 4, 2020

Exhibit I

Material Weakness

HUD Had Weaknesses in Its Controls Over Financial Reporting and Did Not Always Comply With Federal Generally Accepted Accounting Principles

HUD's internal controls over financial reporting had weaknesses, and HUD did not properly account for or have adequate accounting support for certain assets and liabilities. Specifically, HUD did not (1) follow Federal generally accepted accounting principles when accounting for HCVP CARES Act administrative funds,[13] (2) sufficiently document estimation model assumptions used in CPD's accrued grant liabilities estimate or adequately validate the estimate, (3) record all reductions in the guaranteed loan principal outstanding balance for loans in the Section 184 Indian Home Loan Guarantee program,[14] (4) recognize all financial events resulting from PIH's cash management process, or (5) ensure that its accounts receivables were complete or that it had adequate support for the net realizable value of its accounts receivable. These deficiencies occurred because of continued weaknesses in HUD's internal controls and insufficient financial management controls and systems. As a result, several financial statement line items were misstated or at risk of material misstatement as of September 30, 2020.

HUD Did Not Follow Generally Accepted Accounting Principles When Accounting for HCVP CARES Act Administrative Funds

OCFO did not properly account for $850 million in HCVP CARES Act administrative fee disbursements in accordance with generally accepted accounting principles. Specifically, OCFO did not recognize a prepayment for HCVP CARES Act administrative fees disbursed to more than 2,000 public housing agencies (PHAs) during the third and fourth quarters of fiscal year 2020 that had not been used by the PHAs for eligible expenses.[15] Instead, it recognized the entire $850 million that it disbursed as an expense.

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[13] The CARES Act was passed on March 27, 2020, to prevent, prepare for, and respond to the coronavirus. Under this Act, PHAs were appropriated additional funds to maintain normal operations and take other necessary actions during the period in which the program was impacted by coronavirus, which included $850 million for both administrative expenses and other expenses of public housing agencies for their Section 8 programs.

[14] Congress established the Section 184 Indian Home Loan Guarantee program in 1992 to facilitate homeownership and increase access to capital in Native American communities. The Office of Loan Guarantee within HUD's Office of Native American Programs (ONAP), guarantees the Section 184 home mortgage loans made to borrowers. The loan guarantee assures the lender that its investment will be repaid in full in the event of foreclosure.

[15] According to PIH Notice 2020-24 - Extension of Period of Availability for CARES Act Supplemental Public Housing and Housing Choice Voucher Funds, Guidance on CARES Act Financial Reporting Requirements (FDS and Quarterly Reporting), and Other CARES Act Provisions, issued September 14, 2020, PHAs must consider

This failure to follow generally accepted accounting principles was primarily due to OCFO's lack of (1) a designated program accounting analysis official and (2) a documented accounting analysis of the HCVP, evaluating each type of activity (disbursements, repayments, payables, etc.) that would give rise to an accounting event and the appropriate accounting treatment.

Lack of Designated Program Accounting Analysis Official
OCFO did not have a designated official whose primary responsibility was to evaluate HUD's new program notices, regulations, and other program changes against the accounting standards and HUD's current accounting treatment to determine any accounting implications. Instead, OCFO relied on (1) information from program offices (a) made up of personnel who did not have a full Federal financial accounting background and (b) having program execution as their primary responsibility and (2) reviews conducted by certain OCFO officials during the departmental clearance process.

Lack of Documented Understanding of the Nature of all HCVP Disbursements
OCFO had not documented its understanding of the nature of all HCVP disbursements. It is essential that OCFO have a thorough and documented understanding of the nature of each type of HCVP disbursement, to include the qualities the disbursement type embodies and what qualities are necessary for recognition as a prepayment versus an expense in accordance with generally accepted accounting principles. Because OCFO did not have this accounting analysis documented as part of its regular PIH prepayment estimation process, it was difficult for OCFO to obtain the information needed to make a complete assessment of the appropriate accounting for the CARES Act funding.

As a result, HUD's financial statements were originally misstated by the portion of the $850 million of disbursed HCVP CARES Act administrative funds that had not been spent by PHAs. When we brought this matter to OCFO's attention, it recorded the $850 million prepayment; however, the amount of eligible expenses incurred to liquidate the prepayment was not known because PHAs had reported very little expense data to HUD.[16] The only data available were early submissions of financial statements from PHAs that had a June 30 fiscal yearend,[17] which represented only 8 percent of total PHAs, and included expenses for only 2 of the 5 months during which funding was available through September 30, 2020. Based on these limited data, PIH estimated that PHAs had spent $283.3 million, and HUD adjusted its general ledger and financial statements to record this expense estimate in time for yearend reporting.
Due to the lack of data available to determine eligible expenses incurred, there was a high degree of estimation uncertainty that management was unable to reduce. HUD started

CARES Act administrative fee funds as restricted cash and unearned revenue until the PHA incurs an eligible cost that will be funded by the CARES Act administrative fee funding.

16 PIH usually collects expense information from PHAs on regular HCVP funding in the Voucher Management System (VMS), however, PIH reported that adding a field in VMS to capture this new information was difficult due to (1) outdated system functionalities and no additional funding available to update the system as it transitions to a new system, the Enterprise Voucher Management System (eVMS), and (2) limitations imposed by the Paperwork Reduction Act. PIH also reported that it planned to use a portal in development by OCFO for PHAs to report their CARES Act expenses; however, it will not be available until January 2021.

17 PHAs may have a March 31, June 30, September 30, or December 31 fiscal yearends. Financial statements are usually due to HUD 2 months after the PHA's fiscal yearend. However, PIH extended the June 30 submissions to October 30 due to COVID-19.

disbursing HCVP CARES Act administrative funds to PHAs in May 2020, soon after it had urged PHAs to use these supplemental funds for regular and additional COVID-19 administrative expenses first.[18] Therefore, it is reasonably possible that PHAs spent a significant portion of the $850 million in CARES Act administrative funds by September 30, 2020. When asked if this was a possibility, PIH's position was that it was not likely; however, PIH had no data or analysis to support this position. Based on the data in VMS,[19] we estimated that if PHAs used their CARES Act funding to pay for all of the administrative expenses reported in VMS between May and September 2020, approximately $38.6 million in prepayment from CARES Act funding would remain, compared to $566.7 million that HUD reported on its yearend financial statements. While this difference does not represent a known misstatement in HUD's financial statements at this time, it highlights the high degree of estimation uncertainty with the estimate PIH and OCFO had developed.

HUD Did Not Sufficiently Document Estimation Model Assumptions Used in CPD's Accrued Grant Liabilities Estimate or Adequately Validate the Estimate

CPD had weaknesses in its processes to estimate accrued grant liabilities, and OCFO had weaknesses in its processes to validate CPD's estimate. CPD based its estimation on each program's historical disbursement activity and applied a percentage multiplier to adjust for the reporting fiscal year; however, it had not sufficiently justified the percentage used in its estimation process. In addition, OCFO conducted its validation of CPD's estimate by acquiring expenditure data and related documentation from a sample of its grantees. However, the grantee responses were not always accurate, and the use of the inaccurate grantee responses in OCFO's validation process prevented it from producing reliable information to test the validity of CPD's accrued grant liabilities estimate. As a result, the weaknesses in CPD's and OCFO's processes put HUD at risk of reporting the estimate on its financial statements when the estimate may not have been reasonable.

Estimation Weaknesses

For fiscal year 2019, CPD estimated its accrued grant liabilities to be $910.9 million. We evaluated the reasonableness of CPD's estimate by selecting a statistical sample of 90 expenditure reimbursements from a universe of 107,478 disbursements made by CPD to grantees during the first and second quarters of fiscal year 2020 and reviewing supporting documentation obtained from CPD and the sampled grantees to determine when the grantees incurred the expenses. Based on our results, we estimated that CPD's fiscal year 2019 accrued grant liabilities should have been at least $1.5 billion, or about 65 percent

18 According to PIH Notice 2020-08- CARES Act - HCV Program Administrative Fee, issued April 28, 2020, "Under the CARES Act, this supplemental administrative fee funding may be used only for two purposes: (1) any currently eligible HCV (including Mainstream voucher) administrative costs during the period that the program is impacted by coronavirus; and (2) new coronavirus-related activities…." "HUD urges PHAs to expend this supplemental administrative fee funding first, to prevent, prepare for, and respond to coronavirus….HUD recommends that PHAs apply their supplemental administrative fee amounts to eligible expenses first, since the HCV Program FY [fiscal year] 2020 administrative fees may also be used for coronavirus-related activities within the period of availability and will continue to be available for regular administrative fee purposes beyond the period of availability."

19 We used May through August actual administrative expense data from VMS and averaged May through August expenses to calculate an estimate for September 2020 because PHAs were still reporting September VMS data at the time of our calculation.

higher than reported in HUD's financial statements. We also determined that CPD had based its estimation on each program's historical disbursement activity and applied a percentage multiplier to adjust for the reporting fiscal year. However, CPD could not provide adequate justification for the percentage multiplier used to estimate the accrual amount for each program. As a result, CPD's fiscal year 2019 accrued grant liabilities estimate was potentially understated by at least $589.1 million.

Validation Weaknesses

As stated above, for fiscal year 2019, CPD estimated its accrued grant liabilities to be $910.9 million. OCFO conducted its process to validate CPD's estimate and determined that CPD's estimate was reasonable. However, internal control deficiencies prevented OCFO from adequately validating CPD's estimated accrued grant liabilities in accordance with FASAB Technical Release 12, Accrual Estimates for Grant Programs. Due to a lack of relevant data available from grantee reporting, OCFO conducted a survey to obtain expenditure data from grantees responsible for a statistical sample of projects. OCFO received survey responses from grantees for 465 of 628 sampled projects and used that information to validate CPD's estimate by developing an independent point estimate and range. OCFO compared its independent point estimate and range to CPD's estimate and determined that CPD's estimate was reasonable.

To assess OCFO's validation methodology and results, we obtained the survey sampling data and related documentation from OCFO and selected a statistical sample of 50 of the 465 survey responses and 18 of 163 nonresponses for review. We also obtained supporting documentation from OCFO for our sample of 68 projects to determine whether the amounts in the survey responses certified by the grantees were accurate. We found that 9 of the 50 survey responses represented amounts that were not accurate based on documentation provided to support the response. Interpreted in terms of the impact on the 465 survey items for which OCFO received a response, we determined that OCFO's review process did not identify errors in at least 43 items, or 9.3 percent of the 465 survey items.

These errors occurred because the data used in OCFO's validation, which were based on grantee responses, were not always reliable. Although online training was provided to assist the grantees in completing the survey and documentation was requested from the grantees to support the amounts they had certified, OCFO continued to face challenges in obtaining accurate and sufficient responses from the grantees and in identifying errors in the amounts certified by the grantees. We have identified similar challenges with OCFO's validation methodology since its implementation in fiscal year 2017. The inclusion of unsupported survey responses in the statistical validation calculation prevented OCFO from producing a reliable point estimate and range to validate the reasonableness of CPD's grant accrual estimate, and it invalidated the statistical integrity of the process.

As provided above, CPD and OCFO believed the estimate of $910.9 million for accrued grant liabilities was reasonable. Using our own methodology to develop a point estimate, we determined that the estimate should have been at least $1.5 billion. To further assess

OCFO's validation methodology, we compared the results from the sample of expenditure reimbursements (CPD disbursements) used for our point estimate to the results from OCFO's validation sample of projects. Because our sampling unit (disbursements) was a subset of OCFO's sampling unit (projects), the grant accrual amounts we identified by project should have been smaller than the amount identified by OCFO. However, we noted that in 7 of 10 instances in which our sample and OCFO's sample overlapped, we identified a larger accrual amount than OCFO. This discrepancy indicates that the survey responses used in OCFO's validation did not provide a complete picture of the amounts that should have been accrued, thereby preventing OCFO from adequately validating the reasonableness of CPD's accrued grant liabilities estimate.

Because our audit work showed that CPD's fiscal year 2019 accrued grant liabilities estimate was potentially understated and CPD had not made substantive changes to its estimation methodology for fiscal year 2020, CPD's accrued grant liabilities estimate for fiscal year 2020 was at high risk of misstatement. Additionally, given the estimation uncertainty and related inherent risk for CPD's accrued grant liabilities estimate, it is critical that OCFO's validation methodology include the evaluation of relevant and reliable data for it to be able to adequately determine whether the CPD estimate is reasonable.

Further, OCFO's accrued grant liabilities validation effort identified 45 grantees that reported having a cash advance instead of an accrued liability. At the time of our audit, neither OCFO nor CPD had investigated whether what was reported by the grantees were actual advances or grantee errors in completing the survey responses. This may indicate that HUD made advances to grantees that were not recognized in its financial statements.

HUD Did Not Record All Reductions in the Guaranteed Loan Principal Outstanding Balance for Loans in the Section 184 Indian Home Loan Guarantee Program

PIH did not report to OCFO all reductions in the guaranteed loan principal outstanding balance for loans in the Section 184 Indian Home Loan Guarantee (Section 184) program in accordance with SFFAS 2. OCFO's reconciliations between HUD's general ledger and subsidiary ledger for the Section 184 program identified data integrity and collection inadequacies within PIH's Section 184 systems and manual processes. PIH was reporting reductions resulting from mortgage default claims; however, it was not reporting reductions due to collections, payoffs, and other adjustments.

This condition occurred because PIH did not have an adequate automated loan tracking system and did not track all reductions in the guaranteed loan principal outstanding balance for these loans. Rather, PIH used a combination of manual processes and local spreadsheets; the Computerized Homes Underwriting Management System (CHUMS), a legacy system not built for portfolio tracking; and most recently, the Office of Native American Programs (ONAP)-Loan Origination System (LOS), to account for the origination of loans in the Section 184 program. Before developing ONAP-LOS, PIH used CHUMS as its primary tool to track the origination of these loans. However, information systems limitations arose as CHUMS did not meet certain requirements specific to the Section 184 loan guarantee program. To better manage and track the Section 184 loans, HUD developed ONAP-LOS on modernized technology; however, it never matured beyond a pilot program and the system development did not attain key integrated functionality and had reporting inadequacies. Therefore, management of the Section 184 program remained dependent on CHUMS, which operated on outdated software and hardware without contract support, to process Section 184 loan guarantees. Most importantly, HUD had not implemented a process or system interface across its general ledger, CHUMS, and ONAP-LOS to ensure that all adjustments, including collections, payoffs, and refinancings, were made to USSGL account 8050 – guaranteed loan principal outstanding.

As a result, HUD significantly overstated the outstanding loan principal balance for the Section 184 loan guarantee program, reported in Note 7 – Direct Loan and Loan Guarantees, Non-Federal Borrowers of its consolidated financial statements. To mitigate PIH's loan guarantee system weaknesses, OCFO developed a methodology to determine the guaranteed loan principal outstanding balance quarterly, based on data maintained by Ginnie Mae, which securitizes a majority of Section 184 loans. Using this methodology, OCFO made 13 adjustments totaling $3.6 billion to USSGL account 8050 for the Section 184 program to record past reduction activity. These adjustments impacted Note 7, Table J1 – Guaranteed Loans Outstanding, Amount of Outstanding Principal Guaranteed. Additionally, these adjustments impacted the Section 184 annual loan guarantee subsidy reestimate calculation. If OCFO had made the adjustments on or before September 30, 2019, the impact would have been an increase of $8.3 million in the downward reestimate recorded in fiscal year 2020, thereby influencing the loan guarantee liability line item on HUD's balance sheet and the other financing sources on the statement of changes in net position. The effects of the adjustments will be included in the reestimate recorded in fiscal year 2021.

In July 2020, HUD's Office of the Chief Information Officer (OCIO) began to leverage FHA Catalyst system components to account for the Section 184 program rather than continue development of ONAP-LOS. Per HUD, it planned to decommission ONAP-LOS in early 2021 and continue development of FHA Catalyst functionalities and clone them for use by ONAP's loan guarantee programs by October 2021.

HUD Did Not Recognize All Financial Events Resulting From PIH's Cash Management Process

PIH's cash management process resulted in financial transactions that were either not recognized at all or not recognized accurately and in a timely manner at the transaction level. First, OCFO did not recognize PIH prepayments and PHA expenses in HUD's general ledger as they occurred at the transaction level. Instead, OCFO recorded an expense for the total amount of HUD's prepayment disbursement when it occurred and recorded manual journal entries quarterly to adjust the prepayment and expense balances to agree with OCFO's PIH prepayment estimate. Secondly, when PIH completed its semiannual cash reconciliations, it determined that it had overpaid and underpaid PHAs $137 million and $207 million, respectively, as of December 31, 2019, and $95.8 million and $185 million, respectively, as of June 30, 2020. However, OCFO did not record accounts receivables and payables to recognize HUD's claim to cash for overpayments and liability for underpayments in accordance with SFFAS 1, Accounting for Selected Assets and Liabilities.

This condition occurred because PIH's cash management process was manual and untimely as it did not have a system that could provide real-time information on PHA expenditures or automatically reconcile PHA expenditures with HUD's disbursements. Instead, PIH relied on untimely information submitted by PHAs through VMS and performed manual reconciliations. Real-time expenditure data and automated reconciliation are essential for recognizing PIH cash management activity accurately and in a timely manner at the transaction level. Under this manual process, by the time PIH completed the semiannual reconciliations, the excesses or shortages identified would likely not be representative of the current receivables or payables. As a result, HUD understated the accounts receivable and accounts payable line items in its quarterly and yearend financial statements and overstated the PIH prepayment by the amount of the receivable.[20] Additionally, because prepayment, receivable, and payable transactions were not recorded as they occurred, HUD's process did not comply with FFMIA.[21]

In our fiscal year 2013 audit report,[22] we recommended that PIH implement an automated cash management system. In fiscal year 2019, PIH worked with a contractor to develop the Enterprise Voucher Management System (eVMS), which should address this issue.[23] As of fiscal yearend 2020, PIH had completed the application design of eVMS; however, it was not in use because the data warehouse used in eVMS is under moratorium until OCIO completes a securities and vulnerabilities assessment. Once the moratorium is lifted, PIH will work with PHAs in waves to transition them from the current disbursement process to eVMS calculated disbursements. PIH planned to have all PHAs under the new process by September 2022.

HUD Did Not Ensure That Its Accounts Receivables Were Complete or That It Had Adequate Support for the Net Realizable Value of Its Accounts Receivable

HUD had made significant progress in properly accounting for its accounts receivables and resolved several issues previously identified. However, HUD did not ensure that its accounts receivables were complete or that it had adequate support for the net realizable value of its accounts receivable. Specifically, OCFO had not recognized repayment agreements between HUD and property owners participating in programs under the Office of Multifamily Housing Programs as accounts receivables in accordance with generally accepted accounting standards. In addition, OCFO had not evaluated its accounts receivables for allowance for loss in accordance with SFFAS 1, Accounting for Selected Assets and Liabilities. Instead, OCFO used a 100 percent allowance on its yearend non-Federal receivable balance of $117 million, based on OCFO's concerns with the validity and accuracy of its accounts receivable data.

We attribute these conditions to the late implementation of corrective actions in fiscal year 2020. During fiscal year 2020, OCFO added or modified several internal controls to address

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20 We could not identify the total amount of these misstatements in HUD's fiscal year 2020 financial statements because, as discussed above, HUD did not determine its receivables and payables until several months after the point of recognition, due to the manual processes involved.

21 FFMIA, section 803(a), states, "Each Agency shall implement and maintain financial management systems that comply substantially with Federal financial management system requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level."

22 Audit Report 2014-FO-0003, Additional Details To Supplement Our Report on HUD's Fiscal Year 2013 and 2012 (Restated) Financial Statements, issued December 16, 2013

23 The eVMS will use current family-level PIH Information Center (PIC) data to calculate monthly PHA disbursements based on need and will automate the cash reconciliation process. According to PIH, the use of PIC data and the automation of cash reconciliations will allow for timely and accurate identification of (1) PHA expenses and (2) receivables and payables.

previously reported deficiencies. However, OCFO implemented the controls too late in the fiscal year to fully correct all identified issues by yearend. One key control that OCFO put into place in June 2020 was the issuance of a new Debt Collection Handbook,[24] which clarified that it was the responsibility of program offices to develop standard operating procedures and train and monitor action officials[25] to ensure financial reporting and debt collection compliance. However, because the handbook was not issued until the end of the third quarter, the Office of Multifamily Housing Programs had not implemented standard operating procedures or a system to train and monitor its action officials.

This lack of controls allowed for (1) inconsistent reporting by field offices and (2) a listing of repayment agreements that contained errors and was unreliable for financial reporting purposes. In addition, OCFO implemented a control during fiscal year 2019 to conduct quarterly reconciliations of repayment agreements with the program offices. However, this control did not require a negative confirmation from program offices until the fourth quarter of fiscal year 2020; therefore, OCFO was not aware that the Multifamily Housing program office was not reporting its repayment agreements. Finally, OCFO could not adequately evaluate its accounts receivables to determine an appropriate allowance for loss because correction of its accounts receivable data was not complete until yearend.[26] OCFO reported that once it had corrected the data, it would prepare a standard operating procedure to reevaluate the allowance for loss policy in fiscal year 2021.

Consequently, HUD's accounts receivable reported on its fiscal year 2020 quarterly and yearend financial statements may have been misstated due to (1) incomplete recording of amounts due established by Multifamily Housing repayment agreements and (2) inadequate evaluation of allowance for loss rates to support the net realizable value of accounts receivables. Due to the unreliability of Multifamily Housing's repayment agreement listing, we could not quantify the total misstatement in HUD's financial statements that resulted from debt owed to HUD from Multifamily Housing property owners.[27]

Recommendations

Several prior-year recommendations regarding the accounting for cash management activity in the HCVP and one recommendation related to the accounts receivables allowance for loss remained open and are included in the Followup on Prior Audits section of this report.

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24 HUD Handbook 1900.25, REV-5, Debt Collection Handbook, issued June 15, 2020

25 According to HUD Handbook 1900.25, REV 5, the program action official is the program official with responsibility for any program. Initial responsibility for identifying and collecting debts due HUD is vested in the program action official.

26 OCFO reported that it worked with the U.S. Treasury's Administrative Resource Center to ensure that its receivable balances were accurate and to produce a report that accurately displayed collection terms and delinquencies for all receivables. However, OCFO did not complete this process until fiscal yearend.

27 The repayment agreement listing from HUD's Tenant Rental Assistance Certification System (TRACS) provided by Multifamily Housing contained 70,205 repayment agreements with remaining balances totaling $113 million. However, the listing contained repayment agreements between (1) HUD and owners participating in Multifamily Housing programs and (2) tenants and owners participating in Multifamily Housing programs. Multifamily Housing could not distinguish between the two types of repayment agreements in the listing and was unsure whether all of the listed debts to HUD remained outstanding. Therefore, we could not quantify the amount not recorded.

Recommendations regarding implementation of a loan tracking system for the Section 184 program from previous reviews of the program[28] also remained open, and resolution of these recommendations will help HUD remediate this finding. The following are new recommendations to address the deficiencies in this finding.

We recommend that the Chief Financial Officer

1A. Prepare a white paper regarding the accounting treatment for each type of funding disbursed under the HCVP, to include a comparison of the qualities the funding embodies against the qualities that are necessary for it to be considered a prepayment versus an expense according to generally accepted accounting principles. The Chief Financial Officer should work with PIH to gather the information necessary to complete this analysis and have PIH review it to ensure the accuracy of the program information used.

1B. Develop and implement a policy that requires OCFO to review all new program notices, new regulations, and new types of funding and evaluate each against the accounting standards and current accounting treatment (as documented in white papers or other forms) to determine whether OCFO's treatment complies with generally accepted accounting principles and if not, propose changes. The policy should include formal designation of roles and responsibilities as well as internal controls to ensure proper review and approval of conclusions.

1C. Once additional data are available, and at least quarterly, reduce the CARES Act PIH prepayment by the amount actually spent by PHAs or an estimated amount with a low level of estimation uncertainty.

1D. As part of the validation process for CPD's accrued grant liabilities, review CPD's accrued grant liabilities estimation methodology to ensure that it is based on verifiable grantee supporting documentation and all assumptions and variables used for the grant accrual estimate were properly established, supported, and documented.

1E. Research the survey responses that resulted in a positive cash on hand balance to determine whether a cash advance exists. If so, the Chief Financial Officer should coordinate with CPD to (1) determine whether the grantees have proper documentation and approvals allowing for cash advances and (2) develop and implement procedures to estimate and account for cash advances for financial reporting purposes.

1F. Investigate other methods for validating CPD's accrued grant liabilities estimate, including the use of other sampling units, which could provide additional relevant

[28] Audit report 2015-LA-0002, issued July 6, 2015; audit memorandum 2018-LA-0801, issued August 27, 2018; and evaluation report 2018-OE-0004, issued August 13, 2018

information that can be used to produce more reasonable results and reduce estimation uncertainty to a low level.

1G. Work with the Director of the Office of Multifamily Asset Management and Portfolio Oversight to ensure that all debt owed to HUD is identified, accurately reported in HUD's financial records, and properly monitored to ensure compliance with applicable laws and regulations.

We recommend that the Deputy Assistant Secretary for Community Planning and Development

1H. Reevaluate and adequately document justification for the establishment of the percentages and other key assumptions used to determine the accrual amount for each program in CPD's accrued grant liabilities estimate.

We recommend that the Assistant Secretary for Housing - Federal Housing Commissioner

1I. Implement the requirements of HUD's current Debt Collection Handbook, to include (1) assigning a program office manager, (2) developing and implementing debt collection standard operating procedures, (3) designating program action officials, and (4) ensuring that program action officials are trained and perform debt collection duties in a timely manner in accordance with the Debt Collection Handbook; HUD Handbook 2000.06, REV-4, Audits Management System; and other pertinent guidance and policies to ensure the accurate reporting of receivables in the general ledger.

1J. Review all executed repayment agreements in HUD's Tenant Rental Assistance Certification System (TRACS) to determine which repayment agreements have not been fully repaid and represent an amount owed to HUD and work with OCFO to record these receivables.

1K. Include a field in TRACS to identify which repayment agreements represent an amount owed to HUD and implement controls to ensure the accuracy of the listing in TRACS.

1L. Develop and implement controls to track and enforce repayments owed to HUD to ensure that owners are not delinquent on their repayment agreements.

We recommend that the Assistant Secretary for Public and Indian Housing

1M. Ensure that OCFO has the data it needs to record a reasonable PIH prepayment estimate related to supplemental pandemic funding in fiscal year 2021 and beyond if additional funding is provided.

Exhibit II

Compliance With Laws, Regulations, Contracts, and Grant Agreements

HUD's Financial Management System Did Not Comply With the Federal Financial Management Improvement Act

HUD's financial management system's noncompliance with FFMIA continued in fiscal year 2020. HUD's continued noncompliance was due to its having ineffectively designed and operating internal controls over financial reporting and unimplemented recommendations for corrective action from longstanding issues related to component and program offices' financial management system weaknesses.

HUD's Financial Management System's Noncompliance With FFMIA Continued in Fiscal Year 2020

HUD's financial management system did not comply with the three section 803(a) elements of FFMIA. Section 803(a) requires agencies subject to the Chief Financial Officers Act to establish and maintain financial management systems that substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the USSGL at the transaction level. FFMIA also requires agencies and their auditors to determine annually whether an agency's financial management system (including primary or general ledger accounting systems and subsidiary or "mixed" systems) complies with those requirements.

We tested compliance with FFMIA in accordance with OMB Circular A-123, Appendix D, Compliance With the Federal Financial Management Improvement Act of 1996,[29] and noted instances in which HUD's financial management system did not comply with the three FFMIA section 803(a) elements. HUD also concluded that its financial management system did not comply with each element of section 803(a) of FFMIA as of September 30, 2020.

For areas of FFMIA noncompliance, each agency must identify remediation activities that are planned and underway, describing target dates and offices responsible for bringing systems into compliance with FFMIA.[30] HUD will include these details in its Fiscal Year 2020 Agency Financial Report.

In addition, when auditors disclose a lack of compliance with one or more of the section 803(a) requirements, FFMIA requires that auditors provide additional details regarding the

[29] OMB Memorandum M-13-23 (OMB Circular A-123, Appendix D, Compliance with the Federal Financial Management Improvement Act of 1996), issued September 20, 2013, defines requirements for determining compliance with FFMIA.

[30] OMB Circular A-136, Revised, Financial Reporting Requirements, issued August 27, 2020

noncompliance.[31] The details about systems not in compliance with FFMIA, responsible parties, primary causes, recommendations, and HUD's intended remedial actions are included below by FFMIA section 803(a) element(s).

Systems That Did Not Comply With Federal Financial Management Systems Requirements and Federal Accounting Standards

Single Family Insurance System (SFIS) and the SFIS CLAIMS Subsystem
The Office of Housing is responsible for the SFIS and the SFIS CLAIMS subsystem. SFIS and CLAIMS did not comply with Federal financial system requirements and Federal accounting standards due to open audit recommendations related to data processing and application configuration. While Housing planned to address the recommendations during fiscal year 2020, remedial actions remained in process as of September 30, 2020.

Systems That Did Not Comply With Federal Financial Management System Requirements, Federal Accounting Standards, and the USSGL at the Transaction Level

Disaster Recovery Grant Reporting System
CPD is responsible for the Disaster Recovery Grant Reporting (DRGR) system, an internet-based system supporting the Community Development Block Grant Disaster Recovery (CDBG-DR) program and other special appropriations. DRGR did not comply with Federal financial management system requirements, Federal accounting standards, and the USSGL at the transaction level due to system weaknesses and insufficient monitoring of invalid and expired obligations. While CPD had implemented a number of updates to the DRGR application and related processes to mitigate the risks, corrective actions remained under our review as of September 30, 2020.

Tenant Rental Assistance Certification System
The Office of Housing is responsible for the TRACS application. A 2017 FFMIA compliance review performed by OCFO noted that TRACS was not compliant with Federal financial management system requirements, applicable Federal accounting standards, and the USSGL at the transaction level. TRACS is the official contract management repository for the Office of Multifamily Housing Programs' rental assistance project-based contracts, including budget projections and funding for contracts. TRACS is designed to process subsidy contracts, tenant rental assistance information, and owner requests for payment (vouchers) for project-based programs. TRACS issues included noncompliance with funds control policies and procedures, weaknesses in monitoring unliquidated obligations, and a failure to comply with improper payment requirements related to HUD's rental housing assistance programs. The Office of Housing addressed the issues related to funds control and unliquidated obligations and was in the process of implementing two system enhancements to track the dollar impact of rent discrepancies and the resolution of such errors and to report on repayments to address the issues related to improper payments. The Office of Housing was working on remedial actions to bring TRACS back into compliance by August 2021.

[31] OMB Bulletin 19-03, Audit Requirements for Federal Financial Statements, issued August 27, 2019

Recommendations

Prior-year recommendations regarding this finding remained open and are included in the Followup on Prior Audits section of this report. We have no new recommendations in this report.

Followup on Prior Audits

The recommendations made after each finding in this report do not include recommendations from prior-year HUD financial statement audits that had not been fully implemented as of September 30, 2020, according to the Audit Resolution and Corrective Action Tracking System.

As of September 30, 2020,[32] we identified 41 unimplemented (open) recommendations, dating back to the audit of the fiscal year 2013 financial statements. Management had established corrective action plans for 37 of the 41 unimplemented recommendations, of which 23, or 62 percent, were past agreed-upon dates for final action. HUD did not have established corrective action plans for four recommendations.

Some of these recommendations were originally made to management to correct material weaknesses or significant deficiencies included in the Report on Internal Control Over Financial Reporting in prior years. In some instances, the deficiency in internal control that continues to exist as a result of the recommendation's not being implemented is no longer determined to meet the definition of a material weakness or significant deficiency individually or in the aggregate. HUD should continue to track these recommendations under the prior-year report numbers in accordance with departmental procedures. Each of these open recommendations and its status is shown below.

Followup on prior audits			
Audit rec #	**Program office**	**Open recommendations**	**Final action target date**
Additional Details To Supplement Our Fiscal Year 2019 U.S. Department of Housing and Urban Development Financial Statements Audit, 2020-FO-0003, February 7, 2020			
2020-FO-0003-001-I	OCFO	Develop and implement a procedure that requires OCFO to identify and research all debts that are more than 120 days old to ensure (1) validity, (2) that proper debt collection efforts occur, and (3) that the status reported in the TROR is correct according to Treasury's TROR requirements.	09/30/2020
2020-FO-0003-001-J	OCFO	Review the 76 sustained audit receivables not under repayment agreement totaling $59.6 million to determine validity and ensure that debt collection procedures are followed if applicable, to include (1) issuing demand letters, (2) creating repayment agreements if appropriate, and (3) referring delinquent debt or initiating writeoffs as appropriate. For all receivables determined to be valid, ensure that they are accurately reported to	09/30/2020

32 Actions on open recommendations that occurred after September 30, 2020, were not considered in our analysis.

		Treasury in the quarterly TROR. For all receivables determined to be invalid, remove the receivables from HUD's accounts receivable balance.	
2020-FO-0003-001-K	OCFO	Develop and implement standard operating procedures for calculating and reporting HUD's quarterly allowance for loss based on periodic evaluation of each type of HUD's accounts receivables in accordance with GAAP. The procedures should also include steps to ensure proper note disclosure for significant classes of accounts receivables.	04/20/2021
2020-FO-0003-001-N	OCFO	Recognize unrecorded assets and liabilities related to leasehold improvements and make proper disclosures regarding HUD's leasehold improvement liability in the financial statements and notes.	09/30/2020
2020-FO-0003-001-O	CPD	Collaborate with OCFO to review methodologies used to produce grant accrual estimates, to include testing and verification of the resulting accrual estimates.	05/22/2021
2020-FO-0003-003-A	CPD	Implement information security controls over the Section 108 loan guarantee database that prevent and detect unauthorized changes to program data (or implement an updated Section 108 loan guarantee database with information security controls that prevent and detect unauthorized changes to program data).	05/20/2021
2020-FO-0003-004-A	OCFO	Develop a formal enterprise risk management policy for program offices' risk owners, including guidance for completing the annual risk profile refresh, requirements for completing risk mitigation strategies, and reporting risk mitigation progress to the Risk Management Council.	08/13/2021
2020-FO-0003-004-C	Housing	Develop and implement policy and procedures for the incremental obligation process used for project-based Section 8 funds, including documentation for determining the incremental amounts and controls to review the amounts for accuracy.	04/30/2021
2020-FO-0003-004-E	OCPO	Ensure that contracting officers and OCPO field offices review and follow the records management policies and procedures, including	05/27/2021

		completing and signing Forms 7600A and 7600B, to ensure consistency among contract officers approving interagency agreements in the procurement system of record.	
Additional Details To Supplement Our Fiscal Years 2018 and 2017 (Restated) U.S. Department of Housing and Urban Development Financial Statement Audit, 2019-FO-0003, November 15, 2018			
2019-FO-0003-004-E	OCFO	Assign and communicate the responsibility of the MCR program policy, implementation, and oversight to ensure that program offices routinely conduct reviews to support a compliant internal control framework.	10/1/2020
2019-FO-0003-005-E	CPD	Deobligate all obligations marked for deobligation during the departmentwide OOR, including as much as $7,517,486 in 187 program obligations and $62,183 in 9 administrative obligations marked for deobligation as of September 30, 2018.	1/31/2020
2019-FO-0003-005-F	CPD	Review the 473 identified inactive retained obligations with remaining balances totaling $43,005,703 and close out and deobligate amounts tied to obligations that are no longer needed.	1/31/2020
2019-FO-0003-005-G	Housing	Deobligate all obligations marked for deobligation during the departmentwide OOR, including as much as $51,396,319 in 735 administrative obligations and $5,350,112 in 68 program obligations marked for deobligation as of September 30, 2018.	11/30/2019
2019-FO-0003-005-I	PIH	Deobligate all obligations marked for deobligation during the departmentwide OOR, including as much as $588,694 in 12 administrative obligations marked for deobligation as of September 30, 2018.	10/1/2020
2019-FO-0003-005-K	FHEO	Deobligate all obligations marked for deobligation during the departmentwide OOR, including as much as $168,198 in 29 obligations marked for deobligation as of September 30, 2018.	02/28/2020
2019-FO-0003-005-M	OCHCO	Deobligate all obligations marked for deobligation during the departmentwide OOR, including as much as $574,511 in 79 administrative obligations marked for deobligation as of September 30, 2018.	10/1/2020

2019-FO-0003-005-N	ODEEO	Deobligate all obligations marked for deobligation during the departmentwide OOR, including as much as $106,962 in 30 administrative obligations marked for deobligation as of September 30, 2018.	10/1/2020
Additional Details To Supplement Our Fiscal Years 2017 and 2016 (Restated) U.S. Department of Housing and Urban Development Financial Statement Audit, 2018-FO-0004, November 15, 2017			
2018-FO-0004-007-E	OCPO	Ensure that originating base IAAs and modifications are maintained in HUD's procurement system of record, PRISM, including manual documentation and records from HIAMS.	N/A
2018-FO-0004-008-C	CPD	Deobligate all obligations marked for deobligation during the departmentwide OOR, including as much as $11,463,971 in 189 program obligations and $13,640 in 10 administrative obligations marked for deobligation as of September 30, 2017.	3/12/2019
2018-FO-0004-008-D	CPD	Review the 1,110 identified inactive retained obligations with remaining balances totaling $229,327,332 and close out and deobligate amounts tied to obligations that are no longer valid or needed.	3/12/2019
2018-FO-0004-008-E	CPD	Close out and deobligate the remaining balances on 2,741 expired homeless assistance contracts of $159,437,069.	11/10/2018
2018-FO-0004-008-L	FHEO	Deobligate all obligations marked for deobligation during the departmentwide OOR, including as much as $559,569 in 53 administrative and $641,110 in 9 program obligations marked for deobligation as of September 30, 2017.	1/4/2019
2018-FO-0004-008-S	Ginnie Mae	Deobligate all obligations marked for deobligation during Ginnie Mae's open obligation review, including as much as $34,814,053 in eight contract obligations marked for deobligation.	6/30/2018
2018-FO-0004-011-A	PIH	For all 32 debts not under repayment agreement, (1) send demand letters for any debts for which a demand letter has not been sent and (2) aggressively work with the PHAs to determine appropriate repayment agreement terms.	10/1/2020
2018-FO-0004-011-E	OCFO	Work with PIH to determine which debts should be transferred to the Departments of Treasury or	10/31/2019

		Justice and which debts should be written off. The Deputy CFO should ensure that proper documentation is maintained to support a decision for writeoff.	
Additional Details To Supplement Our Fiscal Years 2016 and 2015 (Restated) U.S. Department of Housing and Urban Development Financial Statement Audit, 2017-FO-0003, November 15, 2016			
2017-FO-0003-002-A	OCFO	Continue working with ARC and complete the reconciliation and cleanup efforts for balances related to HUD's loan guarantee programs.	N/A
2017-FO-0003-008-A	CPD	Close out and deobligate the remaining balances on 3,121 expired homeless assistance contracts of $151,719,152. Further, deobligate $10,996,784 in 234 program obligations marked for deobligation during the departmentwide open obligations review.	11/10/2018
2017-FO-0003-008-P	Ginnie Mae	Review the contracts totaling $72.8 million to determine validity and if no longer needed, forward to HUD's procurement office for closure and deobligation.	9/30/2017
2017-FO-0003-008-Q	Ginnie Mae	Record the deobligations provided by OCPO totaling as much as $86.4 million for the contracts identified during our review. Additionally, Ginnie Mae should deobligate the $587,505 in three administrative obligations marked for deobligation during the departmentwide open obligations review.	9/30/2017
Additional Details To Supplement Our Report On HUD's Fiscal Years 2015 and 2014 (Restated) U.S. Department of Housing and Urban Development Financial Statement Audit, 2016-FO-0003, November 18, 2015			
2016-FO-0003-002-D	PIH	Establish a process to track the amount HUD owes to PHAs to cover prepayment shortages and provide the information to OCFO so that it can be properly recognized as accounts payable.	N/A
2016-FO-0003-006-C	OCFO	Develop procedures to provide oversight of OCPO procurement activities to ensure that those with financial accounting and reporting impact are properly captured and reflected in HUD's financial statements.	1/13/2021
2016-FO-0003-006-D	OCFO	Review projects and acquisitions to determine whether the proper accounting treatment was applied and determine whether corrections to HUD's financial statements are needed.	9/30/2020

2016-FO-0003-006-E	OCFO	Contact all other HUD program offices to determine whether any other programs authorize or are aware of grantees holding funds in advance of their immediate disbursement needs and determine financial statement impact on and compliance with Treasury cash management requirements of any found.	4/30/2021
2016-FO-0003-006-J	OCFO	Revise policies and procedures to ensure that MCRs are routinely monitored and completed for all program areas and establish a timeframe for completion of the MCR reports. Further, HUD should ensure that an escalation process is included to address untimely completion of the MCR process.	3/17/2017
2016-FO-0003-008-A	CPD	Close out and deobligate the remaining balances on 2,308 expired homeless assistance contracts of $104,347,996. HUD should also deobligate $3,602,342 in 102 program obligations marked for deobligation during the departmentwide open obligations review. Lastly, HUD should review the 57 obligations with remaining balances of $188,176 and close out and deobligate amounts tied to obligations that are no longer valid or needed.	3/16/2017
2016-FO-0003-008-L	ODEEO	Review the 20 obligations with remaining balances of $77,807 and close out and deobligate amounts tied to obligations that are no longer valid or needed.	03/22/2017
Additional Details To Supplement Our Report on HUD's Fiscal Years 2013 and 2012 (Restated) Financial Statements, 2014-FO-0003, December 16, 2013			
2014-FO-0003-002-A	PIH	Transition the PHA NRA excess funds, which are as much as $643.6 million as of June 30, 2013, to HUD's control as soon as possible to safeguard the program resources.	12/31/2057[33]
2014-FO-0003-002-C	PIH	Implement a cost-effective method for automating the cash management process to include an electronic interface of transactions to the standard general ledger.	N/A
2014-FO-0003-002-E	OCFO	Review the cash management process to identify all financial events to be recognized in accordance with GAAP. Establish procedures to	4/8/2015

[33] Recommendation is under repayment.

		account for the cash management activity in a timely manner in compliance with GAAP.	
2014-FO-0003-002-G	OCFO	Ensure that PIH's automation of its cash management process complies with Federal financial management requirements.	12/31/2015
2014-FO-0003-008-B	CPD	Complete the closeout of any remaining CDBG-R and HPRP grants and forward all grant closeout agreement certifications to OCFO for recapture.	9/30/2014

Appendixes

Appendix A

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

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

CHIEF FINANCIAL OFFICER

HUD OCFO MEMO 21-11

MEMORANDUM FOR: Rae Oliver Davis, Inspector General, HUD, GAF

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

SUBJECT: Response to Fiscal Year 2020 Financial Statement Audit — Transmittal of Draft Fiscal Year 2020 Independent Auditor's Report on HUD's Fiscal Year 2020 Financial Statements

DATE: November 23, 2020

Thank you for the opportunity to review the draft Fiscal Year 2020 Independent Auditor's Report on HUD's Fiscal Year 2020 Financial Statements. The high level of professionalism, technical expertise, and integrity demonstrated by the Program Offices and Office of Inspector General in this year's audit contributed greatly to the Department's successful results.

Comment 1

We are proud of the Department's success in achieving an unmodified audit opinion on the Department's Fiscal Year 2020 Financial Statements. This remarkable achievement demonstrates the commitment of our Financial Transformation plan to restore sound financial management and transparency. This achievement is also remarkable considering the impacts on our working environment due to the COVID-19 national emergency.

During the year, we made substantial progress to continue our commitment for responsible stewardship of taxpayer resources by prioritizing efforts for financial management, risk monitoring, and information technology. In FY2020, the Department successfully launched the Accountability, Integrity, and Risk (AIR) program to promote transparency and accountability in the areas of internal control and risk management. In collaboration with Program offices, this evidence-based integrated review of risks and internal controls positions the Department for continued success. In addition, our Intelligent Automation Initiative is reducing manual processing and increasing capacity by applying technology enablers to improve data accuracy and improve monitoring capability. We remain committed to monitor progress with these efforts to ensure strong financial standing and continuous process improvement through agile enhancements to effectively use scarce financial resources. Our focus continues to be on improving internal controls, leveraging technology, and developing risk-based solutions.

Comment 2

We acknowledge that for FY2020 HUD had deficiencies resulting in one material weakness and one instance of noncompliance with laws, regulations, contracts, and grant agreements. We will continue to refine and enhance our internal control environment to ensure high standards of integrity and transparency in reporting our financial performance and look forward to work together with the OIG to drive transformational change at HUD to serve the American public.

2

OIG Evaluation of Auditee Comments

Comment 1 We recognize the continued progress that HUD has made during fiscal year 2020 in the execution of its financial transformation plan to advance its financial management maturity to a compliant state, to include achieving an unmodified opinion, particularly during these unprecedented times. We further recognize the positive impact HUD's new Accountability, Integrity, and Risk (AIR) program has made on HUD's internal control framework. The AIR program has enabled OCFO to detect and prevent risks to financial reporting that could have resulted in misstatements to the financial statements. We look forward to working with HUD as it carries out its commitment to focus on improving internal controls, leveraging technology, and developing risk-based solutions.

Comment 2 The CFO acknowledged that deficiencies remain that require further enhancement of HUD's internal control environment, as reported in our reports on internal control over financial reporting and compliance with laws, regulations, contracts, and grant agreements. During fiscal year 2021, we will work with HUD to evaluate the corrective actions planned to address the findings in this report.

Appendix B

HUD's Fiscal Year 2020 Consolidated Financial Statements and Notes

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**, as of September 30, 2020, 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**, which presents the net cost of HUD operations for the fiscal year ended September 30, 2020. 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**, 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 year ended September 30, 2020.

The **Combined Statement of Budgetary Resources**, which presents the budgetary resources available to HUD during FY 2020, the status of these resources and the outlay of budgetary resources for the fiscal year ended September 30, 2020.

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

U.S. Department of Housing and Urban Development Consolidated Balance Sheet As of September 30, 2020 (Dollars in Millions)	
(Dollars in Millions)	**2020**
Assets:	
Intragovernmental:	
Fund Balance with Treasury (Note 3)	$ 135,587
Investments (Note 5)	77,770
Other Assets (Note 11)	46
Total Intragovernmental	**$ 213,403**
Cash and Other Monetary Assets (Note 4)	$ 69
Investments (Note 5)	-
Accounts Receivable, Net (Note 6)	1,064
Direct Loans and Loan Guarantees (Note 7)	44,278
Other Non-Credit Reform Loans (Note 8)	2,062
General Property, Plant, and Equipment, Net (Note 9)	137
PIH Prepayments and Advances (Note 10)	385
PIH Prepayments - CARES Act (Note 10)	793
Total Assets	**$ 262,191**
Liabilities (Note 12):	
Intragovernmental:	
Accounts Payable	$ 68
Debt (Note 13)	54,222
Other Liabilities (Note 15)	1,690
Total Intragovernmental Liabilities	**$ 55,980**
Accounts Payable	$ 1,334
Accrued Grant Liabilities	1,535
Loan Guarantee Liability (Note 7)	(6,165)
Debt Held by the Public (Note 13)	2
Federal Employee and Veteran Benefits (Note 14)	66
Insurance and Guarantee Program Liabilities (Note 25)	1,324
Other Liabilities (Note 15)	1,180
Total Liabilities	**$ 55,256**
Commitments and Contingencies (Note 16)	$ -
Net Position:	
Unexpended Appropriations - Funds from Dedicated Collections (Combined Totals) (Note 17)	$ -
Unexpended Appropriations - All Other Funds (Combined Totals)	97,993
Cumulative Results of Operations - Funds From Dedicated Collections (Combined Totals) (Note 17)	26,984
Cumulative Results of Operations - All Other Funds (Combined Totals)	81,958
Total Net Position - Funds from Dedicated Collections (Combined Totals) (Note 17)	**$ 26,984**
Total Net Position - All Other Funds (Combined Totals)	**$ 179,951**
Total Net Position	**$ 206,935**
Total Liabilities and Net Position	**$ 262,191**

The accompanying notes are an integral part of these statements.

U.S. Department of Housing and Urban Development Consolidated Statement of Net Cost For the Year Ended September 30, 2020 (Dollars in Millions)		
(Dollars in Millions)		**2020**
COSTS		
Federal Housing Administration (FHA)		
Gross Costs	$	(18,329)
Less: Earned Revenue		(2,106)
Net Program Costs	**$**	**(20,435)**
Government National Mortgage Association (GNMA)		
Gross Costs	$	685
Less: Earned Revenue		(1,803)
Net Program Costs	**$**	**(1,118)**
Section 8 Rental Assistance		
Gross Costs	$	37,597
Less: Earned Revenue		-
Net Program Costs	**$**	**37,597**
Public and Indian Housing Loans and Grants (PIH)		
Gross Costs	$	2,718
Less: Earned Revenue		-
Net Program Costs	**$**	**2,718**
Homeless Assistance Grants		
Gross Costs	$	2,559
Less: Earned Revenue		(1)
Net Program Costs	**$**	**2,558**
Housing for the Elderly and Disabled		
Gross Costs	$	1,004
Less: Earned Revenue		(51)
Net Program Costs	**$**	**953**
Community Development Block Grants (CDBG)		
Gross Costs	$	5,517
Less: Earned Revenue		-
Net Program Costs	**$**	**5,517**
HOME		
Gross Costs	$	837
Less: Earned Revenue		-
Net Program Costs	**$**	**837**
All Other		
Gross Costs	$	5,941
Less: Earned Revenue		(26)
Net Program Costs	**$**	**5,915**
Costs not Assigned to Programs	$	218
Consolidated		
Gross Costs	$	38,747
Less: Earned Revenue		(3,987)
Net Cost of Operations	**$**	**34,760**

The accompanying notes are an integral part of these statements.

U.S. Department of Housing and Urban Development Consolidated Statement of Changes in Net Position For the Year Ended September 30, 2020 (Dollars in Millions)				
(Dollars in Millions)	**2020**			
	Funds From Dedicated Collections (Combined Totals)	**All Other Funds (Combined Totals)**	**Eliminations**	**Consolidated Total**
Unexpended Appropriations:				
Beginning Balances	$ -	$ 86,250	$ -	$ 86,250
Adjustments:				
Corrections of Errors	-	-	-	-
Beginning Balance, as Adjusted	$ -	$ 86,250	$ -	$ 86,250
Budgetary Financing Sources:				
Appropriations Received	$ -	$ 69,844	$ -	$ 69,844
Other Adjustments	-	(319)	-	(319)
Appropriations Used	-	(57,782)	-	(57,782)
Total Budgetary Financing Sources	$ -	$ 11,743	$ -	$ 11,743
Total Unexpended Appropriations	**$ -**	**$ 97,993**	**$ -**	**$ 97,993**
Cumulative Results from Operations:				
Beginning Balances	$ 25,859	$ 62,414	$ -	$ 88,273
Changes in Accounting Principles	-	320	-	320
Corrections of Errors	-	(9)	-	(9)
Beginning Balances, as Adjusted	$ 25,859	$ 62,725	$ -	$ 88,584
Budgetary Financing Sources:				
Other Adjustments	$ (1)	$ -	$ -	$ (1)
Appropriations Used	-	57,782	-	57,782
Nonexchange Revenue	3	7	-	10
Transfers-in/out without Reimbursement	-	(309)	306	(3)
Other Financing Sources (Nonexchange):				
Transfers-in/out without Reimbursement	-	306	(306)	-
Imputed Financing	1	77	-	78
Other	(6)	(2,742)	-	(2,748)
Total Financing Sources	**$ (3)**	**$ 55,121**	**$ -**	**$ 55,118**
Net Cost of Operations	**1,128**	**(35,888)**	**-**	**(34,760)**
Net Change	**$ 1,125**	**$ 19,233**	**$ -**	**$ 20,358**
Cumulative Results of Operations	**26,984**	**81,958**	**-**	**108,942**
Net Position	**$ 26,984**	**$ 179,951**	**$ -**	**$ 206,935**

The accompanying notes are an integral part of these statements.

U.S. Department of Housing and Urban Development Combined Statement of Budgetary Resources For the Year Ended September 30, 2020 (Dollars in Millions)		
(Dollars in Millions)	**2020**	
	Budgetary	**Non-Budgetary Credit Reform Financing Accounts**
Budgetary Resources:		
Unobligated Balance From Prior Year Budget Authority, Net	$ 102,890	$ 19,436
Appropriations (discretionary and mandatory)	70,069	-
Borrowing Authority (discretionary and mandatory)	8,700	23,449
Spending Authority from Offsetting Collections	22,190	23,184
Total Budgetary Resources	**$ 203,849**	**$ 66,069**
Status of Budgetary Resources:		
New Obligations and Upward Adjustments (Total) (Note 21)	$ 69,311	$ 43,371
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	52,136	10,049
Unapportioned, Unexpired Accounts	81,498	12,649
Unexpired Unobligated Balance, End of Year	$ 133,634	$ 22,698
Expired Unobligated Balance, End of Year	904	-
Unobligated Balance, End of Year (Total)	134,538	22,698
Total Budgetary Resources	**$ 203,849**	**$ 66,069**
Outlays, Net:		
Outlays, Net (Total) (discretionary and mandatory)	38,009	-
Distributed Offsetting Receipts (-)	(4,819)	-
Agency Outlays, Net (discretionary and mandatory)	**$ 33,190**	**$ -**
Disbursements, Net (Total) (mandatory)	**$ -**	**$ 17,878**

The accompanying notes are an integral part of these statements.

Note 1: Summary of Significant Accounting Policies

A. 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 is a component of the U.S. Government. For this reason, some of the assets and liabilities reported by the entity may be eliminated for Government-wide reporting because they are offset by assets and liabilities of another U.S. Government entity. HUD's financial statements and note disclosures should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

HUD's major programs, including FHA and GNMA, are discussed in the Management Discussion & Analysis (MD&A) section. Also, FHA and GNMA are considered consolidating entities to HUD. The other major programs are as follows:

The Section 8 Rental Assistance programs are for assisting low-income and very low-income families in obtaining decent, safe, and sanitary housing in the private market. Since housing assistance is provided on behalf of the family or individual, participants can find their own housing, including single family homes, townhouses, and apartments. HUD makes up the difference between what low-income and very low-income families can afford and the approved rent for an adequate housing unit funded by the Housing Choice Voucher (HCV) program.

Public and Indian Housing Loans and Grants includes both the Capital Fund and Native American Programs. The Capital Fund provides funds annually to Public Housing Agencies (PHAs) for the development, financing, and modernization of public housing developments and for management improvements. 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 Tribally Designated Housing Entities (TDHE) for construction and rehabilitation of low-rent housing. The Native American Programs guarantee home mortgage loans made to Native American borrowers. The loan guarantee assures the lender that its investment will be repaid in full in the event of a foreclosure.

The Homeless Assistance Grants (HAG) funds the formula Emergency Solutions Grant (ESG) program and the competitive Continuum of Care (CoC) program. Together, these programs fund the activities that comprise communities' homeless crisis response systems.

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

The Home Investments Partnerships (HOME) 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-income 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.

Under Federal Accounting Standards Advisory Board's (FASAB) S*tatements of Federal Financial Accounting Standards (SFFAS) No. 47: Reporting Entity*, HUD does not have any disclosure entities or related parties. HUD does not consider activities with a parent agency as a disclosure entity or a related party. HUD provides financial information to the parent agency monthly to facilitate the agency's reporting consolidation.

In HUD's FY 2019 Agency Financial Report (AFR), S*FFAS No. 49: Public-Private Partnerships (P3s)* risks were reported as a separate note disclosure based on HUD's interpretation of the newly implemented standard and most current OMB Circular A-136 guidance. In FY 2020, the OMB Circular A-136 provided clarifying guidance on public private partnerships and those activities that should be excluded from disclosure requirements. Based on the clarifying guidance, HUD's loan, loan guarantees, and insurance programs are excluded from P3 disclosure requirements.

B. 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 *OMB Circular A-136, Financial Reporting Requirements*, and in conformance with the FASAB's *SFFAS* except for the presentation of comparative data. HUD Consolidated and the GNMA Component presented its financial statements (FS) and Notes as a single year presentation for FY 2020. HUD's decision to continue with single year reporting in FY 2020 is based on the complex nature of auditing the GNMA non-pooled asset portfolio and GNMA's cash flow models. The single year approach is necessary to allow adequate time for the audit of HUD's and GNMA's year-end FS and Notes. The FHA Component will present its year end FS and Notes comparatively in its Annual Management Report for FY 2020.

Pursuant to *SFFAS No. 34: The Hierarchy of Generally Accepted Accounting Principles (GAAP),* if the accounting treatment for a transaction or a similar event is not specified in FASAB and its related guidance, agencies can consider other accounting standards and guidance. GNMA has applied *SFFAS No: 34* in the accounting and presentation of its reimbursable costs, which are included on the Accounts Receivable, net line in the accompanying Balance Sheet, and to its Other Non-Credit Reform Loans, including associated interest income and accrued interest receivables. Details of the accounting policies for these items are included in the sections below titled "Accounts Receivable, net" and "Other Non-Credit Reform Loans."

Pursuant to *SFFAS No. 56: Classified Activities, under paragraph 12,* the accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

HUD's financial statements include all the accounts and transactions of HUD Proper, FHA, GNMA, and its grant, subsidy, and loan programs. All inter-fund accounts receivables, accounts payables, advances, prepayments, 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 exceptions are as follows:

Public and Indian Housing's (PIH) HCV and Moving to Work (MTW) programs, where funds are paid on the first day of the month to cover rental expenses for that month. PIH's Office of Native American Programs (ONAP), where some grantees are granted authority by PIH to invest Indian Housing Block Grant (IHBG) funding based on programmatic requirements. In FY 2020, HUD received additional appropriated disaster funding Coronavirus Aid, Relief, and Economic Security Act (CARES Act) which was signed into law by President Trump on March 27, 2020, to provide aid and economic assistance to individuals, families and businesses across the nation impacted by COVID-19. PIH's HCV and MTW programs received additional CARES Act Housing Assistance Payments (HAP) supplemental and Administrative fees; this funding was pushed to the eligible Public Housing Authorities (PHAs).

C. Use of Estimates

The preparation of the principal financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements, and 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 (LLG), the Department relies on cash flow models associated with the loan guarantees subject to the Federal Credit Reform Act of 1990 (FCRA). The Department develops the assumptions underlying the cashflow models based on historical data, current and forecasted programs, and economic forecasts. Projections of future loan performance are used to estimate the Allowance for Subsidy and the LLG.

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 to develop an estimation methodology to determine its quarterly prepayment balances for the Housing Choice Voucher (HCV) programs due to timing constraints on obtaining the actual data.

In FY 2019, OCFO, PIH, and Indian Housing Block Grant (IHBG) worked to develop an estimation methodology to determine its annual advance balances on the portion that is invested by eligible grantee recipients due to timing constraints in obtaining the actual data.

The PIH prepayment and advance estimate assumptions are disclosed in Note (10) PIH Prepayments and Advances.

HUD has a grant accrual policy and continues to refine its methodologies and underlying assumptions within that policy to develop the estimates. Grant accruals are calculated by the various program areas listed below on a quarterly basis and recorded in the trial balance to be included in the Financial Statements. These accruals represent HUD's estimate for its obligations/liability for work completed but not yet billed in its grant programs. The accruals are reversed in a later accounting period.

PIH: The Grant accruals are completed for the following PIH programs: Public Housing Capital Fund, HOPE VI/Choice Neighborhoods, Indian Housing Block Grant, and Native Hawaiian Housing Block Grant. These grant accruals are calculated by taking the actual total disbursements over a twelve-month period, divided by the number of months in a year. This methodology assumes that on average, there is a 30-day processing time for a PHA to incur an eligible expense, request a draw down, and then draw down the funds.

In the FY 2020 fourth quarter, the "*Public Housing Capital Fund*" and "*Indian Housing Block Grant*" grant accruals were calculated using the 30-day average, but the final accrual estimates were capped at the respective program obligation balances.

CoC: This grant accrual uses historical data based on the pattern of declining monthly grant balances. Based on the pattern of the balances, the program office projects the expenses that will be incurred and billed monthly based on the volume and timing of the grant funding and reasonable assumptions about the time period over which incurred expenses are billed.

Community Planning & Development (CPD): This grant accrual consists of the following CPD programs: HOME Investment Partnership Program (HOME), Community Development Block Grants Program (CDBG), Housing Opportunities for Persons with Aids (HOPWA), HUD Emergency Assistance Grant Program (HESG), and the Homelessness, Prevention and Rapid Re-Housing Program (HPRP).

HOME and CDBG follow the same grant accrual methodology. The working assumption for each program is that the expenses accrue over a period (which varies by activity and type) and are generally billed to the government within an interval of time after being incurred. The calculation process involves a financial model that includes the historical data of the total funded amounts by month for each CDBG and HOME activity type.

CDBG-DR accruals use 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. CPD's grant accrual estimates are statistically validated through annual execution of grantee survey responses.

Housing Opportunities for Persons with Aids (HOPWA), HUD Emergency Assistance Grant (HESG), and Homelessness Prevention and Rapid Rehousing (HPRP): These programs follow the same methodology and its calculations are based on historical data for each program's current year (which is expressed as a percentage of current period draws). This number is then applied to the total monthly withdrawn amount for the specified period.

Housing for the Elderly, Housing for Disabilities, and Housing Counseling Assistance Program: The methodology uses actual disbursements made to the grantees for the three-months ending on the financial reporting date. Grantees' drawdowns and spending patterns throughout the year may vary by grantee, and by month, based on various factors. A test of disbursement trends for 86-0237, 86-0320 and 86-0156 revealed that the volume and dollar amount of disbursements are declining over the years. Using the prior three months' disbursements allows for a closer estimate of current disbursement count and amount of Section 202, Section 811, and Housing Counseling. The total of the prior quarter's disbursements is used to provide the three-month estimate of disbursements.

This methodology is based on five assumptions: (1) Disbursements under the Project Rental Assistance Contract (PRAC) and Section 811 Project Rental Assistance (PRA) are excluded because they are project based and operate the same way as the Project Based Rental Assistance (PBRA) program which is on the CFO's Excluded Programs list; (2) The number of traditional Section 202 and Section 811 projects remaining in the pipeline have decreased since no new projects have been funded since the Appropriations Act of 2011; (3) Disbursements tend to be higher during the 4th quarter as offices try to achieve their goals of completing, initial and final closings, for Section 202 and Section 811 projects; (4) On average, there is a 30-day (or less) processing time for project/grantee to request and draw down funds. Disbursements for a month will generally reflect the expenses invoiced in the previous month; (5) The methodology accounts for wide variations in appropriation timing and in the timing of award announcements. Housing Counseling grantees' draw down of funds from eLOCCS and spending patterns throughout the year may vary by grantee, and by year and month, based on various factors (for example, the timing of award announcement).

GNMA has made significant estimates in a variety of areas including, but not limited to, its valuation of certain financial instruments such as: acquired property, allowance for loss on mortgage loans held for investment, and the liability for loss on remaining coverage associated with the administration of the MBS program guaranty. Those estimates are included in the balance of Other Non-Credit Reform Loans and Insurance and Guarantee Program Liabilities in the accompanying Balance Sheet (BS), the actual results could differ from those estimates. For additional information refer to Note (6) Accounts Receivable, net, Note (8) Other Non-Credit Reform Loans, and Note (25) Insurance Programs.

D. Entity and Non-entity Assets

Assets are classified as either entity or non-entity assets. Entity assets are those assets that HUD has the authority to use for its operations. Non-entity assets are those assets 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. For additional information refer to Note (2) Non-entity Assets.

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

Fund Balance with Treasury (FBWT) is an asset of HUD and a liability of the General Fund. Similarly, investments in Federal Government securities that are held by GNMA's Dedicated Collections accounts are assets of the reporting entity responsible for the Dedicated Collections and liabilities of the General Fund. In both cases, the amounts represent commitments by the Government to provide resources for HUD programs, but it does not represent the net assets to the Government as a whole. When HUD seeks to use FBWT to liquidate budgetary obligations, Treasury will finance the disbursements in the same way it finances all other disbursements, using some combination of receipts, other inflows, and borrowing from the public (if there is a budget deficit).

HUD maintains all cash accounts with Treasury. Treasury processes cash receipts and disbursements on behalf of HUD. 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.

GNMA's business operations are fully funded by dedicated offsetting collections paid by Financial Institutions (issuers) participating in the Mortgage-Backed Securities (MBS) Guarantee Program. Although GNMA's MBS Guarantee Program is not subject to Federal Credit Reform Act (FCRA), GNMA has implemented a "Modified Credit Reform" process and uses the program, financing, liquidating and capital reserve accounts to process its cash receipts and disbursements through Treasury. Cash held with Treasury includes GNMA's capital reserves (unavailable until apportioned by OMB) and available spending authority of obligated and unobligated balances available to finance allowable expenditures.

The capital reserve is a budget account that retains the MBS Guarantee Program's negative subsidy, downward re-estimates, and overnight securities interest collections. The capital reserve account maintains GNMA's unobligated reserve balances which are transferred to the program and/or financing accounts (as needed) to fund business operations.

The program account is a budget account that receives multiclass, commitment, and service fee collections from issuers and non-expenditures transfers (NET) from GNMA's capital reserve account to cover program contract obligations. The program account also disburses the upward re-estimates to the financing account; and receives spending authority appropriations enabling GNMA to use its multiclass and commitment fee collections to fund its administrative salaries and expenses.

The liquidating account is a budget account that receives overnight securities interest collections and records unclaimed security holders cash flows. The liquidating account maintains a spending authority level of $100 million and transfers collections in excess of that threshold to the capital reserve account.

The financing account is a non-budgetary account that records all cash flows resulting from GNMA's MBS guarantee. The financing account receives guarantee pool transfers and other program fee collections from issuers. It receives claim payments from direct loan and loan guarantee agencies. It receives NET from GNMA's capital reserve account to cover contract obligations, MBS guarantee program disbursements such as principle and interest past-through payments to MBS investors, and negative subsidy and downward re-estimate payments to the capital reserve account. The financing account also receives upward re-estimate payments from the program account. The unobligated balances in the financing account are not invested in Treasury securities and does not receive an uninvested interest collection from Treasury.

In prior fiscal years, GNMA earned and collected interest on uninvested funds, which was calculated using the applicable version of the Credit Subsidy Calculator (CSC2) provided by the OMB. In 2018, Treasury clarified rules regarding the collection of interest on uninvested funds in the Financing Account. Based on discussions with Treasury, GNMA was not entitled to earn interest on uninvested funds without a signed borrowing agreement in accordance with FCRA. GNMA is in ongoing discussions with OMB and its legal counsel on whether the Financing Account is fully subject to the provisions of FCRA. Resolution of the matter between GNMA and OMB is pending, and an agreement has not yet been reached concerning whether GNMA would be required to repay prior interest income received on uninvested funds or be able to earn interest in the future.

The Guarantees of Mortgage-Backed Securities Pass-through Assistance Account is a General Fund Expenditure account, established on April 1, 2020, for the purposes of properly recording non-FCRA borrowing agreement collection and repayments resulting from the financial obligations of GNMA's Pass-through Assistance Program (PTAP) related to COVID-19. For additional information on GNMA's PTAP refer to the PTAP section in this Note.

F. Investments

HUD limits its investments, which are principally comprised of investments by FHA's Mutual Mortgage Insurance (MMI)/Cooperative Management Housing Insurance (CMHI) Fund and GNMA, 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, that are publicly marketed.

HUD's investment decisions are limited to Treasury policy's 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. FHA uses the straight-line amortization method for the interest accrual and amortization of discounts for its investments in short-term Treasury bills. Some of FHA's short-term investments are in one-day overnight securities, which are measured at cost. For its investments in long-term Treasury notes and bonds, FHA uses the effective interest rate method to account for bond discount accretion and bond premium amortization.

GNMA's U.S. Treasury short-term investments consist of one-day overnight certificates that are issued with a stated rate of interest to be applied to their par value with a maturity date of the next business day. These overnight certificates are measured at cost, which approximates fair value. There is no amortization on GNMA's short-term investments.

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. For additional information refer to Note (5) Investments.

G. Accounts Receivable, net

HUD's accounts receivables include partial claims and generic debt, fees, interest, reimbursable costs, criminal restitution and other.

FHA's Single-Family Notes (SFN), Accounting Area 65, records the loss mitigation activity for all partial claim notes. Each subsection of the loss mitigation program has a set of qualifications and requirements that were put in place to assist borrowers who were in default or imminent default of retaining their homes, and/or to reduce losses to the insurance fund that result from mortgage foreclosures. Any FHA-insured borrower who is in default for a least 120 days and who occupies the mortgaged property as a primary residence can obtain a partial claim for the delinquent portion of their mortgage. The partial claim note is not due until the 1st lien has been paid in full. The partial claim note receivables reported under Note (6) Accounts Receivable, net, are partial claims for which FHA has paid a claim but has not received the note.

All HUD/FHA debt types are referred to as Generic Debts. Generic Debts may be consumer debts or commercial debts. Each debt type is associated with an accounting category, which facilitates appropriate financial reporting. The FHA Financial Operations Center (FOC) is responsible for the servicing and recovery of all delinquent debts owed to FHA. Debts serviced by the FOC are subject to the provisions of the Debt Collection Improvement Act (DCIA) of 1996 and the Center partners with Treasury's Bureau of Fiscal Service in the recovery of delinquent FHA receivables. The center maintains compliance with the

DCIA which requires that all eligible receivables that are 120 days delinquent must be referred to both Treasury's Offset Program (TOP) and Treasury's Cross Servicing Program. TOP is a centralized offset program which collects delinquent debts owed to federal agencies and states. The FOC's responsibility for debt collection begins when it receives a referral package, and this package contains enough documentation to load the debt into the Debt Collection Asset Management System (DCAMS). The actual documents and information submitted will vary based on the type of debt. HUD Proper debts and receivables are managed at the Department level.

GNMA accrues interest on mortgage loans held for investment at the contractual rate and records an allowance on accrued interest to the extent interest is uncollectible for conventional loans, and to the extent interest is not expected to be recovered per insurance guidelines for insured or guaranteed loans. GNMA's policy is to record interest on FHA-insured delinquent loans at the debenture rate, or rate per relevant insuring agency guidelines, as applicable, and place delinquent uninsured loans on non-accrual status. GNMA determines the allowance for uncollectible accrued interest for loans which are not impaired under *SFFAS No. 1*: *Accounting for Selected Assets and Liabilities – Accounts Receivable* and *SFFAS No. 5*: *Accounting for Liabilities of the Federal Government – Contingencies*.

GNMA places uninsured loans on a non-accrual status, which means that the interest is no longer accrued or recorded as earned for the loan, once principal and interest are 90 days or more past due, and GNMA believes collectability of payments is not reasonably assured. For uninsured loans placed on non-accrual status, interest previously accrued but not collected becomes a part of GNMA's recorded investment for the loan. The recorded investment represents the total recorded book value which is assessed for impairment purposes. Since FASAB currently does not directly address the accounting treatment for impairment of non-credit reform loan receivables, GNMA assesses interest under *Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 310 Receivables* for its impaired loans, in accordance with *SFFAS No. 34: The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*. When a loan is on non-accrual status, GNMA has elected to apply any cash received for uninsured loans to the carrying value of the loan based on the cost recovery method. The cost recovery method defers recognition of any income related to the loan until the entire carrying value has been recovered.

Once insured loans are 90 days or more past due, they are placed on modified accrual status, whereby interest is accrued at the rate recoverable from the insurer, which is typically less than the original contractual rate. For insured loans placed on modified accrual status, interest previously recognized at the contractual rate is not reversed but becomes a part of GNMA's recorded investment. For FHA insured loans on modified accrual status, cash receipts are applied in accordance with the principal and interest amortization schedule due to the extent of the coverage provided by the FHA insurance which makes recovery more certain. For loans insured or guaranteed by other insurers/guarantors (Rural Development (RD), Veteran Affairs (VA), or PIH), GNMA has elected to apply cash received to the carrying value of the loan based on the cost recovery method, since amounts recovered may be less.

Loans can be returned to accrual status if GNMA is able to determine that all principal and interest amounts contractually due are reasonably assured of repayment within a reasonable period and there is a sustained period of reperformance. If a loan is modified, during the trial modification period, interest income is recognized when cash is received, rather than accrued under the modified terms, until the borrower has demonstrated the ability to meet the terms of the modified loan and the amounts become sufficiently assured of repayment to warrant accrual treatment.

GNMA advances funds to preserve its interests in mortgaged property, such as advancing funds to cover shortfalls for mortgagors' taxes and insurance when escrow balances are insufficient, or pre-foreclosure and foreclosure costs and other expenses, such as Homeowners Association fees incurred during the foreclosure process. These costs may be recovered through borrower repayments, proceeds from liquidation of mortgaged property, or, for insured loans, from reimbursement by the insuring agency. Costs incurred on both pooled and non-pooled loans expected to be reimbursed are recorded as reimbursable costs receivable and reported net of allowance for amounts that management believes will not be collected. The allowance for reimbursable costs is estimated based on historical experience, which includes expected collections from the mortgagors, proceeds from the sale of the property, and reimbursements collected from insurers or guarantors such as FHA, RD, VA, and PIH.

For additional information on HUD's accounts receivables refer to Note (6) Accounts Receivables, net.

H. 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 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). Additionally, FHA has a capital reserve account associated with its MMI/CMHI Fund. These accounts are classified as either budgetary or non-budgetary in the *Combined Statement of Budgetary Resources (SBR)*. 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 budgetary 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. Although GNMA does not follow Credit Reform, its financing account is a non-budgetary account.

The general fund receipt account is an 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 General Insurance (GI) and Special Risk Insurance (SRI) funds fall in this category.

In the National Affordable Housing Act (NAHA) of 1990 Congress introduced a capital ratio requirement for gauging the financial status of FHA's Mutual Mortgage Insurance Fund (12USC 1711 (f)(4) and requires that FHA maintain a two percent Capital Ratio in the MMI Fund. The Capital Ratio compares economic net worth (current cash plus the present value of all future net cash flows) of the MMI fund to the dollar balance of active insured loans (the unpaid balance of insured mortgages) at a point in time. 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 budgetary account that records all cash flows to and from FHA and HUD Proper 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 liquidating accounts including the GI/SRI at year-end are transferred to Treasury's General Fund. Consequently, if resources in liquidating accounts including GI/SRI are otherwise insufficient to cover the payments for obligations or commitments, the FCRA provides the liquidating accounts with permanent indefinite authority to cover any resource shortages.

I. 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 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 lenders for claims on defaulted guaranteed loans, or loans that have reached their maximum claim amount, and takes assignment of these loans for direct collections. The majority of MNAs are Home Equity Conversion Mortgages (HECM) notes. HECM loans, while not in default, are assigned to HUD when they reach 98 percent of their maximum claim amount. In addition, multifamily mortgages are assigned to FHA when lenders file mortgage insurance claims for defaulted notes. Partial claims are second mortgages on HUD-insured properties and are classified as defaulted guaranteed loans. Loans under the FFB Risk Share Program are direct loans pursuant to Treasury guidelines.

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 resulting from obligations or commitments prior to October 1, 1991, and related foreclosed property in inventory are recorded at net realizable value based on recovery rates net of any selling expenses. For additional information on pre-Credit Reform loans refer to Note (7) Direct Loans and Loan Guarantees, Non-Federal Borrowers.

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 the principal is considered doubtful, the accrual of interest income is suspended, and receipts (both interest and principal) are recorded as collections of principals. 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.

J. Other Non-Credit Reform Loans

Other Non-Credit Reform Loans consists of GNMA Advances, Pass-Through Assistance Program Issuer Advances, Mortgage Loans Held for Investment, Claims Receivable, and Properties Held for Sale.

GNMA Advances, Net

Advances represent GNMA pass-through payments to fulfill the guarantee of timely principal and interest (P&I) payments to Mortgage-Backed Securities (MBS) holders. GNMA reports advances net of an allowance for amounts not expected to be collected. GNMA calculates the allowance based on expected recovery amounts. The calculation incorporates reimbursements per established insuring or guaranteeing agency guidelines, GNMA's collections experience, and other economic factors. GNMA reclassifies advances associated with loans purchased out of the MBS pools as part of the total recorded investment in the purchased loan.

Pass-Through Assistance Program (PTAP) Issuer Advances

When the President of the United States declares a major disaster, GNMA, at its sole discretion, may extend to issuers one or more of the Disaster Assistance Programs identified in Chapter 34 of its Mortgage-Backed Securities Guide (MBS Guide), including PTAP. Under PTAP, GNMA assists Issuers with pass-through payments of P&I to investors if the issuers are facing a temporary liquidity shortfall directly attributable to a major disaster. Requests for assistance should only be made by an issuer as a "last resort." PTAP is not intended to provide long-term financing, or to address the full extent of solvency issues that an issuer might face as a result of a disaster. An issuer who receives an eligible pass-through assistance advance from GNMA will be obligated to repay it to GNMA according to the terms set forth in the applicable Supervisory Agreement. GNMA recognizes each pass-through assistance advance as a financing receivable, referred to as PTAP receivables. GNMA cannot transfer PTAP receivables to another party and has the intent and ability to hold them for the foreseeable future or until maturity. Therefore, GNMA classifies all PTAP receivables as Held for Investment (HFI) and reports their carrying value, which includes the outstanding contractual balance (including accrued interest), net of cost basis adjustments, and net of allowance. GNMA accrues interest on PTAP receivables based on the interest method and records an allowance on accrued interest to the extent interest is uncollectible.

GNMA places PTAP receivables on non-accrual status upon the earlier of when GNMA determines that payment in full is not expected from the issuer or when the PTAP receivable has been due and unpaid for 90 days. When PTAP receivables are placed on non-accrual status, GNMA suspends recognizing additional interest income.

GNMA performs periodic and systematic reviews of PTAP receivables to identify credit risks and assess the overall collectability. When GNMA determines that it is probable that a credit loss has occurred and the loss can be reasonably estimated, GNMA recognizes the estimated amount of the incurred loss. This allowance is netted against the recorded investment of PTAP receivables on the balance sheet.

GNMA charges off accrued interest and unpaid principle balance (UPB) amounts for PTAP receivables when it believes collectability of interest or principal is not reasonably assured. GNMA's policy is to evaluate individual PTAP receivables on a quarterly basis and record recoveries of PTAP receivables previously charged off when repayment received from the issuer exceeds the recorded investment. The recoveries are recorded by crediting the allowance, which results in an indirect credit to earnings through Recapture (Provision) for Pass-Through Assistance Program receivables including accrued interest, net.

Mortgage Loans Held for Investment, Net

GNMA approves issuers to pool loans and issue GNMA guaranteed MBS. For federal income tax purposes, the MBS pool created by the issuer is considered a grantor trust. As such, each of these "virtual trusts" are considered individual legal entities. When a GNMA issuer defaults, and is terminated and extinguished, GNMA steps into the role of the issuer and assumes all servicing rights and obligations of the issuer's entire GNMA guaranteed portfolio of mortgage loans. This includes loans in MBS pools created by the issuer and the obligation to make timely pass through payments to securities holders. GNMA utilizes a Master Sub-servicer (MSS) to service these portfolios. There are currently two MSS that service the terminated and extinguished issuer portfolios (pooled and non-pooled loans). Loans held in MBS pools are not included in the Balance Sheet since they are not assets owned by GNMA until purchased out of the pools.

In its role as servicer, GNMA assesses individual loans within its pooled portfolio to determine whether the loan must be purchased out of the pool. GNMA 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, GNMA 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.

Mortgage loans are classified as Held for Investment (HFI) when GNMA has the ability and the intent to hold acquired loans for the foreseeable future or until maturity. HUD reports the carrying value of HFI loans on the Balance Sheet at the Unpaid Principal Balance (UPB) along with accrued interest, net of cost basis adjustments, and net of allowance for loan losses. GNMA records cost basis adjustments for HFI loans which are considered Troubled Debt Restructurings (TDR), or loans which are classified as Purchased Credit Impaired (PCI). GNMA also records an allowance for loan losses to reflect the collectability of the loans.

If HUD decides to sell the loans currently recognized on its Balance Sheet, HUD will reclassify the applicable loans from HFI to Held for Sale (HFS). For loans which are 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. As of September 30, 2020, HUD had no loans classified as HFS, and mortgage loans held for investment included only single-family loans.

Allowance for Loan Losses

GNMA performs periodic and systematic reviews of its loan portfolios to identify credit risks and assess the overall collectability of the portfolios. GNMA recognizes the estimated uncollectible portion of its recorded investment in the loans when (1) available information at each BS date indicates that it is probable a loss has occurred and (2) the amount of the loss can be reasonably estimated.

Loans which have not been classified as TDR or PCI are evaluated collectively. For large groups of homogeneous loans that are collectively evaluated, GNMA records an allowance for loan losses against both principal and interest. When GNMA determines that it is probable, a credit loss will occur, and that loss can be reasonably estimated. GNMA recognizes the estimated amount of the incurred loss in the allowance for loan losses. GNMA aggregates its mortgage loans based on common risk characteristics, primarily by the type of guarantee or insurance (FHA, RD, VA, PIH) associated with the loan, as each has a different recovery rate. GNMA 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 estimated allowance for losses represents management's best estimate of probable credit losses inherent in GNMA's mortgage loan portfolio. The allowance is netted against the recorded investment in mortgage loans.

GNMA charges off accrued interest and unpaid principal balances when it believes collectability of interest or principal is not reasonably assured. GNMA charges off confirmed losses against the asset (loan) and allowance for loan losses when the asset is greater than 180 days delinquent. The charge off is determined based on the difference between the recorded investment and either fair market value or net recoverable value.

GNMA records recoveries of non-FHA insured loans previously charged-off when cash is received from the borrower related to principal and interest in excess of the recorded investment. For FHA loans, GNMA records recoveries of previously charged-off accrued interest amounts when cash is received from the borrower related to interest in excess of the recorded interest on its books. Recoveries of loans previously charged off are recognized as an increase to the allowance for loan losses when payment is received.

GNMA considers a loan to be impaired when, based on current information, it is probable that amounts due will not be received in accordance with the contractual terms of the loan agreement. GNMA's impaired loans include those modified in TDRs and PCI loans. Since FASAB currently does not directly address the accounting treatment for impairment of non-credit reform loans receivables, GNMA assesses loans under *FASB ASC 310 Receivables* for its impaired loans. For impaired loans, GNMA measures impairment based on the present value of expected future cash flows. GNMA's expectation of future cash flows incorporates, among other items, estimated probabilities of default and prepayment based on several economic factors as well as the characteristics of a loan. Additionally, GNMA considers the estimated value of the collateral, as reduced by estimated disposition costs, and estimated proceeds from insurance and similar sources, if applicable.

To avoid foreclosure, the MSS, on behalf of GNMA, may modify loans to help mortgagors who have fallen into financial difficulties with their mortgages. Methods of modifying loans may include offering concessions and restructuring the terms of the loan to alleviate the burden of the mortgagor. Some concessions made are a delay in payment that is more than insignificant; a reduction in the contractual interest rate that is lower than the market interest rate at the time of modification; interest forbearance for a period of time for uncollected interest amounts, that is more than insignificant; principal forbearance that is more than insignificant; and discharge of the mortgagor's obligation due to filing of Chapter (7) Bankruptcy. GNMA considers these modifications a concession to mortgagors experiencing financial difficulties and classifies these loans as TDRs. GNMA measures the impairment on these loans restructured in a TDR based on the excess of the recorded investment in the loan over the present value of the expected future cash flows discounted at the loan's original effective interest rate.

As described in further detail in Note (27) COVID-19 Activity, the Board of Governors of the Federal Reserve, Federal Deposit Insurance Corporation, National Credit Union Administration, Office of the Comptroller of the Currency, and Consumer Financial Protection Bureau, in consultation with state financial regulators, issued a revision to the Interagency Statement on Loan Modifications by Financial Institutions Working with Customers Affected by the Coronavirus ("Interagency Statement"), which provides for certain accounting elections related to loan modifications under Section 4013 of the CARES Act. GNMA has elected to account for modifications in accordance with the guidance outlined within the Interagency Statement. For loan modifications subject to relief under the Interagency Statement, institutions may presume borrowers are not experiencing financial difficulties at the time of the modification for purposes of determining TDR status, and thus no further TDR analysis is required for each loan modification in the program. In accordance with the Interagency Statement, loans subject to relief will continue to be presented as current within the financial statement aging disclosures. Further, these loans will continue to recognize interest income subject to GNMA's existing accounting policy. For additional information refer to Note (8) Other Non-Credit Reform Loans.

GNMA evaluates all purchased loans and assesses whether there is evidence of credit deterioration subsequent to the loan's origination and, if it is probable, at acquisition, that GNMA will be unable to collect all contractually required payments. GNMA considers insurance and guarantees from FHA, RD, VA, and PIH in determining whether it is probable that GNMA will collect all amounts due according to the contractual terms. Loans determined to meet these criteria are classified as Purchased Credit-Impaired (PCI). GNMA records realized losses on PCI loans when, upon purchase, the fair value is less than the acquisition cost of the loan. GNMA also recognizes the difference between the initial investment of the loan, and the undiscounted expected cash flows (known as the accretable yield) as interest income on a level-yield basis over the expected life of the loan.

Claims Receivable, Net

Claims receivable represent receivables for payments owed to GNMA from insuring agencies (FHA, RD, VA and PIH). Claims receivable consist of two primary components:

Short sale claims receivable: A property may be sold for an agreed-upon price that falls short of amounts owed on the property as an alternative to foreclosure. This type of sale is known as a "short sale". Short sale proceeds are often insufficient to fully pay off the mortgage. GNMA's MSS identifies loans that may be short sale eligible. This evaluation is based on factors such as delinquency, appraised value of the property, and location of the property. GNMA's Office of Issuer and Portfolio Management (OIPM) approves all short sales.

FHA is the largest insurer for GNMA. FHA typically pays GNMA the difference between the proceeds received from the sale and the UPB of the mortgage loan plus FHA-allowable delinquent interest, and other reasonable and customary costs per the FHA guidelines. FHA guidelines provide for interest claims to be calculated based on a debenture rate, as published by FHA. FHA does not reimburse the first two months of delinquent interest payments. Short sales on RD, VA, and PIH guaranteed loans follow a similar process in which the claims receivable amount is determined in accordance with the respective agency guidelines. GNMA records a short sale claims receivable while it awaits repayment of the shortfall amount from the insuring or guaranteeing agencies.

GNMA uses statistical models to assess the collectability of its claims receivable. The models estimate expected recovery based on insuring or guaranteeing agency guidelines and GNMA's historical experience. GNMA records an allowance for claims that are not expected to be recovered. GNMA charges off any uncollectable amounts against the allowance, once losses are confirmed.

Foreclosed property: GNMA records foreclosed property when the MSS receives title to a residential real estate property. Title may be received pursuant to a legal foreclosure process, or when the mortgagor conveys all interest in the property to satisfy the loan through a "deed in lieu of foreclosure" or similar legal agreement. These properties differ from acquired properties as GNMA intends to convey the property to an insuring or guaranteeing agency, instead of marketing and selling the properties. The amount of the claim receivable is determined based on the underlying insuring or guaranteeing agency guidelines. Typically, this includes the UPB for the loan and any allowable interest and other costs per the guidelines.

GNMA uses statistical models to assess the collectability of its claims receivable. The models estimate expected recovery based on insuring or guaranteeing agency guidelines and GNMA's historical experience. GNMA records an allowance for claims that are not expected to be recovered. GNMA charges off any uncollectable amounts against the allowance once losses are confirmed.

Properties Held for Sale

GNMA recognizes properties held for sale ("acquired property"), when marketable title to the underlying property is obtained. Title may be obtained through a legal foreclosure process or deed in lieu of foreclosure or other similar legal agreements. These assets differ from "foreclosed property" as they are not conveyed to the insuring agencies and GNMA will hold the title while the properties are marketed for sale by the MSS.

GNMA initially measures acquired property at its fair value, net of estimated costs to sell. GNMA records a charge off against the allowance for loan losses when the recorded investment in the loan prior to acquisition of title exceeds the fair value, net of estimated cost to sell, of the acquired property. If the fair value, net of estimated costs to sell, exceeds the recorded investment in the loan, GNMA recognizes a recovery for any forgone P&I. This amount is recognized with operating expenses included in gross cost in the accompanying Statement of Net Cost (SNC).

GNMA subsequently measures acquired property at the lower of its carrying value or fair value, less estimated costs to sell. GNMA recognizes any decreases in fair value, net of estimated costs to sell, below the carrying value through a valuation allowance. The offsetting charge for the valuation allowance is recorded as income (expense) on acquired property included in gross cost in the accompanying SNC. Any subsequent increase in fair value, net of estimated costs to sell, up to the cumulative loss previously recognized through the valuation allowance, is recognized with operating expenses included in gross cost in the SNC.

GNMA capitalizes subsequent improvement costs for acquired property. GNMA expenses other costs as incurred with operating expenses included in gross cost in the SNC.

GNMA records gains and losses on sales of acquired property as the difference between the net sales proceeds and the carrying value of the property. These gains and losses are recognized through "Gains on Disposition of Assets – Other" included in earned revenues in the SNC. For additional information refer to Note (8) Other Non-Credit Reform Loans.

K. Property, Plant, and Equipment, Net

Property, Plant, and Equipment, net (PP&E) is comprised 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.

L. 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. For additional information on liabilities not covered by budgetary resources refer to Note (12) Liabilities Not Covered by Budgetary Resources.

M. 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 borrows 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. For additional information refer to Note (13) Debt.

N. 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 sheet. Pursuant to *SFFAS No. 2*, the Loan Guarantee Liability (LGL) includes the Credit Reform Related Liabilities for Loan Guarantees (LLG) and the pre-Credit Reform Loan Loss Reserve (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 based on its cash flow models and FHA values its Pre-Credit Reform related notes and properties in inventory at net realizable value, determined based on estimated net cash outflows. To value these items, FHA uses historical claim data, revenues from premiums and recoveries, and expenses of selling and maintaining properties.

O. 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 the "Other Liabilities" line on the Consolidated Balance Sheet.

P. 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.

Q. Insurance and Guarantee Program Liabilities

GNMA's MBS program guarantees the timely payment of P&I on securities backed by pools of mortgage loans insured by FHA, PIH and Rural Housing Service, or guaranteed by the VA. GNMA's MBS Guaranty program is considered an exchange transaction insurance program other than life insurance under *SFFAS No. 51: Insurance Programs*. In accordance with the requirements of *SFFAS No. 51*, GNMA determines a liability for loss on remaining coverage associated with outstanding MBS guarantees as the total non-contingent guaranty obligation and contingent liability less the total guaranty asset. When a liability is determined to exist, this amount is recorded as the liability for loss on remaining coverage and is included in Insurance and Guarantee Program Liabilities on the Balance Sheet. Initial recognition and subsequent changes in the liability for loss on remaining coverage are reflected on the Balance Sheet and are recorded as a loss included in gross cost on the Statement of Net Cost.

R. Operating Revenue and Financing Sources

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

As a component of the Government-wide reporting entity, HUD is subject to the Federal budget process, which involves appropriations that are provided annually and appropriations that are provided on a permanent basis. The financial transactions that are supported by budgetary resources, which include appropriations, are generally the same transactions reflected in HUD and the Government-wide financial reports.

HUD's budgetary resources reflect past congressional action and enable HUD to incur obligations, but they do not reflect assets to the Government as a whole. Budgetary obligations are legal obligations for goods, services, or amounts to be paid based on statutory provisions. After budgetary obligations are incurred, Treasury will make disbursements to liquidate the budgetary obligations and finance those disbursements in the same way that it finances all disbursements, using some combination of receipts, other inflows, borrowing from the public (if there is a budget deficit).

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.

GNMA Fees

Fees received for GNMA's guaranty of MBS are recognized as earned. Commitment fees represent income that GNMA earns for providing approved issuers with authority to pool mortgages into GNMA MBS. GNMA receives commitment fees as issuers request commitment authority and recognizes the commitment fees as earned when 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. Multiclass fees represent one-time upfront fees related to the issuance of multiclass products. Multiclass products include Real Estate Mortgage Investment Conduits (REMICs) and Platinum Certificates. The fees received for REMICs consist of guaranty fee and may include a modification and exchange (MX) Combination fee. The guaranty fee is paid by the sponsor and is based upon the total principal balance of the deal. The MX combination fee allows the sponsor to combine REMIC and/or MX securities at the time of issuance. The guaranty fee is deferred and amortized into income evenly over the contractual life of the security. The MX combination fee, on the other hand, is recognized immediately in earnings (i.e., upon the combination of REMIC and/or MX securities). The fees received for Platinum Certificates are deferred and amortized into income evenly over the contractual life of the security. GNMA also recognizes income through fees related to new issuer applications, transfers of issuer responsibilities, and mortgage servicing fees.

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.

S. 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/SRI funds. For Credit Reform loan guarantees, appropriations to the GI/SRI funds are provided at the beginning of each fiscal year to cover estimated positive subsidy and upward re-estimates 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.

T. 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. In accordance with *SFFAS No. 55 Amending Inter-Entity Cost Provisions,* HUD records the required inter-entity costs which includes personal benefits and Treasury Judgment fund settlements. HUD has also elected to record inter-entity costs for a non-business type activity with Homeland Security for IT services.

U. 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, may have elected to either join FERS and Social Security or remain in CSRS. HUD expenses its contributions to the retirement plans.

Under FERS, HUD automatically contributes 1 percent of pay and matches any employee contribution up to 5 percent of an individual's basic pay. Under CSRS, employees do not receive any Government contributions in the (Thrift Savings Plan) TSP accounts. 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.

V. 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.

GNMA has 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 GNMA or the federal government. The fiduciary assets held by GNMA include escrow funds held in trust. Escrow funds held in trust are managed by the MSS on behalf of GNMA. Under the terms of contracts with the MSS, reporting of escrow amounts is provided subsequent to the release of the accompanying financial statements; however, one of the two MSS was able to provide this data earlier than required. As a result, GNMA estimates the amount of fiduciary activities based on the latest available escrow information. The fiduciary amount is $25 million which consists of $14 million for one of the two MSS as of September 30, 2020, and $11 million for the remaining MSS as of August 31, 2020. This amount approximates the total fiduciary balance as of September 30, 2020.

W. 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.

X. 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.

Y. 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. For additional information refer to Note (17) Dedicated Collections.

HUD presents its funds from dedicated collections on the BS and Statement of Changes in Net Position (SCNP), from consolidating to combining based on the most recent guidance in the OMB Circular A-136. Non-exchange revenue and other financing sources from funds from dedicated collections, including net cost of operations, are shown separately on the SCNP. The portion of cumulative results of operations attributable to funds from dedicated collections is shown separately on both the SCNP and the BS.

Z. 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 three allocation transfers, the Appalachian Regional Commission, Department of Transportation, and Department of Treasury.

AA. Correction of Errors:

HUD continues to make significant strides in improving its overall internal control processes over financial reporting. HUD has continued to work diligently over this past year to improve the integrity of its financial data by putting additional controls in place through the financial management transformation initiative. Some of those controls included the continual strengthening of cross collaboration throughout HUD, increasing special purpose work groups to identify areas requiring refinement and implementing new processes to ensure financial data integrity and compliance with regulatory requirements. As a result of the continual progression of the financial management transformation momentum, HUD was able to identify correction of errors to avoid material misstatements to HUD's financial statements and notes. The correction of errors are listed below.

HUD's financial personnel improved its controls over financial reporting, and thus were able to identify and correct the "Outstanding Principal Guaranteed Loan" balance on the "All Other" line specifically for the Indian Housing Loan Guarantee (IHLG) Fund. The Department performed an analysis of the principal amortization of HUD Proper's guaranteed loan programs. As a result of the analysis, the Department determined that the IHLG program's Outstanding Principal Balance was being amortized at a significantly lower rate than HUD Proper's other loan guarantee programs. This resulted in a $3,24 million overstatement of the "All Other" line in Note (7) Section J1. There was no impact on the financial statements. HUD implemented a corrective action plan to review the data on a monthly basis using a database system which is updated regularly from various sources.

In FY 2020, HUD financial personnel performed extensive research to determine if previously recorded operating expenses that were financed to cover ESPC improvements to the HUD Headquarters Building should be recognized as leasehold improvements. After analysis and discussions with other federal agencies it was determined that these expenses should be recognized as leasehold improvements. This correction resulted in an increase to balance sheet liabilities of $44 million for the remaining balance on the debt service agreement as of September 30, 2020. It also resulted in an increase to balance sheet assets on the Net Property, Plant, and Equipment line of $34 million which includes leasehold improvements less the related accumulated depreciation. The balance sheet assets and liabilities were understated as a result of the error. There was an overall understatement of net position due to the unrecognized accumulated depreciation expenses of $12 million offset by $3 million of expenses that should have been recorded as a leasehold improvement. Since the debt service was not originally set up as an asset, HUD recorded a correction of an error, in FY 2020, in the amount of $9 million dollars. The overall amount of the leasehold improvement activity is immaterial to HUD's Total Assets. This correction of error impacted the Balance Sheet, Statement of Changes in Net Position and Note (9) Property, Plant, and Equipment, net.

AB. Changes in Accounting Principles:

In FY 2020, Treasury updated guidance in the Treasury Financial Manual (TFM) of the United States Standard General Ledger (USSGL) for reporting account receivables and account payables related to direct loans and loan guarantees subject to the FCRA. Prior to FY 2020, Treasury permitted FHA to offset account receivables and account payables with contra-asset and contra-liability accounts, respectively, so that its net assets would not be overstated. The new transactions established by Treasury for account receivables and account payables related to direct loans and loan guarantees enabled FHA to discontinue using the contra-asset and contra-liability accounts. Under the new accounting guidance, FHA may record accounts receivable as an increase and accounts payable as a decrease directly to the Loan Guarantee Liability (LGL). FHA implemented this new guidance in FY 2020. Because of this change, FHA's accounts receivable and accounts payable balances increased in FY 2020 because they were no longer offset with contra-asset and contra-liability accounts. For additional information on the impact of this change to the accounts receivables balances refer to Note (6) Accounts Receivable, net.

Under *SFFAS No. 21, Reporting Corrections of Errors and Changes in Accounting Principles*, if a change in accounting principle would have resulted in a change to prior period financial statements, the cumulative effect of the change on prior periods should be reported as a change in accounting principle and the adjustment should be made to the beginning balance of cumulative results of operations in the statement of changes in net position for the period that the change is made. If FHA had implemented the change in accounting principle in FY 2019, FHA's re-estimate expense would have decreased by $320 million, increasing HUD's cumulative results of operations. In accordance with *SFFAS No. 21*, HUD reported an adjustment to the beginning balance of Cumulative Results of Operations on its consolidated SCNP.

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) FHA's downward re-estimates and negative subsidies in the General Fund receipt accounts for the General Insurance (GI) fund, 2) escrow monies collected by FHA that are either deposited at Treasury or in minority-owned banks or invested in Treasury securities, 3) capital transfers to the General Fund of the Treasury from the Housing for the Elderly and Disabled Liquating Fund, 4) sustained audit receivables and court-enforced restitution in HUD's miscellaneous receipt account, 5) Emergency Home Loan Program (EHLP) receivables in the General Fund receipt account, 6) unclaimed MBS security holder payments held by GNMA in Fund Balance with Treasury, cash and investments , and 7) cash remittances from Section 8 bond refunding deposited in the General Fund of the Treasury.

HUD's Non-entity Assets as of September 30, 2020, are as follows:

Non-entity Assets		
(Dollars in Millions)		**2020**
Intragovernmental		
Fund Balance with Treasury	$	42
Investments		23
Total Intragovernmental	$	65
Public		
Cash and Other Monetary Assets	$	21
Accounts Receivable, Net		-
Loan Receivables and Related Foreclosed Property, Net		101
Total Public	$	122
Total Non-entity Assets	$	187
Total Entity Assets		262,004
Total Assets	**$**	**262,191**

Note 3: Fund Balance with Treasury

Treasury performs cash management activities for all federal agencies. The net activity represents Fund Balance with Treasury (FBWT). HUD's FBWT is an asset to the Department but not to the Government as a whole because it is a liability to the General Fund.

HUD's fund balances by fund type as of September 30, 2020 are as follows:

Fund Balance with Treasury		
(Dollars in Millions)		**2020**
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	$	52,891
Unavailable		19,331
Obligated Balance not yet Disbursed	**$**	**63,328**
Non-Budgetary FBWT	**$**	**37**
Total	**$**	**135,587**

The Department's Non-Budgetary FBWT 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.

Unobligated and obligated balances reported in the Status of FBWT above do not agree with unobligated and obligated balances reported in the Combined SBR because the budgetary balances reported in the Combined SBR are supported by FBWT and other budgetary resources that do not affect FBWT such as investment authority, contract authority, borrowing authority, and budgetary receivables. Such authority permits an agency to incur obligations in advance of an appropriation, offsetting collections, or receipts to make outlays to liquidate the obligations. Since federal securities are considered the equivalent of cash for budgetary purposes, investments in them are treated as a change in the mix of assets held, rather than as a purchase of assets. In addition, unobligated balances that include collections related to GNMA are not available to HUD unless approved by Congress. For additional disclosures on HUD's unobligated FBWT restrictions, refer to Note (18) Legal Arrangements Affecting the Use of Unobligated Balances.

Increases to HUD's FBWT include appropriations, borrowings, transfers from other agencies and collections. HUD's FBWT is decreased by disbursements made to pay liabilities or to purchase assets, goods or services, transfers and reimbursements to other agencies or Treasury, investments in U.S. Securities, cancelled funds, and rescission or sequestration of appropriations. FHA's appropriations would increase, if necessary, for positive subsidy or upward re-estimates in its GI/SRI loan guarantee programs. HUD Proper's appropriations would also increase, if necessary, for upward re-estimates in its loan guarantee programs.

In FY 2020, HUD received $12,423 million in additional appropriated disaster funding from the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) which was signed into law by President Trump on March 27, 2020, to provide aid and economic assistance to individuals, families and businesses across the nation impacted by COVID-19. As of September 30, 2020, HUD has disbursed a total of $2,347 million of its CARES ACT funding. For additional information, refer to Note (27) COVID-19 Activity.

GNMA's fund balance is classified as restricted when the funds are unavailable for withdrawal or usage due to status as non-entity assets, legally restricted deposits, contracts entered with others, or GNMA's statements of intention regarding particular deposits. As of September 30, 2020, $3 million of fund balance is restricted and principally consists of unclaimed security holder payments not available for use in GNMA's general operations. Unclaimed security holder payments represent money owed to mortgage-backed securities certificate holders that have not been claimed or where the certificate holder cannot be located. Such funds are classified as non-entity assets as disclosed in Note (2) Non-entity Assets and maintained in the fund balance account for GNMA's liquidating fund and are also included in the balance of Obligated Balance not yet Disbursed in the table above. Non-entity fund balance is always restricted.

An immaterial difference exists between HUD's recorded Fund Balances with Treasury and Treasury's records. To be 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. The immaterial differences are researched the following accounting period(s) for resolution.

Note 4: Cash and Other Monetary Assets

Cash and Other Monetary Assets of FHA consist of escrow monies collected that are deposited in minority-owned banks and deposits in transit. As of September 30, 2020, escrow monies and deposits in transit were $33 million.

Cash and Other Monetary Assets of GNMA, include funds from dedicated collections, and restricted cash. Funds from Dedicated Collections consist of cash that is received by the MSS but not yet transmitted to GNMA. As of September 30, 2020, deposits in transit from dedicated collections were $36 million.

GNMA cash is classified as restricted when the funds are unavailable for withdrawal or usage due to status as non-entity assets. As of September 30, 2020, $0.3 million of cash is restricted and principally consists of deposits in transit for refunding of commitment authority fees for unapproved issuers. Non-entity cash is always considered restricted. For additional information on the nature of these cash restrictions refer to Note (2) Non-entity Assets.

Note 5: Investments

The U.S. Government non-marketable intragovernmental securities are comprised of short-term and long-term securities. Short-term securities have an original maturity date of less than one year. Long-term securities have an original maturity date of one year or greater. FHA invests in short- and long-term securities. Some of FHA's short-term investments are in one-day overnight securities. GNMA primarily invests in U.S. Treasury overnight certificates which are issued with a stated rate of interest to be applied to their par value amount with a maturity date on the next business day.

The cost estimated market value, and amortization method of investments in debt securities as of September 30, 2020 are as follows:

Investments						
(Dollars in Millions)	2020					
	Cost	Amortization Method	Amortized (Premium)/ Discount, Net	Accrued Interest	Net Investments	Market Value
Treasury Bills	$ -	Straight-line	$ -	$ -	$ -	$ -
Treasury Notes	69,296	Effective interest	(391)	323	69,228	69,105
Overnight Securities	8,542	No Amortization	-	-	8,542	8,542
Total Investments	**$ 77,838**		**$ (391)**	**$ 323**	**$ 77,770**	**$ 77,647**

The federal government does not set aside assets to pay future benefits or other expenditures associated with funds from dedicated collections. The dedicated cash receipts collected from the public into the fund are deposited in the U.S. Treasury, which uses the cash for general government purposes. Treasury securities are issued to GNMA with a stated rate of interest to be applied to the par value with a maturity date of the next business day and are measured at cost, which approximates fair value. Treasury securities are an asset to GNMA and a liability to the U.S. Treasury. Because GNMA and the U.S. Treasury are both parts of the government, these assets and liabilities offset each other from the standpoint of the government as a whole. For this reason, they do not represent an asset or a liability in the U.S. government-wide financial statements.

When GNMA's Capital Reserve Fund redeems its Treasury securities to make expenditures, the U.S. Treasury will finance those expenditures in the same manner that it finances all other expenditures.

As of September 30, 2020, $23 million of investments are restricted and principally consist of unclaimed security holder payments not available for use in GNMA's general operations. These funds are classified as non-entity assets as disclosed in Note (2) Non-entity Assets.

Investments in Private-Sector Entities

Investments in private-sector entities are the result of FHA's Risk Sharing Debentures. Multifamily Risk Sharing Debentures [Section 542(c)] is a program available to lenders where the lender shares the risk in the property by issuing debentures for the claim amount paid by FHA on defaulted insured loans.

The following table presents financial data on FHA's investments in Risk Sharing Debentures as of September 30, 2020:

Investments						
(Dollars in Millions)	2020					
	Beginning Balance	Net Acquisitions	Share of Earnings or Loss	Return of Investment	Redeemed	Ending Balance
Securities Held Outside of Treasury	$ -	$ -	$ -	$ -	$ -	$ -
601 Program	-	-	-	-	-	-
Risk Sharing Debentures	6	-	-	-	(6)	-
Total	**$ 6**	**$ -**	**$ -**	**$ -**	**$ (6)**	**$ -**

Note 6: Accounts Receivable, Net

The following table presents the accounts receivable balances as reflected on the Balance Sheet as of September 30, 2020:

Accounts Receivable, Net			
(Dollars in Millions)	2020		
	Gross Accounts Receivable	Allowance for Loss	Total, Net
Intragovernmental	$ -	$ -	$ -
Public			
FHA Partial Claims and Generic Debt Receivables	$ 145	$ (1)	$ 144
GNMA Fees and Interest Receivables	174	(5)	169
Other Receivables	789	(51)	738
Criminal Restitution	-	-	-
FHA Criminal Restitution	13	-	13
GNMA Criminal Restitution	109	(109)	-
Other Criminal Restitution	66	(66)	-
Total Accounts Receivable	**$ 1,296**	**$ (232)**	**$ 1,064**

The Department's Accounts Receivable represents FHA Partial Claims and Generic Debt Receivables, GNMA Fees, Interest Receivables and Reimbursable Cost Receivables, Other Receivables, and Criminal Restitutions.

FHA Partial Claims and Generic Debt 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 that have gone to collection, Single Family Indemnification, and Single-Family Restitutions.

As discussed in Note (1) Summary of Significant Accounting Policies, there was a change in accounting principle implemented in FY 2020 by FHA based on updated Treasury guidance. Previously, FHA used contra asset and contra liability accounts to offset accounts receivables and payables related to its FCRA direct loan and loan guarantees to avoid overstating net assets. The new guidance establishes transactions to capture account receivables and payables related to direct loan and loan guarantees. As a result of this change in accounting principle, FHA's gross receivables with the public have increased.

GNMA Fees, Interest and Reimbursable Cost Receivables

Accrued Fees and Interest Receivable, net

GNMA fees consist of accrued guaranty fees due from issuers. Guaranty fees are payable monthly based on the outstanding UPB in GNMA-guaranteed MBS pools at the appropriate statutory rate. As of September 30, 2020, GNMA's accrued fees totaled $116 million.

GNMA also accrues interest on mortgage loans held for investment at the contractual rate and records an allowance on accrued interest to the extent interest is uncollectible for conventional loans, and to the extent interest is not expected to be recovered per insurance guidelines for insured or guaranteed loans.

As of September 30, 2020, GNMA's accrued interest receivable, net of adjustments, totaled $20 million. The associated allowance as of September 30, 2020 was $1 million. For the year ended September 30, 2020, the provision was $1 million.

As discussed in Note (1) Summary of Significant Accounting Policies, GNMA charges off accrued interest and UPB when it believes collectability of interest or principal is not reasonably assured. GNMA's policy is to charge off confirmed losses when the asset is at or greater than 180 days delinquent.

Reimbursable Costs Receivable, net

GNMA advances funds to preserve its interests in mortgaged property, such as advances to cover shortfalls for mortgagors' taxes and insurance when escrow balances are insufficient, or pre-foreclosure and foreclosure costs and other expenses, such as Homeowners Association fees incurred during the foreclosure process.

The following table presents reimbursable costs and related allowance amounts associated with loans serviced by GNMA, by loan insurance type as of September 30, 2020:

Accounts Receivable, Net					
(Dollars in Millions)	2020				
	FHA	VA	RD	Conventional	Total
Reimbursable Costs	$ 34	$ 2	$ 1	$ -	$ 37
Allowance for Reimbursable Costs	(3)	(1)	-	-	(4)
Reimbursable Costs, Net	**$ 31**	**$ 1**	**$ 1**	**$ -**	**$ 33**

The above table includes only reimbursable costs that are attributable to underlying loans and insuring agencies. Accordingly, $2 million of receivables due to GNMA from the MSS related to overpayments for reimbursable costs that were not required are not included in the total above but are included in the total amount disclosed for GNMA Fees, Interest and Reimbursable Cost Receivables.

Other Receivables

The Other Receivables line item 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, signed consent and judgements approved by the courts, and foreclosed property proceeds. Sustained audit costs are costs that have been challenged by the OIG, agreed upon by HUD, and evidenced by a repayment agreement. FHA insurance premiums receivable increased to $647 million in FY 2020 due to FHA's change in accounting principle for accounts receivable.

FHA reports an allowance for receivables relating to escrow advances and miscellaneous investment fees, which are categorized by HUD at the consolidated level as Other Receivables. Otherwise, FHA's premium and foreclosed property receivables accrued at the end of the reporting period are generally collected during the following reporting period, so FHA does not record an allowance for loss on those receivables. Furthermore, amounts required to be paid in signed consent judgments approved by the courts may not be contested, so no allowance is required.

HUD issued a new allowance for loss policy in November 2019 establishing a 100 percent allowance for HUD Proper. A 100 percent allowance was determined based on invalid receivables and claim to cash issues being discovered in 2019. Once these concerns are sufficiently mitigated, this policy will be revised to establish alternative allowance methodologies. The Department will continually review the policy at least annually or as determined necessary.

Criminal Restitution

Pursuant to the requirements of OMB Circular A-136, HUD must disclose separately any criminal restitution that is included in its AR balances, it must include the gross amount of receivables related to criminal restitution orders monitored by HUD and the estimate of net realizable value determined to be collectible for criminal restitution orders monitored by HUD. Criminal Restitution are payments by an offender to the victim for the harm caused by the offender's wrongful acts. Courts have the authority to order convicted offenders to pay restitution to victims as part of their sentences. There are several primary stakeholders in the criminal debt data management process. In the judicial branch, stakeholders are the District Court Clerk's Office and the Probation Office, in the executive branch, the stakeholders are the Department of Justice which includes the U.S. Attorney's Office (USAO) and the Bureau of Prison (BOP). The USAO is statutorily responsible for the enforcement of the collections of criminal debt and the District Courts are responsible for receipting payments, disbursing restitution to victims, and tracking the debt.

HUD Proper has recorded a 100 percent allowance against the criminal restitution accounts receivables based on management's expectation that these amounts are not probable of collection. This assessment is based on HUD's position in the recovery prospect for debts from defendants, its historical experience with collections on these accounts, and the overall historical experience for the U.S. Government in collecting on this category of receivables.

FHA's Criminal Restitutions are defined as criminal remedies for false claims and statements that were not sufficiently responsive to curtailing the serious problem of substantial loss to the Government when individuals were allowed to receive federal funds or benefits to which they were not entitled. FHA recorded an immaterial allowance for loss against criminal restitution accounts receivable in FY 2020 based on updated historical loss experience and management's judgment about the collectability of the receivables.

GNMA's Criminal Restitution represent amounts due to GNMA as a result of court order in connection with criminal proceedings against certain defendants, primarily for fraud and false claims. GNMA has recorded a 100 percent allowance against the criminal restitution accounts receivables based on management's expectation that these amounts are not probable of collection. This assessment is based on GNMA's position in the recovery hierarchy for debts from defendants, its historical experience with collections on these accounts, and the overall historical experience for the U.S. Government in collecting on this category of receivable.

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

HUD reports pre-1992 direct loans and loan guarantees under the allowance for loss method. Under the allowance for loss method, the nominal amount of the direct loan is reduced by an allowance for uncollectible amounts. The liability for loan guarantees is the amount the agency estimates will more likely than not require a future cash outflow to pay default claims. Net loans receivable or the value of assets related to direct loans is not the same as expected proceeds from selling the loans.

Direct loan obligations and loan guarantee commitments made after FY 1991, and the resulting direct loans or loan guarantees, are governed by the FCRA, as amended. *SFFAS No. 2* requires that the present value of the subsidy costs, which arises from interest rate differentials, interest supplements, and defaults (net of recoveries, fee offsets and other cash flows) associated with direct loans and loan guarantees, be recognized as a cost in the year the direct or guaranteed loan is disbursed. Direct Loans are reported net of an allowance for subsidy at present value and loan guarantee liabilities are reported at present value.

The subsidy rates disclosed pertain only to the current fiscal 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.

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

1. FHA
   a) GI/SRI Direct Loan Program
   b) MMI/CMHI Loan Guarantee Program
   c) GI/SRI Loan Guarantee Program
   d) H4H Loan Guarantee Program
2. Housing for the Elderly and Disabled
3. All Other
   a) Flexible Subsidy Fund
   b) Section 108 Loan Guarantees
   c) Indian Housing Loan Guarantee Fund
   d) Loan Guarantee Recovery Fund
   e) Native Hawaiian Housing Loan Guarantee Fund
   f) Title VI Indian Housing Loan Guarantee Fund
   g) Green Retrofit Direct Loan Program
   h) Emergency Homeowners' Loan Program

FHA

FHA programs are operated primarily through four insurance funds: the Mutual Mortgage Insurance (MMI)/Cooperative Management Housing Insurance (CMHI), General Insurance (GI) and Special Risk Insurance (SRI). There is a fifth fund, HOPE for Homeowners (H4H) funds, that became operational in fiscal year 2009 and only contains minimal activity. The MMI fund is the largest. For financial reporting purposes, FHA combines the presentation of the MMI/CHMI and GI/SRI programs.

Mutual Mortgage Insurance (MMI)/Cooperative Management Housing Insurance (CMHI)

The MMI fund provides mortgage insurance on single family mortgage loans made by FHA-approved lenders and strives to meet the needs of many first-time and minority homebuyers who, without the FHA guarantee, may find mortgage credit to be unaffordable or simply unavailable. Through MMI, FHA offers several types of single family forward (traditional) mortgage insurance products and Home Equity Conversion Mortgages (HECM) (reverse mortgages) for seniors. Activity for the CMHI fund, which insures mortgages for multifamily cooperatives is reported together with MMI.

General Insurance and Special Risk Insurance (GI/SRI)

The GI/SRI fund provides mortgage insurance on multifamily rental housing and healthcare facilities, and single-family Title I manufactured housing and property improvement loans. GI/SRI programs are a critical component of FHA's efforts to meet the Nation's need for decent, safe and affordable housing.

GI/SRI's mortgage programs are designed to operate without the need for subsidy appropriations, with fees set higher than anticipated losses.

FHA began an FFB Risk Sharing Program, in FY 2015, 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. The FFB Risk Sharing Program ended in FY 2019 for new endorsements.

Prior to FY 2015, FHA's direct loans were a result of Purchase Money Mortgages (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.

HOPE for Homeowners (H4H)

This program was authorized under the Housing and Economic Recovery Act of 2008. This program was effective for endorsements on or before September 30, 2011. The H4H act was designed to prevent qualified homeowners from defaulting on their loans and avert foreclosure. This was done through refinancing into affordable, fixed-rate mortgages.

FHA Foreclosed Property

The balance relating to foreclosures as of September 30, 2020 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 based on disability (24 CFR §9.155(a)).

For FHA foreclosed property, the average number of days in inventory for sold cases is 145 days in FY 2020. The total number of foreclosed properties on-hand as of September 30, 2020 is 4,359.

Loan Guarantee Liability

In FY 2020, FHA's LGL decreased by a total of $8,752 million. The narrative below summarizes the activity that caused the large fluctuation.

The $842 million Single Family Forward LLG decrease and the $8,950 million HECM LLG decrease were mostly due to changes in the actuarial methodology, more favorable economic forecasts, and changes in actual loan performance in the MMI fund. There were also decreases in the LLG estimates in the GI/SRI funds for Single Family Forward and HECM that contributed to the overall decrease in those program areas.

For Multifamily/Healthcare, the $1,040 million increase in the LLG occurred mostly in the GI/SRI funds as follows: the LLG estimates for the Section 223(f), Section 221(d)(4), Section 223(a)(7), and Section 242 programs increased by $413 million, $218 million, $98 million, and $8 million, respectively, due to higher claim and prepayment expectations. There were also increases in the LLG estimates for the Section 232 Healthcare Purchasing or Refinancing program of $121 million due to an increase in prepayment projections and the Section 232 Healthcare New Construction program of $19 million due to higher claim projections.

HUD Proper

HUD Proper's direct loan and/or guarantee programs are in the Housing for the Elderly and Disabled Programs and All Other Programs.

Housing for the Elderly and Disabled Program (HED)

The HED, Sections 202 and 811, were established by the Housing Act of 1959 and the National Affordable Housing Act of 1990 respectively to provide critical affordable housing to our nation's elderly and supportive housing for disabled very low-income persons. Assistance was provided to eligible private nonprofit organizations to cover construction, acquisition or rehabilitation expenses as well as rental assistance. 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.

All Other Programs

The All Other have the following direct loan and/or loan guarantee programs: Flexible Subsidy Fund, Section 108 Loan Guarantees, Indian Housing Loan Guarantee Fund, Loan Guarantee Recovery Fund, Native Hawaiian Housing Loan Guarantee Fund, Title VI Indian Housing Loan Guarantee Fund, Green Retrofit Direct Loan Program, and Emergency Homeowners' Loan Program.

Flexible Subsidy Fund

The Flexible Subsidy Fund provided federal assistance for troubled multifamily housing projects which included supporting capital improvements to maintain these low to moderate income projects as authorized by 12 U.S. Code 1715z-1. 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.

Section 108 Loan Guarantees

This is a loan guarantee provision of the CDBG program which is authorized by the Housing and Community Development Act of 1974, as amended (42 USC 5308(a)). Neither the statute nor the regulations limit the portion of the loan guaranteed to less than 100 percent of the principal amount. 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. The purpose is to reaffirm the commitment of the federal government to assist local governments in their efforts in stimulating economic and community development activities needed to combat severe economic distress and to help in promoting economic development activities needed to aid in economic recovery as well as promote revitalization and development projects undertaken by local governments that principally benefit persons of low and moderate income, the elimination of slums , and to meet urgent community needs, with special priority for projects located in areas designated as enterprise zones by the federal government or by any state.

Indian Housing Loan Guarantee Fund

This loan guarantee fund was established under the Housing and Community Development Act of 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. The purpose is to provide access to sources of private financing to Indian families, Indian housing authorities, and Indian tribes, who otherwise could not acquire housing financing because of the unique legal status of Indian lands. The Secretary may guarantee, not to exceed, 100 percent of the unpaid principal and interest due on any loan eligible under subsection (b) made to an Indian family, Indian housing authority, or Indian tribe.

Loan Guarantee Recovery Fund

This loan guarantee fund provides certain nonprofit organizations with a source of financing to rebuild property damaged or destroyed by acts of arson or terrorism. This loan guarantee provision was authorized under the Church Arson Prevention Act of 1996.

Native Hawaiian Housing Loan Guarantee Fund

This loan guarantee fund was established by the Hawaiian Homelands Homeownership Act of 2000 that added a new Section 184A to the Housing and Community Development Act of 1992 which authorized the Native Hawaiian Housing Loan Guarantee Program. The program is designed to offer homeownership, property rehabilitation, and new construction opportunities for eligible Native Hawaiian individuals and families wanting to own a home on Hawaiian homelands. The purpose of the Section 184A loan is to provide access to sources of private financing on Hawaiian homelands. Section 184A permits HUD to guarantee 100 percent of the unpaid principal and interest due on an eligible loan. The use of the Section 184A Loan Guarantee Program is limited to owner-occupant single family dwellings located on Hawaiian homelands.

Title VI Indian Housing Loan Guarantee Fund

This 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. It was authorized by Title VI of Native American Housing Assistance and Self Determination Act (NAHASDA) of 1996. A guarantee made under Title VI of NAHASDA shall guarantee repayment of 95 percent of the unpaid principal and interest due on the notes or other obligations guaranteed.

Green Retrofit Direct Loan Program

This direct loan program was authorized by the American Recovery and Reinvestment Act of 2009 to ensure that grants and loans are made available to eligible property owners to make energy and green retrofit investments in property and to maintain energy efficient technologies.

Emergency Homeowners' Loan Program

This direct loan program was authorized by the Dodd-Frank Wall Street Reform and Consumer Protection Act. It provides mortgage payment relief to eligible homeowners experiencing a drop-in income of at least 15 percent directly resulting from involuntary unemployment or underemployment due to adverse economic conditions and/or a medical emergency.

HUD Proper Foreclosed Property

The Indian Housing Loan Guarantee program had 34 (23 Fee Simple and 11 Tribal Trust) foreclosed properties on-hand as of September 30, 2020. The average number of days in inventory for fee simple property is 133 days and 963 days for Indian Trust Land. There are 99 Tribal Trust foreclosures in process.

The following tables are 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, 2020.

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

Direct Loans and Loan Guarantees, Non-Federal Borrowers					
(Dollars in Millions)	2020				
	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans
Direct Loan Programs					
FHA					
a) GI/SRI Direct Loan Program	$ 8	$ 13	$ (8)	$ -	$ 13
Housing for the Elderly and Disabled	545	9	(10)	-	544
All Other					
b) Flexible Subsidy Fund	290	40	(42)	-	288
Total	**$ 843**	**$ 62**	**$ (60)**	**$ -**	**$ 845**

C. Direct Loans Obligated After-1991

Direct Loans and Loan Guarantees, Non-Federal Borrowers					
(Dollars in Millions)	2020				
	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Costs (Present Value)	Foreclosed Property	Value of Assets Related to Direct Loans
Direct Loan Programs					
FHA					
a) MMI/CMHI Direct Loan Program	$ -	$ -	$ -	$ -	$ -
b) GI/SRI Direct Loan Program	2,364	6	317	-	2,687
All Other					
a) Green Retrofit Program	40	1	(33)	-	8
b) Emergency Homeowners' Relief Fund	57	-	(58)	-	(1)
c) EHLP Assigned Loans Receipt Account	101	-	-	-	101
Total	**$ 2,562**	**$ 7**	**$ 226**	**$ -**	**$ 2,795**

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

Direct Loans and Loan Guarantees, Non-Federal Borrowers	
(Dollars in Millions)	Current Year
Direct Loan Programs	
FHA Risk Sharing Program	$ 421
All Other	
a) Green Retrofit Program	$ (6)
b) Emergency Homeowners' Relief Fund	-
Total	**$ 415**

E. Subsidy Expense for Direct Loans by Program and Component

1. Subsidy Expense for New Direct Loans Disbursed

Direct Loans and Loan Guarantees, Non-Federal Borrowers					
(Dollars in Millions)	**2020**				
	Interest	**Defaults**	**Fees**	**Other**	**Total**
Direct Loan Programs					
FHA Risk Sharing Program	$ (55)	$ 1	$ (1)	$ 16	$ (39)
All Other					
a) Green Retrofit Program	-	-	-	-	-
b) Emergency Homeowners' Relief Fund	-	-	-	-	-
Total	**$ (55)**	**$ 1**	**$ (1)**	**$ 16**	**$ (39)**

2. Modifications and Re-estimates

Direct Loans and Loan Guarantees, Non-Federal Borrowers				
(Dollars in Millions)	**2020**			
	Total Modifications	**Interest Rate Re-estimates**	**Technical Re-estimates**	**Total Re-estimates**
Direct Loan Programs				
FHA Risk Sharing Program	$ -	$ (42)	$ 77	$ 35
All Other				
a) Green Retrofit Program	$ -	$ -	$ (6)	$ (6)
b) Emergency Homeowners' Relief Fund	-	-	-	-
Total	**$ -**	**$ (42)**	**$ 71**	**$ 29**

3. Total Direct Loan Subsidy Expense

Direct Loans and Loan Guarantees, Non-Federal Borrowers	
(Dollars in Millions)	**Current Year**
Direct Loan Programs	
FHA Risk Sharing Program	$ (4)
All Other	
a) Green Retrofit Program	$ (6)
b) Emergency Homeowners' Relief Fund	-
Total	**$ (10)**

F. Subsidy Rates for Direct Loans by Program and Component

Budget Subsidy Rates for Direct Loans

Direct Loans and Loan Guarantees, Non-Federal Borrowers					
2020					
	Interest	Defaults	Fees and Other Collections	Other	Total
FHA Risk Sharing Program	0.00%	0.00%	0.00%	0.00%	0.00%
Green Retrofit Program (HUD Appropriation 86X4589)	41.00%	42.60%	0.00%	-1.30%	82.30%
Emergency Homeowners' Relief fund (HUD Appropriation 86X4357)	0.00%	0.00%	0.00%	97.70%	97.70%

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

Direct Loans and Loan Guarantees, Non-Federal Borrowers			
2020			
	FHA Programs	All Other Financing Only	Total
Beginning Balance of Subsidy Cost Allowance	$ (306)	$ 101	$ (205)
Add: Total subsidy expense for direct loans disbursed during the reporting years as shown in E1	(39)	-	(39)
Adjustments:			
(a) Loan Modifications	-	-	-
(b) Fees Received	1	-	1
(c) Foreclosed Properties Acquired	-	-	-
(d) Loans Written Off	-	(3)	(3)
(e) Subsidy Allowance Amortization	(1)	-	(1)
(f) Other	(8)	-	(8)
Ending balance of the subsidy cost allowance before re-estimates	**$ (353)**	**$ 98**	**$ (255)**
Add or subtract total subsidy reestimates as shown in E2	35	(6)	29
Ending Balance of the Subsidy Costs Allowance	**$ (318)**	**$ 92**	**$ (226)**

H. Defaulted Guaranteed Loans from Pre-1992 Guarantees

Direct Loans and Loan Guarantees, Non-Federal Borrowers					
(Dollars in Millions)	2020				
	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	$ 15	$ -	$ (3)	$ 4	$ 16
b) Multi Family	-	-	-	-	-
c) HECM	-	-	-	-	-
GI/SRI					
a) Single Family	1	-	(5)	9	5
b) Multi Family	1,360	250	(673)	(5)	932
c) HECM	2	1	(1)	(2)	-
Total	**$ 1,378**	**$ 251**	**$ (682)**	**$ 6**	**$ 953**

I. Defaulted Guaranteed Loans from Post-1991 Guarantees

Direct Loans and Loan Guarantees, Non-Federal Borrowers					
(Dollars in Millions)	2020				
	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	$ 13,780	$ -	$ (4,562)	$ 589	$ 9,807
b) Multi Family	-	-	-	-	-
c) HECM	17,828	13,944	(8,533)	107	23,346
GI/SRI					
a) Single Family	394	-	(133)	11	272
b) Multi Family	476	49	(226)	19	318
c) HECM	5,620	3,514	(3,292)	88	5,930
H4H					
a) Single Family	6	-	(3)	-	3
All Other					
a) Indian Housing Loan Guarantee	-	-	-	7	7
b) Native Hawaiian Housing Loan Guarantee	-	-	-	2	2
Total	**$ 38,104**	**$ 17,507**	**$ (16,749)**	**$ 823**	**$ 39,685**

Direct Loans and Loan Guarantees, Non-Federal Borrowers	
(Dollars in Millions)	2020
Total Credit Program Receivables and Related Foreclosed Property, Net	**$ 44,278**

J. Guaranteed Loans Outstanding

1. Guaranteed Loans Outstanding:

Direct Loans and Loan Guarantees, Non-Federal Borrowers		
(Dollars in Millions)	2020	
	Outstanding Principal Guaranteed Loans Face Value	Amount of Outstanding Principal Guaranteed
Loan Guarantee Programs		
FHA		
a) MMI/CMHI Funds	$ 1,381,136	$ 1,232,885
b) GI/SRI Funds	163,244	146,730
c) H4H Program	63	54
All Other	5,873	5,869
Total	**$ 1,550,316**	**$ 1,385,538**

2. Home Equity Conversion Mortgage Loans Outstanding:

Direct Loans and Loan Guarantees, Non-Federal Borrowers			
(Dollars in Millions)	2020		
	Current Year Endorsements	Current Outstanding Balance	Maximum Potential Liability
Loan Guarantee Programs			
FHA Programs	**$ 16,282**	**$ 82,687**	**$ 123,376**

3. New Guaranteed Loans Disbursed:

Direct Loans and Loan Guarantees, Non-Federal Borrowers		
(Dollars in Millions)	2020	
	Principal of Guaranteed Loans, Face Value	Amount of Principal Guaranteed
FHA		
a) MMI/CMHI Funds	$ 310,310	$ 307,212
b) GI/SRI Funds	21,111	21,013
c) H4H Program	-	-
All Other	757	757
Total	**$ 332,178**	**$ 328,982**

K. Liability for Loan Guarantees

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

Direct Loans and Loan Guarantees, Non-Federal Borrowers			
(Dollars in Millions)	2020		
	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
Loan Guarantee Programs			
FHA Programs	$ -	$ (6,303)	$ (6,303)
All Other	-	138	138
Total	**$ -**	**$ (6,165)**	**$ (6,165)**

L. Subsidy Expense for Post-1991 Guarantees

1. Subsidy Expense for Loan Guarantees

Direct Loans and Loan Guarantees, Non-Federal Borrowers						
(Dollars in Millions)	2020					
	Endorsement Amount	Interest Supplements	Default Component	Fees Component	Other Component	Subsidy Amount
Loan Guarantee Programs						
FHA						
a) MMI/CMHI Funds, Excluding HECM	$ 310,310	$ -	$ 10,552	$ (19,988)	$ 2,391	$ (7,045)
b) MMI/CMHI Funds, HECM	16,282	-	639	(652)	-	(13)
c) GI/SRI Funds	21,111	-	154	(854)	-	(700)
d) H4H Program	-	-	-	-	-	-
All Other	-	-	14	(12)	-	2
Total	**$ 347,703**	**$ -**	**$ 11,359**	**$ (21,506)**	**$ 2,391**	**$ (7,756)**

2. Modification and Re-estimates

Direct Loans and Loan Guarantees, Non-Federal Borrowers				
(Dollars in Millions)	2020			
	Total Modifications	Interest Rate Re-estimates	Technical Re-estimates	Total Re-estimates
Loan Guarantee Programs				
FHA				
a) MMI/CMHI Funds	$ -	$ (79)	$ (11,766)	$ (11,845)
b) GI/SRI Funds	-	(3)	(951)	(954)
c) H4H Program	-	-	(1)	(1)
All Other	-	(9)	(32)	(41)
Total	**$ -**	**$ (91)**	**$ (12,750)**	**$ (12,841)**

3. Total Loan Guarantee Subsidy Expense

Direct Loans and Loan Guarantees, Non-Federal Borrowers	
(Dollars in Millions)	2020
	Current Year
Loan Guarantee Programs	
FHA	
a) MMI/CMHI Funds	$ (18,903)
b) GI/SRI Funds	(1,654)
c) H4H Program	(1)
All Other	(39)
Total	**$ (20,597)**

M. Subsidy Rates for Loan Guarantees by Programs and Component

Budget Subsidy Rates for Loan Guarantees

Direct Loans and Loan Guarantees, Non-Federal Borrowers				
	2020			
	Default	Fees and Other Collections	Other	Total
MMI/CMHI Funds				
Single Family - Forward	3.40%	-5.67%	0.00%	-2.27%
Single Family - HECM	3.89%	-3.97%	0.00%	-0.08%
Multi Family - Default CMHI (Cooperatives)	3.40%	-5.67%	0.00%	-2.27%
GI/SRI Funds				
Title I - Manufactured Housing	4.81%	-9.60%	0.00%	-4.79%
Title I - Property Improvements	4.00%	-5.41%	0.00%	-1.41%
Apartments - NC/SC Current	1.90%	-3.22%	0.00%	-1.32%
Tax Credit Projects Current	0.64%	-2.98%	0.00%	-2.34%
Apartments - Refinance 10/01/2019-03/01/20	0.22%	-3.50%	0.00%	-3.28%
Apartments - Refinance Current	0.25%	-3.49%	0.00%	-3.24%
HFA Risk Share	0.91%	-2.74%	0.00%	-1.83%
Other Rentals Current	1.19%	-2.99%	0.00%	-1.80%
Healthcare				
FHA Full Insurance - Health Care	1.54%	-6.84%	0.00%	-5.30%
Health Care Refinance	0.91%	-5.86%	0.00%	-4.95%
Hospitals	1.11%	-6.76%	0.00%	-5.65%
Other HUD Programs				
CDBG, Section 108(b)	2.00%	-2.00%	0.00%	0.00%
Loan Guarantee Recovery Fund	50.00%	0.00%	0.00%	50.00%
Indian Housing Loan Guarantee Fund	2.81%	-3.23%	0.53%	0.11%
Hawaiian Home Guarantee Loan Fund	0.66%	-1.00%	0.00%	-0.34%
Title VI Indian Housing Loan Guarantee	6.25%	0.00%	0.00%	6.25%

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

Direct Loans and Loan Guarantees, Non-Federal Borrowers	
(Dollars in Millions)	2020
Beginning balance of the loan guarantee liability	**$ 2,727**
Add: total subsidy expense for guaranteed loans disbursed during the reporting years as shown in L1	(7,756)
Adjustments:	
(b) Fees Received	15,485
(d) Foreclosed Properties and Loans Acquired	13,965
(e) Claims Payments to Lenders	(16,906)
(f) Interest Accumulation on the Liability Balance	(1,139)
(g) Other	419
Ending Balance of the Loan Guarantee Liability before reestimates	**$ 6,795**
Add or subtract total subsidy reestimates by component as shown in L2	(12,841)
Ending Balance of the Loan Guarantee Liability	**$ (6,046)**
Adjustment for Unrealized GNMA claims from defaulted loans	**(119)**
Ending Balance of the Loan Guarantee Liability	**$ 6,165)**

O. Administrative Expenses

Direct Loans and Loan Guarantees, Non-Federal Borrowers	
(Dollars in Millions)	2020
Loan Guarantee Programs	
FHA	$ 826
All Other	-
Total	**$ 826**

Note 8: Other Non-Credit Reform Loans

The following table presents HUD’s Other Non-Credit Reform Loans Receivable as of September 30, 2020:

Other Non-Credit Reform Loans					
(Dollars in Millions)	2020				
	GNMA Reported Balances (Gross)	GNMA Allowance	GNMA Net Reported Balances	Allowance for Loan Losses Due to Payment of Probable Claims by FHA	ONCRL Value of Assets Related to Loans
Mortgage Loans Held for Investment	$ 2,242	$ (141)	$ 2,101	$ (114)	$ 1,987
Advances Against Defaulted Mortgage-Backed Security Pools, Net	1	-	1	-	1
PTAP Issuer Advances, Net	3	-	3	-	3
Claims Receivable	-	-	-	-	-
Foreclosed Property	91	(20)	71	(5)	66
Short Sale	1	(1)	-	-	-
Properties Held for Sale, Net	5	-	5	-	5
Total	**$ 2,343**	**$ (162)**	**$ 2,181**	**$ (119)**	**$ 2,062**

Other Non-Credit Reform Loans consists of GNMA Mortgage Loans Held for Investment, Advances, PTAP Issuer Advances, Claims Receivable, and Properties Held for Sale. GNMA has applied *SFFAS No. 34: The Hierarchy of Generally Accepted Accounting Principles* in the accounting and presentation of its Other Non-Credit Reform Loans as the accounting treatment for these transactions are not specified in FASAB and its related guidance. GNMA’s Other Non-Credit Reform Loans disclosures below are presented in accordance with guidance in FASB *ASC 310: Receivables*, *ASC 820: Fair Value Measurement, ASC 825: Financial Instruments, ASC 835: Interest,* as well as relevant industry practices based on the U.S. Securities and Exchange Commission’s Regulation S-X. Below is a description of each type of asset recorded by GNMA and associated disclosures.

A. Mortgage Loans Held for Investment, Net

GNMA classifies loans as either HFS or HFI. As of September 30, 2020, GNMA’s loan portfolio did not include any HFS loans. GNMA reports the carrying value of HFI loans at the recorded investment of the mortgage loan, which represents the UPB and accrued interest, net of cost basis adjustments, and net of allowance for loan losses including allowance for accrued interest receivable.

These HFI loans are periodically evaluated for impairment in accordance with guidance in *SFFAS No. 1: Accounting for Selected Assets and Liabilities – Accounts Receivable and SFFAS No. 5: Accounting for Liabilities of the Federal Government – Contingencies or ASC 310-10-35: Receivables – Overall.* GNMA’s credit risk exposure on its HFI mortgage loans portfolio is limited by the underlying guaranty or insurance on loans, which may include FHA, RD, VA, and PIH.

The table below presents the carrying value of HFI loans including accrued interest broken down by underlying insuring agencies as of September 30, 2020:

8A1 Mortgage Loans Held for Investment, Net:

Other Non-Credit Reform Loans					
(Dollars in Millions)	2020				
	Conventional	FHA	VA	RD	Total
Mortgage Loans Held for Investment UPB	$ 113	$ 2,004	$ 87	$ 38	$ 2,242
Accrued Interest Receivable	2	17	1	-	20
Total Recorded Investment in Loans	**$ 115**	**$ 2,021**	**$ 88**	**$ 38**	**$ 2,262**
Allowance for Loan Losses	(5)	(133)	(3)	(2)	(143)
Mortgage Loans Held for Investment, Net	**$ 110**	**$ 1,888**	**$ 85**	**$ 36**	**$ 2,119**

Note that carrying value above includes UPB, accrued interest and associated allowances. Accrued interest and associated allowances are included and disclosed in Note (6) Accounts Receivable, net, under GNMA Fees and Interest Receivable line item. Disclosures included in tables 8A2, 8A6 and 8A7 are presented in terms of total recorded investment which reconciles to the disclosed recorded investment per the table above.

A2. Credit Quality Indicators

When estimating defaults, prepayments and recovery, GNMA considers several indicators including macro-economic factors such as interest rates, home price indices, and unemployment rates. In addition, GNMA considers several credit quality indicators such as loan-to-value (LTV) ratios and current delinquency status. Other characteristics include age of loan, insuring agency, credit score, and spread of mortgage rate to relevant market rate.

GNMA's Credit Quality Indicators are presented in accordance with guidance within ASC 310: Receivables. The recorded investment for mortgage loans by original LTV ratio are as follows:

Table 8A2 Recorded Investment for Mortgage Loans by Original LTV Ratio:-

Other Non-Credit Reform Loans				
(Dollars in Millions)	2020			
	Less than 80%	80 to 100%	Greater than 100%	Total
Conventional	$ 8	$ 102	$ 5	$ 115
FHA	134	1,852	35	2,021
VA	6	64	18	88
RD	1	27	10	38
Total	**$ 149**	**$ 2,045**	**$ 68**	**$ 2,262**

A3. Impaired Loans

GNMA's impaired loans include TDR and PCI loans. GNMA measures impairment based on the present value of expected future cash flows for each loan classified as TDR or PCI.

GNMA's Impaired Loans are presented in accordance with guidance in ASC 310: Receivables. The number of loans, recorded investment, related allowance, UPB, average recorded investment, and total interest income recognized for impaired mortgage loans as of September 30, 2020 by underlying insurance agencies are as follows:

Table 8A3 - Number of loans, recorded investment, related allowance, UPB, average recorded investment, and total interest income recognized for impaired mortgage loans:

Other Non-Credit Reform Loans					
(Dollars in Millions)	**2020**				
	Recorded Investment	**Related Allowance**	**Unpaid Principal Balance**	**Average Recorded Investment**	**Total Interest Income Recognized**
With Related Allowance Recorded:					
Conventional	$ 46	$ (4)	$ 45	$ 46	$ 2
FHA	1,507	(130)	1,498	1,551	66
VA	62	(3)	62	65	3
RD	27	(2)	27	28	1
Total Impaired Loans with Related Allowance Recorded	**$ 1,642**	**$ (139)**	**$ 1,632**	**$ 1,690**	**$ 72**
With No Related Allowance Recorded:					
Conventional	$ 14	$ -	$ 14	$ 21	$ 1
FHA	188	-	184	300	8
VA	26	-	25	41	1
RD	11	-	11	17	1
Total Impaired Loans with No Related Allowance Recorded	$ 239	$ -	$ 234	$ 379	$ 11
Total Impaired Loans	**$ 1,881**	**$ (139)**	**$ 1,866**	**$ 2,069**	**$ 83**

Within the table above, interest income on impaired loans is recognized subject to GNMA's non-accrual policy (as applicable), as discussed in Note (1) Summary of Significant Accounting Policies. The recorded investment, related allowance, and UPB for TDRs was $1,839 million, $138 million, and $1,825 million respectively, as of September 30, 2020. The recorded investment, related allowance, and UPB for PCI loans was $42 million, $1 million, and $41 million respectively, as of September 30, 2020.

A4. Troubled Debt Restructuring

A restructuring of a debt constitutes a TDR if GNMA, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. Additionally, Chapter 7 Bankruptcies which result in a discharge to the borrower are considered TDR loans by GNMA, because the borrower is undergoing financial difficulty or insolvency and concessions are made to the borrower. GNMA also offers other informal options to troubled borrowers including repayment plans and forbearance agreements which are evaluated for TDR, as applicable.

Section 4022 of the CARES Act provides borrowers with "federally backed mortgage loans" a foreclosure moratorium and a right to forbearance of loan payments for homeowners experiencing financial hardship due to COVID-19. The majority of GNMA's non-pooled loan portfolio is insured/guaranteed by the FHA, VA, RD, or PIH, and therefore eligible for Section 4022 of the CARES Act. The federal agencies have issued guidance to align to the forbearance provisions of the CARES Act. FHA, VA and RD published guidance to offer extended foreclosure and eviction moratorium to its insured borrowers through December 31,2020. As described in Note (1) Summary of Significant Accounting Policies, and Note (27) COVID-19 Activity, GNMA has elected to follow the guidance issued in the Interagency Statement and, accordingly, loan modifications (including short term payment deferrals of six months or less) subject to relief under the Interagency Statement are not accounted for as TDRs and therefore not included within GNMA's TDR disclosures.

GNMA's loan modification programs may result in various types of concessions (including a combination of concessions) such as term extensions and, interest rate reductions (lower than what the mortgagor would receive in the market at the time of the modification). GNMA considers these modifications a concession to mortgagors experiencing financial difficulties and therefore classifies these loans as TDRs.

GNMA's Troubled Debt Structuring is presented in accordance with guidance in ASC 310: Receivables. The number of loans and recorded investment of loans newly classified as a TDR for the year ended September 30, 2020 by underlying insurance agencies are as follows:

Table 8A4 – Number of loans and recorded investment of loans newly classified as a TDR during the year ended September 30, 2020:

Other Non-Credit Reform Loans		
(Dollars in Millions)	**2020**	
	Number of Loans	**Recorded Investment**
Conventional	32	$ 4
FHA	174	23
VA	15	3
RD	8	1
Total	**229**	**$ 31**

The number of loans and total recorded investment as of September 30, 2020 for the loans that entered a TDR in the preceding year and for which there was a payment default during the year ended September 30, 2020 are as follows:

Table 8A5 - Number of loans and total recorded investment as of September 30, 2020 for the loans that entered a TDR in the preceding twelve months and for which there was a payment default during the period:

Other Non-Credit Reform Loans		
(Dollars in Millions)	**2020**	
	Number of Loans	**Recorded Investment**
Conventional	-	$ -
FHA	7	1
VA	2	1
RD	1	-
Total	**10**	**$ 2**

A5. Purchased Credit-Impaired Loans

Upon acquisition, if the purchased loan is delinquent and is not guaranteed or insured by FHA, GNMA concludes that it is probable that it will not collect all contractually required payments receivable. Accordingly, these loans are considered PCI mortgage loans.

Currently, upon acquisition, the PCI loans are recorded at UPB, less allowance. GNMA measures subsequent impairment on these loans based on the present value of expected future cash flows. For additional information refer to Note (1) Summary of Significant Accounting Policies for more information.

GNMA does not consider delinquent FHA guaranteed or insured acquired loans as PCI because the UPB and the majority of the delinquent accrued interest are deemed collectible per the FHA insurance reimbursement guidelines. The FHA insurance is inseparable from the underlying loan and remains with the loan upon transfer or disposition.

A6. Aging Analysis

GNMA's Aging Analysis is presented in accordance with guidance within ASC 310: Receivables. An aging analysis of the total recorded investment in GNMA's HFI mortgage loans by underlying insuring agency includes accrued interest (which is separately classified in Note (6) Accounts Receivables, net) are as follows:

Table 8A6 - Aging Analysis of the Total Recorded Investment in GNMA's HFI Mortgage Loan

Other Non-Credit Reform Loans									
(Dollars in Millions)	2020								
	One Month Delinquent	Two Months Delinquent	Three Months Delinquent	Four Months or More Delinquent	Total Delinquent	Current	Total	Loans Over 90 Days Delinquent and Accruing Interest	Recorded Investment in Non-accrual Loans
Conventional	$ 9	$ 3	$ 1	$ 11	$ 24	$ 91	$ 115	$ -	$ 22
FHA	151	65	38	301	555	1,466	2,021	301	-
VA	5	3	2	23	33	55	88	23	-
RD	4	1	1	7	13	25	38	7	-
Total	**$ 169**	**$ 72**	**$ 42**	**$ 342**	**$ 625**	**$ 1,637**	**$ 2,262**	**$ 331**	**$ 22**

A7. Foreclosures in Process

GNMA accounts for mortgage loans as Foreclosure in Process if a foreclosure has been filed but not completed. In this situation, the foreclosure has been filed, yet the foreclosure process has not been completed and GNMA has not received physical possession of the underlying property, and accordingly, Foreclosure in Process loans are accounted for like mortgage loans HFI.

Physical possession of residential real estate property is achieved when either the creditor obtains legal title to the residential real estate property upon completion of a foreclosure or the mortgagor conveys all interest in the residential real estate property through completion of a deed in lieu of foreclosure in order to satisfy that loan.

GNMA's Foreclosures in Process is presented in accordance with guidance within *ASC 310: Receivables*, with carrying amounts being measured based on the fair value of the collateral on a nonrecurring basis. There were 833 properties for which formal foreclosure proceeding are in process with a recorded investment of $136 million as of September 30, 2020. Although the foreclosure process has begun for these loans, GNMA believes that a portion of these loans will not complete the foreclosure process due to GNMA's loss mitigation activities.

A8. Allowance for Loan Losses

GNMA 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. The allowance for loan losses is intended to reduce the carrying value of GNMA's HFI and related accrued interest for probable credit losses embedded in the loan portfolio at the balance sheet date. HFI and accrued interest are reported net of the allowance on the Balance Sheet as part of Other Non-Credit Reform Loans and Accounts Receivable, net lines, respectively.

GNMA relies on MSS reports for information to assess mortgagors' ability to pay based on current economic environment assessment, and potential insurance recoveries as determinants in the statistical models that evaluate HFI collectability. Homogeneous pools of mortgage loans are defined on common characteristics such as age, insurance type, and geographic region, among others.

The projections are built based on actual loan performance data and performance of similar loans, current economic environment, and management judgment. GNMA monitors its projections of claim recoveries regularly to validate reasonableness. GNMA validates and updates its models and assumptions to capture changes in GNMA's servicing experience and changes in government policies and programs. When estimating defaults, prepayments and recoveries, GNMA considers several indicators including macro-economic factors such as interest rates, home price indices, nominal gross domestic product (GDP) growth, and unemployment rates. In addition, GNMA considers several credit quality indicators such as LTV ratios, current delinquency status, and recent payment history. Other characteristics include age of loan, year of origination, insuring agency, spread of mortgage rate to relevant market rate, and payment structure. GNMA uses probability of default and probability of prepayment models which employ logistic regressions to calculate dynamic default and prepayment probabilities based on actual loan performance data for GNMA's loan population and macroeconomic conditions. GNMA has implemented adjustments for the September 30, 2020 allowance for loan losses to capture the current impacts of COVID-19 on the economic environment.

GNMA's Allowance for Loan Losses are presented in accordance with guidance within ASC 310: Receivables. The total recorded investment and allowance for loan losses by allowance methodology as of September 30, 2020 are as follows:

Table 8A7 - Allowance for Loan Losses

Other Non-Credit Reform Loans		
(Dollars in Millions)	**2020**	
	September	
Recorded Investment:		
Collectively Evaluated	$	381
Individually Evaluated		1,839
Purchase Credit Impaired		42
Total Recorded Investment in Loans	**$**	**2,262**
Ending Balance of the Allowance for Loan Losses:		
Collectively Evaluated	$	(4)
Individually Evaluated		(138)
Purchase Credit Impaired		(1)
Total Allowance for Loan Losses	**$**	**(143)**
Net Investment in Mortgage Loans HFI	**$**	**2,119**

Note that recorded investment above includes UPB, accrued interest and associated allowances. Accrued interest and associated allowances are included in Note (6) Accounts Receivable, net.

The changes in GNMA's allowance for loan losses during year ended September 30, 2020 are as follows:
Table 8A8 Changes in Allowance for Loan Losses

Other Non-Credit Reform Loans		
(Dollars in Millions)	**2020**	
	YTD as of September	
Beginning Balance	$	(144)
Recapture (provision) for Loan Losses		1
Charge Offs		7
Recoveries		(7)
Ending Balance	**$**	**(143)**

As discussed in Note (1) Summary of Significant Accounting Policies, GNMA determines the allowance for loan losses on a collective basis for whole loans under *SFFAS No. 1* and *SFFAS No. 5,* and determines the allowance under FASB *ASC 310: Receivables* for its impaired loans, in accordance with *SFFAS No. 34: The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

GNMA's charge offs may include write downs recorded when the mortgage loan receivables are transferred between certain asset classes. GNMA's recoveries may include miscellaneous adjustments and charge offs reversals.

B. Advances, Net

Advances include payments made to cover any shortfalls to investors resulting from mortgagors defaulting on their mortgage payments, and to active issuers under special assistance programs where GNMA may assist issuers with pass through payments if the issuer has a qualifying portfolio. Advances are reported net of an allowance, which is based on management's expectations of future collections from issuers, mortgagors, or recoverability from third-party insurers such as FHA.

During the year ended September 30, 2020, there were no issuer defaults, and as such no related subsequently termination and extinguishment activities. GNMA assumed the servicing rights and obligations of issuers which defaulted in prior fiscal years and advanced funds to the MSS throughout the year ended September 30, 2020 to cover P&I not yet paid by mortgagors, but due to the MBS investors.

GNMA's advances are presented netted in accordance with guidance within *ASC 310: Receivables*.

C. PTAP Issuer Advances, Net

In response to the COVID-19 national emergency declared by the President of the United States on March 13, 2020, GNMA has revised and expanded the issuer assistance programs in Chapter 34 of the MBS Guide. The expansion includes the addition of a new PTAP, specifically authorized for use in the response to the COVID-19 national emergency. Under this program, GNMA may assist issuers under the

single-family and multifamily programs with pass-through payments to investors, if the issuers are facing a temporary liquidity shortfall directly attributable to the COVID-19 national emergency.
As of September 30, 2020, GNMA has disbursed a total of $12 million from its own capital reserves and received $9 million in total repayments (including interest) under PTAP. In connection with a memorandum of understanding with Treasury related to borrowing authority, GNMA has transferred $3,000 million into the PTAP fund from its Capital Reserve fund. If these capital reserves are depleted in the future, GNMA has the authority to borrow from the U.S. Treasury to meet immediate funding needs for PTAP. For additional information refer to Note (13) Debt.

As of September 30, 2020, no outstanding PTAP issuer advances are past due or impaired.

D. Claims Receivable, Net

Claims receivable are balances owed to GNMA from insuring or guaranteeing agencies (FHA, VA, RD, and PIH) related to conveyed properties and short sales. Short sales receivable represents payments owed to GNMA by insuring or guaranteeing agencies for properties where the net proceeds from a short sale are insufficient to repay amounts owed by the borrower, in accordance with the respective agency guidelines. Foreclosed property claims receivable represent amounts GNMA expects to receive from insuring or guaranteeing agencies for properties where GNMA has received title in lieu of foreclosure and intends to convey such title to the insuring or guaranteeing agency. GNMA records an allowance that represents the expected claims amounts which will not be recovered. The claims receivable balance, net of the allowance, represents the amounts that GNMA determines to be collectible. GNMA's Claims Receivable is presented in accordance with guidance within *ASC 310: Receivables*.

GNMA's foreclosed property and short sale claims receivable and related allowance, as of September 30, 2020 are as follows:

Table 8D1. Claims Receivable, Net

Other Non-Credit Reform Loans				
(Dollars in Millions)	2020			
	FHA	VA	RD	Total
Foreclosed Property Claims Receivable	$ 88	$ 2	$ 2	$ 92
Short Sale Claims Receivable	1	-	-	1
Allowance for Claims Receivable	(20)	(1)	-	(21)
Claims Receivable, Net	**$ 69**	**$ 1**	**$ 2**	**$ 72**

The foreclosed property claims, and short sale claims allowance balances are estimated based on underlying insuring or guaranteeing agency guidelines, and historical collectability experience.

The allowance for claims receivable includes effects of charge offs and recoveries. A claims receivable is recognized for the amount recoverable from the insurers and any excess amounts not recoverable are charged off against the allowance for loan losses. The amount of claims receivable not reimbursed by insuring or guaranteeing agencies is charged off against the allowance for claims receivable. If the claim proceeds received exceed the claims receivable's carrying amount, GNMA will apply the excess to amounts previously charged-off (i.e., recovery) with any residual amounts recognized as a gain.

E. Properties Held for Sale, Net

GNMA records properties held for sale or "acquired property" when it obtains marketable title to the underlying property after the foreclosure process is complete or the date on which GNMA received marketable title to the property through a deed-in-lieu of foreclosure. The acquired properties are typically either RD insured, VA insured or uninsured conventional loans. Acquired properties are assets that GNMA intends to sell and is actively marketing through the MSS. GNMA initially recognizes acquired property at its initial fair value less estimated costs to sell the property. This requires GNMA to make significant estimates in determining the fair value of acquired properties at acquisition.

GNMA uses fair value measurements under *ASC 820: Fair Value Measurements* for the initial recognition of assets and liabilities and periodic re-measurement of certain assets and liabilities on a recurring or non-recurring basis. *ASC 820: Fair Value Measurements* defines fair value, establishes a framework for measuring fair value, and sets forth disclosure requirements regarding fair value measurements. This guidance applies whenever other accounting guidance requires or permits assets or liabilities to be measured at fair value. Fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or, in the absence of a principal market, in the most advantageous market for the asset or liability.

In determining fair value, GNMA uses various valuation techniques. The inputs to the valuation techniques are categorized into a three-level hierarchy, as described below:

Level 1: Quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

GNMA subsequently measures acquired properties at the lower of cost or market "LOCOM". Subsequent valuation measurements are periodically performed up until the sale of the property. The dates of the fair value measurements vary from property to property and are not always at the reporting period end date. GNMA's accounting policy allows the use of fair value measurements from a variety of sources that are within nine months of the reporting period end date. GNMA recognizes any subsequent write-downs of the property to its fair value less estimated costs through a valuation allowance with an offsetting charge to "Expense (income) on acquired property" included in gross cost in the SNC. Any recoveries for subsequent increases in fair value less estimated costs to sell are recognized up to the cumulative loss previously recognized through the valuation allowance.

GNMA applies a valuation waterfall methodology in estimating the fair value of acquired properties. The most commonly used techniques by valuation sources used in the waterfall include discounted cash flow analysis and listing and sales price analysis of similar properties. Inputs to the valuation methodologies include recent historical data of the value of similar properties by a certified or licensed appraiser, recent pending sales information of similar properties, current listing of similar properties, estate brokers' specific market research of similar properties, and historical data of the value of similar properties. GNMA also leverages historical information to calculate the flat estimated costs to sell percentage for its acquired properties when applying the estimated costs to sell to the fair value.

GNMA expenses all post-foreclosure costs as incurred in mortgage-backed securities program and other expenses included in gross cost in the Statement of Net Cost.

Upon disposition of an acquired property, GNMA recognizes any gain or losses through "Gains on Disposition of Assets – Other" in earned revenues in the Statement of Net Cost.

Activity for acquired properties are presented in the table below:

Table 8E1. Activity for Acquired Properties

Other Non-Credit Reform Loans	
(Dollars in Millions)	**2020**
	YTD as of September
Beginning balance - Acquired Properties	$ 11
Additions	12
Dispositions	(17)
Ending Balance - Acquired Properties	**$ 6**
Beginning Balance - Valuation Allowance	(1)
Change in Valuation Allowance	-
Ending Balance - Valuation Allowance	**$ (1)**
Ending Balance - Acquired Properties, Net	**$ 5**

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. Leasehold improvements consist of additions, alterations, remodeling, renovations, or other changes to existing leased properties that either extend the useful life or enlarge or expand or improve its capacity and are paid or finance for by the lessee. Purchases of $500,000 (PP&E), $500,000 Leasehold Improvements, and $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 three-year period for PP&E, Leasehold Improvements, and IUS, unless it can be demonstrated that the estimated useful life is significantly greater than the specified time period.

The Department purchases and maintains all property, plant and equipment used by FHA, along with other Office of Housing activities.

In FY 2020, the Department recorded an immaterial amount of leasehold improvement activity that was previously recorded as operating expenses. For additional information on this correction refer to Note (1) Summary of Significant Accounting Policies under the Correction of Errors section.

GNMA's purchases of $100,000 or more for PP&E and IUS are recorded as an asset. GNMA depreciates its PP&E and IUS using the straight-line basis over a three to five-year period beginning when the assets are placed in use, unless another systematic and rational basis is more representative of the assets use.

The following table presents general property, plant, and equipment as of September 30, 2020:

General Property, Plant, and Equipment (PP&E), Net			
(Dollars in Millions)	2020		
	Cost	Accumulated Depreciation and Amortization	Book Value
Equipment	$ 6	$ (4)	$ 2
Equipment - GNMA	2	(1)	1
Leasehold Improvements	55	(18)	37
Leasehold Improvements - GNMA	-	-	-
Internal Use Software	-	-	-
Internal Use Software - GNMA	234	(181)	53
Internal Use Software in Development	31	-	31
Internal Use Software in Development - GNMA	13	-	13
Capital Leases - GNMA	1	(1)	-
Total	**$ 342**	**$ (205)**	**$ 137**

In FY 2020, the most recent OMB Circular A-136 guidance required federal agencies to disclose its total PP&E and accumulated depreciation for the current year in a reconciliation format. HUD added an additional line to its reconciliation to show its adjustment to the beginning balance for leasehold activity. For additional information on the leasehold activity adjustments refer to Note (1) Summary of Significant Accounting Policies under the Correction of Errors section.

The following table presents the PP&E and accumulated depreciation reconciliation as of September 30, 2020.

General Property, Plant, and Equipment (PP&E), Net		
(Dollars in Millions)	**2020**	
	Net PP&E	
Balance beginning of year	$	85
Adjustments		35
Beginning balance, as adjusted		120
Capitalized Acquisitions		48
Dispositions/Revaluations		(2)
Depreciation/Amortization		(29)
Balance end of year	**$**	**137**

Note 10: PIH Prepayments and Advances

PIH Prepayments

HUD's assets include the Department's estimates for Restricted Net Position (RNP) balances maintained by PHAs 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.

OCFO and PIH implemented an estimation methodology to calculate the prepayment balance in FY 2018. 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. Therefore, the OCFO and PIH estimates the second and third month of a quarter's VMS expense data. The three months of the quarter's general ledger (GL) disbursement data used in the methodology is the actual amounts. PHAs are also able to adjust prior months expense data at any point throughout the year based on various adjustment needs. These adjustments can adversely impact the estimate if adjustments are not captured in the estimate's beginning balances during the appropriate quarterly reporting cycle. The estimation methodology uses the beginning balance of the MTW and non-MTW RNP reports which includes any PHA prior period adjustments, PHA's disbursements from the trial balance, PHA's expenses from the Voucher Management System (VMS) Data Report that have been adjusted for expenses greater than funding received. The estimation calculation is completed on a quarterly basis.

PIH has estimated RNP balances of $178 million for the 4th quarter FY 2020, consisting of $155 million for the HCV Program and $23 million for the Moving to Work Program.

PIH Prepayment - CARES Act

On March 27, 2020, the President enacted the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) in response to the COVID-19 pandemic, providing $1,250 million to the Office of Housing Voucher Programs, Office of Public and Indian Housing (PIH) in supplemental funding. Of this amount, $400 million was earmarked for HAP supplemental to address per unit cost increases (under the Extraordinary Circumstance category, PIH Notice 2020-17) and to prevent termination of families from the program (Shortfall Prevention). Additionally, $850 million was provided to assist PHAs with COVID-19 related expenses (PPEs, deep cleaning of PBV properties, technology for remote operations, and social distancing requirements, etc., see PIH Notices 2020-08 and 2020-18), and to maintain and bring back HCV Program operations under the new norm.

PIH awarded approximately $243 million of HAP supplemental based on Extraordinary Circumstance applications submitted by approximately 300 PHAs during the month of August 2020. Approximately, $226 million of HAP supplemental funding was paid at the end of the fiscal year. Since, these CARES Act disbursements were made at the end of the year HUD believes an immaterial amount was spent, but as of year-end PHAs had not yet reported their expenses to HUD., HUD recorded this amount in its financial statements as an advance.

PIH awarded CARES Act Administrative Fees in the amount of $850 million through funding advances made in May 2020 and August 2020. These amounts have been fully disbursed to the PHAs and available to spend through December 2021. Any unspent funds will be returned to Treasury at the end of the period of availability. As of September 30,2020, PIH had a small number of PHAs that had reported back expense information from the funding disbursed in May 2020. Currently the only data available to HUD are financial statements from some PHAs with a June 30th fiscal year end. According to the PIH Public Notice 2020-24, issued September 14, 2020, PHAs with a fiscal year end June 30, 2020 that received the CARES Act Administrative fees were not required to report back its expenses to HUD until October 30, 2020. There is currently no data available for PHAs with other fiscal year ends.

OCFO and PIH worked together to develop an expense methodology to estimate how much of the May 2020 funding advance has been spent by the PHAs based on the PHAs that have already reported back expenses. The methodology was based on CARES Act administrative fees provided to PHAs with a June 30th fiscal year end. HUD received expense information for a total of 8 percent of its PHAs for funding received in May 2020. PIH calculated the actual expenses used by the PHAs that reported back divided by the amount obligated and disbursed to those PHAs that reported back to develop a percentage of expenses used. The percentage represented two months from the time when the June 30, 2020 PHAs received the funds within their fiscal year. The usage rate was 15 percent per month. Based on this usage rate, OCFO and PIH estimated that PHAs have spent 75 percent of its May 2020 funding as of September 30, 2020. This estimate does come with some risks because of the small number of PHAs that have reported back its actual expenses to HUD for the funding received in May 2020. HUD is unable to fully assess the amount of CARES Act Administrative Fees that have been used by the total PHA recipients. The expense methodology is currently HUD's best estimate approach in assuring the financial statements and notes are not materially misstated.

PIH's CARES Act prepayment has estimated balances of $793 million for the 4th quarter FY 2020, consisting of $696 million for the HCV Program and $97 million for the Moving to Work Program.

PIH Advances - IHBG Programs

HUD's assets also include the Department's advance estimates for the PIH, Office of Native American Programs (ONAP), IHBG program. The ONAP program administers housing and community development programs that benefit American Indian and Alaska Native tribal governments, tribal members, the Department of Hawaiian Homelands, Native Hawaiians, and other Native American organizations. Its overall mission is to increase the supply of safe, decent, and affordable housing available to Native American families. The recipients of this program can either be an individual or may designate a Tribally Designated Housing Entity (TDHE) to draw down, invest, and/or expend funds on their behalf. If recipients are eligible through programmatic requirements to invest IHBG funding, then PIH will grant them authority. Those recipients that are not eligible to invest will draw their funds on a reimbursable basis.

In FY 2019, OCFO and PIH developed and implemented an estimation methodology to calculate advances on the portion that is invested by eligible recipients. The estimation is determined by multiplying the investment ratio by the current year's grant allocation amount for the recipients that meet the investment criteria. There are currently thirty-six recipients that have PIH authority to invest and are currently investing. The investment ratio is determined by adding the investment recipients' September 30th balances for the last three fiscal years divided by the grant allocations made available to them during the same three previous fiscal years.

Due to the following constraints: 1) recipients have different fiscal year ends, 2) the recipient's financial report (SF425) do not report investment and expense amounts at the micro-level, i.e. individual grant and fiscal year, and 3) late funding availability causes investment portfolio fluctuations throughout the year. The advance estimation is completed annually.

PIH's IHBG has estimated advance balances of $207 million for the 4th quarter of FY 2020.

Note 11: Other Assets

The following table presents HUD's Other Assets as of September 30, 2020:

Other Assets					
(Dollars in Millions)	2020				
	FHA	GNMA	Section 8	All Other	Total
Intragovernmental Assets:					
Advances and Prepayments	$ -	$ -	$ 1	$ 45	$ 46
Total Intragovernmental Assets	**$ -**	**$ -**	**$ 1**	**$ 45**	**$ 46**
Public:					
Advances and Prepayments	-	-	-	-	-
Total	**$ -**	**$ -**	**$ 1**	**$ 45**	**$ 46**

The Department's Intragovernmental Other Assets primarily represent Policy, Development, and Research (PD&R) programs with other federal agencies.

Note 12: Liabilities Not Covered by Budgetary Resources

Liabilities not covered by budgetary resources require future congressional action whereas liabilities covered by budgetary resources reflect prior congressional action. Regardless of when the congressional action occurs, when the liabilities are liquidated, Treasury will finance the liquidation in the same way that it finances all other disbursements, using some combination of receipts, other inflows, and borrowings from the public (if there is a budget deficit).

The following table presents HUD's liabilities as of September 30, 2020:

Liabilities Not Covered by Budgetary Resources	
(Dollars in Millions)	2020
Intragovernmental	
Other Intragovernmental Liabilities	$ 24
Total Intragovernmental Liabilities	**$ 24**
Public	
Accounts Payable	43
Federal Employee and Veteran Benefits	66
Insurance and Guarantee Program Liabilities	1,324
Other Liabilities	98
Total Public Liabilities	**$ 1,531**
Total Liabilities Not Covered by Budgetary Resources	**$ 1,555**
Total Liabilities Covered by Budgetary Resources	**$ 52,012**
Total Liabilities Not Requiring Budgetary Resources	**$ 1,689**
Total Liabilities	**$ 55,256**

The Department's intragovernmental liabilities not covered by budgetary resources principally consist of unfunded FECA liabilities. HUD's public liabilities not covered by budgetary resources principally consist of GNMA's Insurance and Guarantee Program Liabilities and the Department's unfunded payroll and benefits costs such as unfunded leave, unfunded FECA liability, and actuarial FECA liability.

This note also includes the category "Total Liabilities Not Requiring Budgetary Resources" which primarily consists of FHA's receipt account liabilities and HUD's deposit, clearing and general fund receipt account liabilities.

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.

The following table presents HUD borrowings, and borrowings by PHAs/TDHEs for which HUD is responsible for repayment, as of September 30, 2020:

Debt			
(Dollars in Millions)	2020		
	Beginning Balance	Net Borrowings	Ending Balance
Debt to the Federal Financing Bank	$ 1,975	$ 395	$ 2,370
Debt to the U.S. Treasury	30,409	21,443	51,852
Held by the Public	2	-	2
Total	**$ 32,386**	**$ 21,838**	**$ 54,224**

Debt	
(Dollars in Millions)	2020
	Ending Balance
Classification of Debt:	
Intragovernmental Debt	$ 54,222
Debt Held by the Public	2
Total	**$ 54,224**

Interest paid on borrowings for FHA and HUD Proper as of September 30, 2020 were $2,058 million and $2 million respectively. The purpose of the borrowing is discussed in the following paragraphs.

Borrowings from Treasury

FHA

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 enough 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 for U.S. Treasury debt range from 1.02 percent to 7.59 percent and maturity dates for these debts rage from September 2022 to September 2041. FFB debt carried interest rates ranging from 2.60 percent to 3.40 percent, and the maturity dates for the FFB debt range from April 2043 to October 2060. 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. As of September 30, 2020, FHA does not have any borrowing authority available from the U.S. Treasury.

GNMA

On April 10, 2020, GNMA issued All Participant Memoranda (APM) 20-03 announcing a new Pass-Through Assistance Program related to COVID-19, to the public. This program allows GNMA to assist issuers under the Single-Family program with pass-through payments to investors if issuers are facing a temporary liquidity shortfall. In support of this program, and pursuant to Section 306(d) (12 U.S.C. § 1721(d)) of Title III of the National Housing Act, GNMA executed a borrowing agreement with Treasury on April 7, 2020. Available borrowing authority, as of September 30, 2020, was $8,700 million.

Under this agreement, advances shall be made from time to time by Treasury, on an as needed basis, and upon request by GNMA to fund PTAP requirements only. Prior to the first advance, GNMA agreed with Treasury to transfer $3,000 million into the PTAP fund from its Capital Reserve fund. GNMA agreed to first use this transferred funding when fulfilling any program requirements prior to making a request for an advance under the borrowing agreement. Interest will accrue on such balances at a rate determined by the Secretary of the Treasury, taking into consideration the current average rate on outstanding marketable obligations of the United States as of the last day of the month preceding the issuance of the obligation of GNMA.

Each advance must be repaid by GNMA no later than five years from its effective date, with interest on each advance payable to Treasury semiannually on March 31 and September 30.

HUD Proper

HUD's Other Programs with outstanding aggregate borrowings are the Indian Housing Loan Guarantee Program, the Native Hawaiian Housing Loan Guarantee, Community Development Loan Guarantee, and the Green Retrofit Program. These borrowings have interest rates ranging from 3.09 percent to 7.23 percent. HUD Proper does not have any borrowing authority available from the U.S. Treasury as of September 30, 2020.

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.

FHA began an FFB Risk Share program in FY 2015 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. The FFB Risk Share program ended in FY 2019, so no new borrowing authority was made available in FY 2020.

Note 14: Federal Employee and Veteran Benefits

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 $66 million as of September 30, 2020. Future payments on this liability are to be funded by future financing sources.

Note 15: Other Liabilities

The following table presents HUD's Other Liabilities as of September 30, 2020:

Other Liabilities			
(Dollars in Millions)	2020		
	Non Current	Current	Total
Intragovernmental Liabilities			
FHA Special Receipt Account Liability	$ -	$ 1,544	$ 1,544
Unfunded FECA Liability	13	-	13
Employer Contributions and Payroll Taxes Payable	-	14	14
Miscellaneous Receipts Payable to Treasury	-	113	113
Advances to Federal Agencies	-	6	6
Intragovernmental Other Liabilities	**$ 13**	**$ 1,677**	**$ 1,690**
Other Liabilities			
FHA Other Liabilities	$ -	$ 429	$ 429
FHA Escrow Funds Related to Mortgage Notes Current	-	37	37
GNMA Deferred Income	480	47	527
Deferred Credits	-	7	7
Deposit Funds	3	26	29
Accrued Unfunded Annual Leave	98	-	98
Accrued Funded Payroll Benefits	-	45	45
Contingent Liability	-	-	-
Other	6	2	8
Total	**$ 600**	**$ 2,270**	**$ 2,870**

Special Receipt Account Liability

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

Other Liabilities

As of September 30, 2020, FHA's Other Liabilities consisted of liabilities for premiums collected on unendorsed cases of $312 million and miscellaneous liabilities of $117 million, which include disbursements in transit and unearned premium revenue. In addition, FHA had liabilities for escrow funds related to mortgage notes totaling $37 million. Premiums collected for unendorsed cases represent liabilities associated with premiums collected for cases that have yet to be endorsed.

Other liabilities current consists mostly of suspense funds, receipt accruals, and payroll-related costs, as well as the current portions of GNMA deferred income. Other liabilities non-current includes deferred income for GNMA fees, accrued and unfunded leave, deposit funds, and other liabilities. Current portions of liabilities are determined based on amounts projected to be realized in the following 12 months. The account balances are separately maintained at the general ledger account level between current and non-current portions and adjusted based on the underlying support and schedules for the balances maintained by GNMA. The classification of deferred income depends on the reason the revenue has not yet been recognized. Amounts received from a customer that are expected to be recognized as revenue upon completion of performance obligations are classified as deferred revenue prior to recognition as income. This includes commitment and multiclass fees received as issuers request commitment authority or issue multiclass products, respectively. Amounts are recognized into income over a period of time or at a point in time depending on when performance obligation is fulfilled. Cash collected that would have to be returned is classified as deferred liability. This includes unapplied deposits and cash received but transferred back to MSS for pass through to investors.

Note 16: Commitments and Contingencies

Legal and Other

HUD is party to several claims and tort actions related to pending or threatened litigation brought against it concerning the implementation or operation of its various programs. The Department does not have a contingent liability recorded in its financial statements as of September 30, 2020. HUD is party to various other cases listed below as "reasonably possible":

Contingencies				
(Dollars in Millions)	**2020**			
	Number of Cases	**Accrued Liabilities**	**Range of Loss - Lower**	**Range of Loss - Upper**
Legal Contingencies:				
Probable	-	$ -	$ -	$ -
Reasonable Possible	5	-	-	152
Other Contingencies:		$ -	$ -	$ -
Probable		-	-	-
Reasonable Possible		-	-	-

Of the five cases listed as reasonably possible, one of the cases have an unknown estimated amount or range of potential losses. All other case ranges have been disclosed in the table above. 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. HUD's two previously probable cases disclosed, in the 2019 AFR, have been settled in FY 2020 and paid out through the judgement fund.

The general counsel has reviewed FHA's and GNMA's claims for this fiscal year and determined that as of September 30, 2020, 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 and GNMA. In addition, there are no asserted or unasserted claims, or assessments in which GNMA's potential loss exceeds $5 million individually, or $11 million in the aggregate for cases not listed individually or as part of similar cases that could be material to the financial statements as of September 30, 2020.

GNMA's management recognizes the uncertainties that could occur regarding potential terminated and extinguished issuers and other indirect guarantees, such as large issuer portfolio default, terminated and extinguished, lack of proper insurance coverage of terminated and extinguished loans.

If HUD is found liable and does not have the budget authority to cover the contingency, then the Judgment Fund will pay the claim on behalf of the agency. The Judgment Fund pays court judgments and negotiated settlements of lawsuits against the government. If the claim(s) will be paid through the Judgement Fund, then the information is disclosed in the agency's legal letter. If the agency has another funding source to pay the claim(s), then the Judgment Fund cannot be used even if the other funding source does not have enough money to cover the claim.

Note 17: Funds from Dedicated Collections

SFFAS No. 27: Identifying and Reporting Earmarked Funds, as amended by *SFFAS No. 43: Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27,* defines the following three criteria for determining a fund from dedicated collections: 1) a statute committing the federal government to use specifically identified revenue and/or other financing sources that are originally provided to the federal government by a non-federal source only for designated activities, benefits, or purposes; 2) explicit authority for the fund to retain revenue and/or other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and 3) a requirement to account for and report on the receipt, use, and retention of the revenue and/or other financing sources that distinguished the fund from the federal government's general revenue.

A fund from dedicated collection may contain non-federal sources of revenue and other financing sources that are material to the reporting entity provided it meets the criteria reported above. Each of HUD's programs are considered non-governmental inflow.

Treasury securities reflect a Government commitment to the program and allow the program to continue to provide benefits required by law. When the benefits are paid, the way the Government finances the benefits is similar to the way it finances other disbursements, using some combination of receipts, other inflows, and borrowing from the public (if there is a budget deficit).

Intradepartmental activity reported in a fund from dedicated collection is often offset with activity in other funds. Accordingly, the Department presents information for funds from dedicated collections and all other funds in the BS and SCNP on a combined basis. The elimination of intradepartmental activity between dedicated collections and all other funds is presented in the SCNP.

GNMA

Title III of the National Housing Act created GNMA as a government corporation to guarantee the timely payment of principal and interest on MBS certificates or other approved securities. GNMA is authorized under the Act to fund its program's operations through various off-setting collections, such as guaranty, commitment, multiclass, new issuer, civil penalty, servicing, and pool transfer fees. These collections are dedicated for GNMA use to administer its MBS guaranty program. In the event the issuer is unable to make any payment of principal or interest on any security guaranteed, GNMA shall make such payments as and when due in cash, and thereupon shall be subrogated fully to the rights satisfied by such payment. For additional information refer to Note (25) Insurance Programs. Further, as detailed in Note (13) Debt, GNMA agreed with Treasury to transfer $3,000 million into the PTAP fund from its Capital Reserve fund for the year ended September 30, 2020. These transferred funds remain dedicated for GNMA use to administer its MBS guaranty program, including funding PTAP advances to MBS Issuers under the terms of the MBS Guide.

GNMA invests certain accumulated fees not required for current or expected operational needs in U.S. Treasury overnight certificates. For additional information refer to Note (5) Investments.

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 amended in 1980 authorized the transfer of excess rent collections regardless of when collected.

Flexible Subsidy

As authorized by 12 U.S. Code 1715z-1, the Flexible Subsidy Fund provides federal assistance for troubled multifamily housing projects which includes supporting capital improvements to maintain these low to moderate income projects. 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.

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.

American Recovery and Reinvestment Act Programs (Recovery Act)

The Recovery Act included 17 programs at HUD which were 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 the Green Retrofit financing account) were changed to Other Funds based on exclusions noted in *SFFAS No. 27: Identifying and Reporting Dedicated Collections.* In the 4th quarter of FY 2020, the Green Retrofit program account had a downward technical re-estimate processed based on regulatory requirements in the OMB Circular A-11.

The following table presents the funds from dedicated collections balances as of September 30, 2020:

Funds from Dedicated Collections						
(Dollars in Millions)	2020					
	GNMA	Rental Housing Assistance	Flexible Subsidy	Manufactured Housing Fees Trust Fund	Recovery Act Funds	Total Dedicated Collections (Combined)
Balance Sheet						
ASSETS						
Intragovernmental:						
Fund Balance with Treasury	$ 17,013	$ 16	$ 592	$ 33	$ -	$ 17,654
Investments	8,524	-	-	-	-	8,524
Accounts Receivable, Net	1	-	-	-	-	1
Total Intragovernmental	**$ 25,538**	**$ 16**	**$ 592**	**$ 33**	**$ -**	**$ 26,179**
Cash and Other Monetary Assets	36	-	-	-	-	36
Accounts Receivable, Net	169	-	-	-	-	169
Direct Loans and Loan Guarantees	-	-	288	-	-	288
Other Non-Credit Reform Loans	2,181	-	-	-	-	2,181
General Property, Plant, and Equipment, Net	67	-	-	-	-	67
Total Assets	**$ 27,991**	**$ 16**	**$ 880**	**$ 33**	**$ -**	**$ 28,920**
LIABILITIES						
Intragovernmental:						
Accounts Payable	$ 36	$ -	$ -	$ -	$ -	$ 36
Total Intragovernmental Liabilities	**$ 36**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 36**
Accounts Payable	34	-	-	2	-	36
Insurance and Guarantee Program Liabilities	1,324	-	-	-	-	1,324
Other Liabilities	540	-	-	-	-	540
Total Liabilities	**$ 1,934**	**$ -**	**$ -**	**$ 2**	**$ -**	**$ 1,936**
Unexpended Appropriations	-	-	-	-	-	-
Cumulative Results of Operations	26,057	16	880	31	-	26,984
Total Net Position	**$ 26,057**	**$ 16**	**$ 880**	**$ 31**	**$ -**	**$ 26,984**
Total Liabilities and Net Position	**$ 27,991**	**$ 16**	**$ 880**	**$ 33**	**$ -**	**$ 28,920**
Statement of Net Cost for the Period Ended						
Gross Costs	$ 686	$ -	$ 5	$ 8	$ (6)	$ 693
Less: Earned Revenues	(1,803)	-	(3)	(15)	-	(1,821)
Net Costs	**$ (1,117)**	**$ -**	**$ 2**	**$ (7)**	**$ (6)**	**$ (1,128)**
Statement of Changes in Net Position for the Period Ended						
Net Position Beginning of Period	$ 24,940	$ 15	$ 880	$ 24	$ -	$ 25,859
Net Position Beginning of Period, as Adjusted	$ 24,940	$ 15	$ 880	$ 24	$ -	$ 25,859
Imputed Costs	1	-	-	-	-	1
Nonexchange Revenue	-	1	2	-	-	3
Other Adjustments	(1)	-	-	-	(6)	(7)
Net Costs	1,117	-	(2)	7	6	1,128
Change in Net Position	$ 1,117	$ 1	$ -	$ 7	$ -	$ 1,125
Net Position End of Period	**$ 26,057**	**$ 16**	**$ 880**	**$ 31**	**$ -**	**$ 26,984**

Note 18: Legal Arrangements Affecting the Use of Unobligated Balances

Pursuant to Title III of the National Housing Act, GNMA 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 following table presents the precluded funds from obligation activities and balances as of September 30, 2020:

Legal Arrangements Affecting the Use of Unobligated Balances		
(Dollars in Millions)		**2020**
Precluded Obligations Balance, Beginning	$	844
Collections		191
Precluded Obligations Balance, Ending	**$**	**1,035**

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.

In FY 2020, HUD received additional appropriated disaster funding from the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) which was signed into law by President Trump on March 27, 2020, to provide aid and economic assistance to individuals, families and businesses across the nation impacted by COVID-19. As of September 30, 2020, HUD has incurred a total of $1,562 million in additional costs and expenses related to the CARES Act. For additional information, refer to Note (27) COVID-19 Activity.

The following table presents the cross-cutting of HUD's major program areas that incur costs that cross multiple program areas as of September 30, 2020:

Net Costs of HUD's Cross-Cutting Programs					
(Dollars in Millions)	2020				
	Public & Indian Housing	Housing	Community Planning & Development	Other	Consolidated
HUD's Cross-Cutting Programs					
Section 8 Rental Assistance					
Intragovernmental Gross Costs	$ 110	$ 60	$ -	$ -	$ 170
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	110	60	-	-	170
Gross Costs with the Public	24,407	12,951	69	-	37,427
Earned Revenues	-	-	-	-	-
Net Costs with the Public	24,407	12,951	69	-	37,427
Net Program Costs Other (Including indirect costs)	**$ 24,517**	**$ 13,011**	**$ 69**	**$ -**	**$ 37,597**
Public and Indian Housing Loans and Grants (PIH)					
Intragovernmental Gross Costs	$ 19	$ -	$ -	$ -	$ 19
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	19	-	-	-	19
Gross Costs with the Public	2,699	-	-	-	2,699
Earned Revenues	-	-	-	-	-
Net Costs with the Public	2,699	-	-	-	2,699
Net Program Costs Other (Including indirect costs)	**$ 2,718**	**$ -**	**$ -**	**$ -**	**$ 2,718**
Homeless Assistance Grants					
Intragovernmental Gross Costs	$ -	$ -	$ 29	$ -	$ 29
Intragovernmental Earned Revenues	-	-	(1)	-	(1)
Intragovernmental Net Costs	-	-	28	-	28
Gross Costs with the Public	-	-	2,530	-	2,530
Earned Revenues	$ -	$ -	$ -	$ -	$ -
Net Costs with the Public	-	-	2,530	-	2,530
Net Program Costs Other (Including indirect costs)	**$ -**	**$ -**	**$ 2,558**	**$ -**	**$ 2,558**
Housing for the Elderly and Disabled					
Intragovernmental Gross Costs	$ -	$ 5	$ -	$ -	$ 5
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	-	5	-	-	5
Gross Costs with the Public	-	999	-	-	999
Earned Revenues	-	(1)	-	(50)	(51)
Net Costs with the Public	-	998	-	(50)	948
Net Program Costs Other (Including indirect costs)	**$ -**	**$ 1,003**	**$ -**	**$ (50)**	**$ 953**
Community Development Block Grants (CDBG)					
Intragovernmental Gross Costs	$ -	$ -	$ 41	$ -	$ 41
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	-	-	41	-	41
Gross Costs with the Public	37	-	5,439	-	5,476
Earned Revenues	-	-	-	-	-
Net Costs with the Public	37	-	5,439	-	5,476
Net Program Costs Other (Including indirect costs)	**$ 37**	**$ -**	**$ 5,480**	**$ -**	**$ 5,517**
HOME					
Intragovernmental Gross Cost	$ -	$ -	$ 6	$ -	$ 6
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	-	-	6	-	6
Gross Costs with the Public	-	-	831	-	831
Earned Revenues	-	-	-	-	-
Net Costs with the Public	-	-	831	-	831

Net Costs of HUD's Cross-Cutting Programs					
(Dollars in Millions)	**2020**				
	Public & Indian Housing	**Housing**	**Community Planning & Development**	**Other**	**Consolidated**
Net Program Costs Other (Including indirect costs)	**$ -**	**$ -**	**$ 837**	**$ -**	**$ 837**
Other					
Intragovernmental Gross Costs	$ 84	$ 24	$ 50	$ 32	$ 190
Intragovernmental Earned Revenue	(6)	(1)	-	(2)	(9)
Intragovernmental Net Costs	78	23	50	30	181
Gross Costs with the Public	5,033	191	629	(102)	5,751
Earned Revenues	-	(18)	-	-	(18)
Net Costs with the Public	5,033	173	629	(102)	5,733
Net Program Costs Other (Including indirect costs)	**$ 5,111**	**$ 196**	**$ 679**	**$ (72)**	**$ 5,914**
Costs Not Assigned To Programs	104	50	64	-	218
Net Program Costs Other (Including indirect costs)	**$ 5,215**	**$ 246**	**$ 743**	**$ (72)**	**$ 6,132**
Eliminations					
Intragovernmental Gross Costs	$ -	$ -	$ -	$ -	$ -
Intragovernmental Earned Revenue	-	-	-	-	-
Intragovernmental Net Costs	-	-	-	-	-

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

Contractual Commitments

HUD has entered into extensive long-term obligations that consist of legally binding agreements to provide grants, subsidies, or loans. Obligations become liabilities when all actions required for payment under an agreement have occurred. The mechanism for funding subsidy obligations 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 obligations under authority granted by Congress in future years. However, estimated future obligations 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. As of September 30, 2020, HUD Proper does not have any contract authority available.

HUD's 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 Consolidated Balance Sheet is comprise funds with Treasury which are available to fund existing obligations 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, 2020, was $64 million. The offsetting collections for FHA's undelivered orders as of September 30, 2020 were $2,173 million. The offsetting collection for GNMA's undelivered orders as of September 30, 2020 was $2,115 million.

In FY 2020, HUD received additional appropriated disaster funding from the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) which was signed into law by President Trump on March 27, 2020, to provide aid and economic assistance to individuals, families and businesses across the nation impacted by COVID-19. As of September 30, 2020, HUD has unpaid undelivered orders in the amount of $4,101 million related to COVID-19. HUD also has paid undelivered orders in the amount of $793 million related to COVID-19. Finally, HUD has commitments in the amount of $3,537 million related to COVID-19. For additional information refer to Note (27) COVID-19 Activity.

The following table presents HUD's unpaid obligations and contractual commitments under its grant, subsidy, and loan programs as of September 30, 2020:

Undelivered Orders and Commitments under HUD's Grant, Subsidy, and Loan Programs			
(Dollars in Millions)	2020		
	Federal	Non-Federal	Total
Federal Housing Administration (FHA)	$ 11	$ 2,348	$ 2,359
Government National Mortgage Association (GNMA)	251	1,864	2,115
Section 8 Rental Assistance	1	9,154	9,155
Public and Indian Housing Loans and Grants (PIH)	-	6,951	6,951
Homeless Assistance Grants	-	4,388	4,388
Housing for the Elderly and Disabled	3	1,059	1,062
Community Development Block Grants (CDBG)	-	25,544	25,544
HOME	-	3,723	3,723
Section 235 & 236 Other	-	268	268
All Other	211	4,522	4,733
Total	**$ 477**	**$ 59,821**	**$ 60,298**

The following table presents HUD's paid obligations and contractual commitments under its grant, subsidy, and loan programs as of September 30, 2020:

Undelivered Orders and Commitments under HUD's Grant, Subsidy, and Loan Programs			
(Dollars in Millions)	2020		
	Federal	Non-Federal	Total
Federal Housing Administration (FHA)	$ -	$ -	$ -
Government National Mortgage Association (GNMA)	-	-	-
Section 8 Rental Assistance	1	972	973
Public and Indian Housing Loans and Grants (PIH)	-	207	207
Homeless Assistance Grants	-	-	-
Housing for the Elderly and Disabled	-	-	-
Community Development Block Grants (CDBG)	-	-	-
HOME	-	-	-
Section 235 & 236 Other	-	-	-
All Other	46	-	46
Total	**$ 47**	**$ 1,179**	**$ 1,226**

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 presents HUD's administrative commitments as of September 30, 2020:

Undelivered Orders and Commitments under HUD's Grant, Subsidy, and Loan Programs	
(Dollars in Millions)	**2020**
Federal Housing Administration (FHA)	$ -
Government National Mortgage Association (GNMA)	-
Section 8 Rental Assistance	53
Public and Indian Housing Loans and Grants (PIH)	12
Homeless Assistance Grants	2,495
Housing for the Elderly and Disabled	87
Community Development Block Grants (CDBG)	28,605
HOME	456
Section 235 & 236 Other	-
All Other	314
Total	**$ 32,022**

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.

In FY 2020, HUD received additional appropriated disaster funding from the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) which was signed into law by President Trump on March 27, 2020, to provide aid and economic assistance to individuals, families and businesses across the nation impacted by COVID-19. As of September 30, 2020, HUD has a total of $6,457 million in additional Category B direct obligations incurred related to the CARES Act. For additional information refer to Note (27) COVID-19 Activity.

HUD's categories of obligations incurred as of September 30, 2020:

Apportionment Categories of Obligations Incurred			
(Dollars in Millions)	2020		
	Category A	Category B	Total
Direct	$ 4,925	$ 103,987	$ 108,912
Reimbursable	-	3,770	3,770
Total	**$ 4,925**	**$ 107,757**	**$ 112,682**

Note 22: Explanation of Differences between the SBR and the Budget of the United States Government

The President's Budget containing actual FY 2020 data is not available for comparison to the SBR. Actual FY 2020 data will be available at a later date at https://www.whitehouse.gov/omb/budget/. For FY 2019, a reconciliation to compare HUD's SBR to the President's Budget of the U.S. was performed to identify any variances. The "Other" line represents rounding, timing, and other immaterial differences between HUD's Combined SBR and the Budget of the United States.

The table below displays the variances between HUD's Statement of Budgetary Resources to the Budget for the United States Government for FY 2019:

FY 2019 Reconciliation between Combined SBR and President's Budget				
(Dollars in Millions)				
	Budgetary Resources	New Obligations and Upward Adjustments	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	$ 235,138	$ 113,447	$ (2,565)	$ 54,716
Resources related to HUD's expired accounts not reported in the President's Budget	(905)			
Offsetting receipts not included in the President's Budget			263	
Other	3	3	1	5
Budget of the United States Government	$ 234,236	$ 113,450	$ (2,301)	$ 54,721

Note 23: Reconciliation of Net Cost to Net Outlays

FASAB issued *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.

Budgetary and financial accounting information differ. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash, as well as reporting the federal deficit. Financial accounting is intended to provide a picture of the government's financial operations and financial position, so it presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. The reconciliation of net outlays presented on a budgetary basis, and the net cost presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting.

In late FY 2020, the OMB Circular A-136 guidance changed the presentation of this reconciliation of net cost to net outlays from the prior year. Under the new guidance, agencies with loan receivables under the FCRA are required to exclude financing account activity. At the consolidated level, FHA and HUD Proper are excluding the financing account activity from all line items in the reconciliation. Whereas GNMA's financing account activity is included in the reconciliation because they do not follow FCRA. Due to the exclusion of financing funds from the reconciliation of net cost to net outlays, there is a discrepancy in the intragovernmental and public Net Operating Cost when compared to the RSI Statement of Net Cost. HUD's total net cost of operations on the Statement of Net Cost ties to this reconciliation's total net operating cost.

Components of Net Cost That Are Not Part of Net Outlays:

The unique nature of GNMA's business and accounting processes required to implement the Modified Credit Reform structure described in Note (1) Summary of Significant Accounting Policies requires that certain general ledger accounts are mapped differently than the suggested crosswalk published by Treasury. These differences are summarized below:

The Treasury crosswalk suggests mapping general ledger account "Interest Receivable – Investments" to the "Accounts Receivable" line. GNMA's includes the "Investments" line under "Increase (Decrease) in Assets." This is consistent with how GNMA presents its investments in the accompanying Balance Sheet and Note (5) Investments. The balance in this account pertains to interest receivable specifically attributable to GNMA investments.

GNMA's non-pooled loans are Non-Credit Reform loans, and therefore the activity related to those loans are included within the reconciling line items within the BAR, rather than omitted in lieu of reporting the subsidy cost, as is required for entities that apply FCRA reporting standards.

GNMA's general ledger accounts for "Foreclosed Property" and "Foreclosed Property – Allowance" and they are included in the "Loans Receivable" line under "Increase (Decrease) in Assets", consistent with how GNMA presents its "Other Non-Credit Reform Loans" on the accompanying Balance Sheet.

The Treasury crosswalk does not include suggested mapping for GNMA's Other Non-Credit Reform Loans general ledger accounts. For additional information refer to Note (8) Other Non-Credit Reform Loan. The Treasury crosswalk suggests mapping general ledger account "Other Assets" to the "Other Assets" line. GNMA includes account "Other Assets" in the "Loans Receivable" line under "Increase (Decrease) in Assets", this is consistent with how GNMA presents its "Other Non-Credit Reform Loans" on the accompanying Balance Sheet. GNMA uses account "Other Assets" to record its Properties Held for Sale. For additional information refer to Note (8) Other Non-Credit Reform Loans.

The Treasury crosswalk suggests mapping general ledger accounts "Gains on Disposition of Assets – Other" to the "Property, Plant, and Equipment disposal & reevaluation" line. GNMA includes the impact of all costs not part of net outlays which are present in the general ledger account in the "Loans Receivable" line under "Increase (Decrease) in Assets", consistent with how GNMA presents its "Other Non-Credit Reform Loans" on the accompanying Balance Sheet. GNMA uses account "Gains on Disposition of Assets – Other" to record gains and losses on disposal or liquidation of its Other Non-Credit Reform Loan assets. For additional information refer to Note (8) Other Non-Credit Reform Loans and Note (1) Significant Accounting Policies related to Other Non-Credit Reform Loans.

FHA's crosswalk also differs from the Treasury crosswalk. FHA reports interest receivable for investments as part of the "Investments" line item rather than "Accounts Receivable." This is consistent with how FHA presents investments in the accompanying Balance Sheet and Note (5) Investments. FHA also reports the subsidy payable to the financing account as part of "Accounts Payable" rather than as part of "Other Liabilities." This is consistent with how FHA presents accounts payable in the accompanying Balance Sheet. Under "Other Liabilities," FHA includes its liability for advances and prepayments to be consistent with how FHA presents other liabilities in the accompanying Balance Sheet and Note (15) Other Liabilities.

FHA previously based its Year-end credit reform subsidy re-estimates and Effect of prior year agencies credit reform subsidy re-estimates on activity in the financing accounts. Due to the change in OMB Circular A-136 that requires FCRA financing account activity to be excluded, FHA used activity in transfers out (in) without reimbursement related to the re-estimates to populate the Year-end credit reform subsidy re-estimates and Effect of prior year agencies credit reform subsidy re-estimates line items. Due to the change, FHA is classifying the Year-end credit reform subsidy re-estimates and Effect of prior year agencies credit reform subsidy re-estimates as intragovernmental rather than with the public. FHA's transfers out (in) without reimbursement are all intragovernmental in nature.

Components of Net Outlays that Are Not Part of Net Cost:

To determine the amount included in the "Acquisition of Capital Assets" line, GNMA computed the changes resulting from acquisition of assets in the proprietary property, plant, and equipment accounts. This was necessary as the suggested Treasury crosswalk requires the use of the memorandum account which is not used by GNMA. As part of GNMA's Modified Credit Reform accounting, GNMA maintains a non-FCRA financing account whose outlays are reported as "Disbursements, Net" on the SBR. An additional reconciling line item is included in the Reconciliation of Net Cost to Net Outlays to present the balance of outlays reported by GNMA's non-FCRA financing fund. The inclusion of this line item allows for the BAR to maintain the relationship between the Net Cost of Operations and Budgetary Net Outlays.

The Other line in HUD's reconciliation offsets the portion of activity under Other Liabilities that does not have an impact on budgetary resources. This includes FHA's GI/SRI downward re-estimates and negative subsidy, and an accrued liability to Treasury's General Fund, which is recorded as part of Other Liabilities. However, the GI/SRI downward re-estimate liability and the negative subsidy liability accrued at the end of the fiscal year are offset because they have no impact on budgetary resources until the next fiscal year when they are liquidated.

Other Temporary Timing Differences:

Other Temporary Timing Differences line captures HUD's general fund receipt accounts that are transferred to Treasury at fiscal year-end. This line also includes FHA's prior-year adjustment to cumulative results of operations due to its change in accounting principle.

Reconciliation of Net Cost to Net Outlays			
(Dollars in Millions)	2020		
	Intragovernmental	**With the Public**	**Total**
Net Operating Cost	$ (95)	$ 34,855	$ 34,760
Components of Net Operating Cost Not Part of the Budgetary Outlays			
Property, plant, and equipment depreciation	-	(29)	(29)
Property, plant, and equipment disposal & reevaluation	-	-	-
Unrealized valuation loss/(gain) on investment in GSE's	-	-	-
Year-end credit reform subsidy re-estimates	10,747	-	10,747
Other	1	-	1
Increase/(decrease) in assets:			
Accounts receivable	893	(203)	690
Loans receivable	-	(653)	(653)
Other assets	13	545	558
Investments	974	-	974
(Increase)/Decrease in Liabilities not affecting Budgetary Outlays:			
Accounts payable	(1,924)	(128)	(2,052)
Salaries and benefits	(3)	(9)	(12)
Insurance and guarantee program liabilities	-	(353)	(353)
Environmental and disposal liabilities	-	-	-
Other liabilities (Unfunded leave, unfunded FECA, actuarial FECA)	1,843	(39)	1,804
Other Financing Sources			
Federal employee retirement benefit costs paid by OPM and imputed to agency	(78)	-	(78)
Transfers out (in) without reimbursement	(13,718)	-	(13,718)
Other imputed finance	-	-	-
Non-FCRA Financing Fund Disbursements	(1,893)	1,795	(98)
Total Components of Net Operating Cost Not Part of the Budgetary Outlays	**$ (3,145)**	**$ 926**	**$ (2,219)**
Components of the Budgetary Outlays That Are Not Part of Net Operating Cost			
Effect of prior year agencies credit reform subsidy re-estimate	2,069	-	2,069
Acquisition of capital assets	-	47	47
Acquisition of inventory	-	-	-
Acquisition of other assets	-	-	-
Debt and equity securities	-	-	-
Other	2,919	(181)	2,738
Total Components of the Budgetary Outlays That Are Not Part of Net Operating Cost	**$ 4,988**	**$ (134)**	**$ 4,854**
Other Temporary Timing Differences	**(4,786)**	**581**	**(4,205)**
Total Other Temporary Timing Differences	**$ (4,786)**	**$ 581**	**$ (4,205)**
Net Outlays (Calculated Total)	**$ (3,038)**	**$ 36,228**	**$ 33,190**
Related Amounts on the Statement of Budgetary Resources			
Outlays, Net (Total) (discretionary and mandatory) (SBR 4190)			38,009
Distributed offsetting receipts (SBR 4200)			(4,819)
Outlays, Net (SBR 4210)			**$ 33,190**

Note 24: Exchange Revenue

Exchange Revenues or earned revenues arise when an entity provides goods and services to the public or another government entity for a price. The full amount of exchange revenue is reported on the SNC and are deducted from the gross cost of programs to determine the net program costs. HUD recognizes exchange revenue when earned in accordance with FASAB Standards.

The table below presents a breakdown of HUD earned revenues and summary information, presented in the Consolidated Statement of Net Cost as of September 30, 2020:

Exchange (Earned) Revenues							
(Dollars in Millions)	2020						
	Federal Housing Administration (FHA)	Government National Mortgage Association (GNMA)	Homeless Assistance Grants	Housing for the Elderly and Disabled	All Other	Eliminations	Total
Intragovernmental							
Interest Revenue from Deposits at US Treasury (Uninvested Funds)	$ (839)	$ -	$ -	$ -	$ (6)	$ -	$ (845)
Interest Revenue from Investments with US Treasury	(852)	(119)	-	-	-	-	(971)
Other Intragovernmental Revenue	-	-	(1)	-	(3)	1	(3)
Intragovernmental Earned Revenue:	**$ (1,691)**	**$ (119)**	**$ (1)**	**$ -**	**$ (9)**	**$ 1**	**$ (1,819)**
With the Public:							
Interest Revenue with the Public	(375)	(108)	-	(51)	(3)	-	(537)
GNMA Mortgage Backed Securities Guaranty Fees	-	(1,384)	-	-	-	-	(1,384)
Other Earned Revenues/Income with the Public	(40)	(192)	-	-	(15)	-	(247)
Earned Revenue with the Public:	**$ (415)**	**$ (1,684)**	**$ -**	**$ (51)**	**$ (18)**	**$ -**	**$ (2,168)**
Total Exchange (Earned) Revenue:	**$ (2,106)**	**$ (1,803)**	**$ (1)**	**$ (51)**	**$ (27)**	**$ 1**	**$ (3,987)**

FHA

FHA's Intragovernmental exchange revenue consists of interest revenue from deposits at the U.S. Treasury and from investments with the U.S. Treasury. Deposits at the U.S. Treasury are generated by post-Credit Reform loan guarantee activity in FHA's financing accounts, and FHA earns interest revenue on uninvested funds in the financing accounts. FHA also invests surplus resources in its MMI/CMHI capital reserve account in U.S. Treasury Securities and earns interest revenue on these investments.

FHA's exchange revenue with the public consists of interest revenue and other earned revenue and income. FHA's interest revenue with the public comes primarily from interest on uninvested funds for the FFB Risk Share program. FHA classifies interest revenue for the FFB Risk Share program as non-federal because of the nature of the program. Interest revenue with the public also includes interest on pre-Credit

Reform loan receivables. Other earned revenue and income consist of late charges, penalties, and premiums associated with pre-Credit Reform loan guarantees and revenue and gains from pre-Credit Reform notes and properties held and sold.

Insurance Premium Revenue

Under Credit Reform accounting, FHA's exchange revenue includes only premiums associated with the pre-1992 loan guarantee activity. Premiums for post-1991 guaranteed loans are included in the balance of the LLG. The FHA premium structure includes both up-front premiums and annual periodic premiums. The up-front premium and annual periodic premium rates for FY 2020 are reported below. However, the premiums received for post-1991 guaranteed loans are not reported under this note as part of exchange revenue.

Up-front Premiums

The up-front premium rates vary according to the mortgage type and the year of origination. The FHA up-front premium rates for loans committed in FY 2020 are as follows:

Exchange (Earned) Revenues	
	Upfront Premium Rates 10/1/2019 - 09/30/2020
Single Family	1.75%
Multifamily	0.25%, 0.50%, 0.65%, 0.80%, or 1.00%
HECM	2.00%

Annual Periodic Premiums

The periodic premium rate is used to calculate monthly or annual premiums. These rates also vary by mortgage type and program. The FHA annual periodic premium rates for loans committed in FY 2020 are as follows:

Exchange (Earned) Revenues	
	Annual Periodic Premium Rates 10/1/2019 - 09/30/2020
Single Family - Term > 15 years	0.80%, 0.85%, 1.00%, or 1.05%
Single Family - Term ≤ 15 years	0.45%, 0.70%, or 0.95%
Multifamily	0.45%, 0.57%, 0.65%, or 0.70%
HECM	0.50%

For Title I, the maximum insurance premium paid for guaranteed cases endorsed in years 1992 through 2001 is equal to 0.50 percent of the loan amount multiplied by the number of years of the loan term. The annual insurance premium for a Title I Property Improvement loan is 0.50 percent of the loan amount until the maximum insurance charge is paid. The annual insurance premium of a Title I Manufactured Housing loan is calculated in tiers by loan term until the maximum insurance charge is paid.

GNMA

GNMA's exchange revenues include interest revenues from investments with U.S. Treasury, GNMA interest income on non-credit reform mortgage loans receivable, GNMA MBS guarantee fees, and GNMA other fees and income including GNMA MBS commitment fees, Multiclass fees, and other earned revenues.

GNMA earns interest income on U.S. Government securities related to U.S. Treasury overnight certificates. Interest rates and pricing are established by U.S. Treasury in accordance with the Federal Investments Program guidelines.

GNMA also earns interest on mortgage loans held for investment at the contractual rate and records an allowance on accrued interest to the extent interest is uncollectible for conventional loans and not recovered for insured or guaranteed loans. GNMA guarantees the timely payment of principal and interest (P&I) on MBS backed by federally insured or guaranteed residential loans to its investors. In exchange for providing the guaranty, GNMA receives guaranty fees from the issuers on the UPB of the outstanding MBS in the non-defaulted issuer portfolio. These fees are received and recognized as revenue on a monthly basis over the contractual period that the guaranty is provided. Pricing of the guaranty fees is prescribed by 12.U.S.C. 1721 *Management and Liquidation Functions of Government National Mortgage Association*. Fees are calculated based on the prescribed pricing multiplied by outstanding UPB. For additional refer to Note (25) Insurance Programs.

In addition, GNMA earns other fees and income, including commitment fees received as issuers request commitment authority to issue GNMA MBS and one-time upfront fees related to the issuance of multiclass products, as well as various other MBS program fees. Pricing for other fees and income are based on guidance published by GNMA in the MBS Guide and are designed to provide appropriate compensation for the administrative costs and value of services provided by GNMA.

HUD Proper

HUD Proper's earned revenues include non-federal interest revenue from outstanding loans receivable in pre-1992 liquidating funds calculated based on contractual rates, intragovernmental interest revenue from uninvested funds deposited at the U.S. Treasury generated from post-1991 loan guarantees and direct loans in financing accounts calculated based on U.S. Treasury rates, Manufactured Housing Trust Fund fees authorized by the National Manufactured Housing Act of 1974 which is administered by the Office of Manufactured Housing Programs and immaterial intragovernmental earned revenues from other federal agencies.

Note 25: Insurance Programs

SFFAS No. 51: Insurance Programs, establishes accounting and reporting standards for insurance programs to ensure they are adequately defined and report consistent information about the liabilities for losses incurred and claimed as well as expected losses during the remaining coverage.

HUD Proper and FHA administers some direct loans and loan guarantee programs that meet the definition of insurance programs; however, they are excluded from this provision as noted in paragraph 6 of the standard.

GNMA's MBS program guarantees the timely payment of P&I on securities backed by pools of mortgage loans insured by FHA, PIH and Rural Housing Service, or guaranteed by the VA. GNMA's MBS Guaranty program is considered an exchange transaction insurance program other than life insurance under *SFFAS No. 51: Insurance Programs*. GNMA's principal risk associated with the MBS Guaranty program is default risk. When estimating defaults, prepayments and recovery, GNMA considers a few indicators including macro-economic factors such as interest rates, home price indices, and unemployment rates. In addition, GNMA considers several credit quality indicators such as LTV ratios, and delinquency status, GNMA also considers significant management judgment and estimates of credit losses inherent in the mortgage loan portfolio. As of September 30, 2020, the UPB of GNMA's MBS securities amounted to $2,117,699 million which represents the maximum potential exposure risk to the program. It should be noted, however, that GNMA's potential loss is considerably less due to the financial strength of its issuers. In addition, the value of the underlying collateral and the insurance provided by insuring or guaranteeing agencies indemnify GNMA for most losses.

In accordance with the requirements of *SFFAS No. 51*, GNMA is required to recognize and disclose Revenue and Liability for Unearned Premiums; Liability for Unpaid Insurance Claims; and Liability for Losses on Remaining Coverage for its MBS Guaranty program.

Revenue and Liability for Unearned Premiums

GNMA guarantees the timely payment of P&I on MBS issued by approved issuers. In exchange for providing the guaranty, GNMA receives guaranty fees from the issuers on the UPB of the outstanding MBS in the non-defaulted issuer portfolio. These fees are received and recognized as revenue on a monthly basis over the contractual period that the guaranty is provided. If necessary, a liability for unearned premiums is recognized in the amount of the premiums collected but not earned on a monthly basis in accordance with the requirements of *SFFAS No. 51: Insurance Programs* and *SFFAS No. 7: Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*. The monthly guaranty fees received are a result of GNMA "lending" its creditworthiness to the issuer to enhance the issuer's ability to borrow funds from investors.

Pricing of the guaranty fees is prescribed by *12.U.S.C. 1721 Management and Liquidation Functions of Government National Mortgage Association*, which provides for a fee of 6 basis points for Single Family

Programs, 30 basis points for Manufactured Housing Program, and 13 basis points for Multifamily Housing Programs.

GNMA had guaranty fee revenue of $1,384 million for the year ended September 30, 2020.
GNMA invests certain accumulated fees not required for current or expected operational needs in U.S. Treasury overnight certificates. For additional information refer to Note (5) Investments.

Liability for Unpaid Insurance Claims

GNMA defines the "adverse event" which triggers exercise of its guaranty primarily as default by the Single-Family MBS issuer, which can occur for inability or failure to make pass-through payments to MBS holders, or other violations of GNMA requirements. For Multifamily, the "adverse event" is trigged in the event of a loan default, pursuant to the Multifamily guaranty agreement. GNMA is responsible for missed pass-through payments; however, any such pass-through payments are made immediately when due by GNMA to satisfy the terms of the guaranty agreement and the expectations of MBS holders to receive timely payment. As a result, GNMA does not have any liability for unpaid insurance claims as of September 30, 2020.

Liability for Loss on Remaining Coverage

As of September 30, 2020, the liability for loss on remaining coverage was $1,324 million. The Loss on Remaining Coverage recognized and included in gross cost for the year ended September 30, 2020 was $353 million.

The overall increase in the Liability Loss on Remaining Coverage recognized and included in gross cost for the year ended September 30, 2020 of $353 million was primarily the result of a decrease in the guaranty asset (GA) balance of $357 million (credit) which combined with a decrease in the guaranty obligation (GO) balance of $41 million (debit) and a $37 million increase (credit) in the contingent liability for probable issuer defaults. The decrease of the GA was due primarily to changes in assumptions for the valuation model driven by the inclusion of COVID-19 impacts and resulting economic baseline scenarios impacting unemployment and interest rates, as well as existing portfolio pay downs which are increasing as a result of declining interest rates. These changes were partially offset by new MBS issuances. The decrease in the GO balance was primarily due to paydowns of existing MBS balances resulting in amortization of the liability, which was partially offset by new MBS issuances. The increase in contingent liability for probable issuer defaults was primarily related to expected losses on multifamily defaults.

The issuance of a guaranty under the MBS program obligates GNMA to stand ready to perform under the terms of the guaranty. GNMA's GA represents the net present value of expected collections of guaranty fees associated with outstanding GNMA guaranteed MBS and is determined through a modeling process maintained by the Office of Enterprise Risk. The corresponding GO represents the non-contingent liability for GNMA's obligation to perform under its guaranty.

The GO is derived based on the market price of the guaranty, which represents the fair compensation the market would require making such a guaranty and is amortized systematically over the term of the MBS based on the amount of outstanding UPB for underlying loans. GNMA also records a contingent liability when it is probable that an issuer will default and the amount of the loss or a range of loss can be reasonably estimated. The contingent liability is measured initially and in subsequent periods in accordance with *SFFAS No. 5: Accounting for Liabilities of the federal government – Contingencies*. Once it is determined that an issuer default is probable to occur, GNMA estimates the probable credit losses in the underlying loan portfolio to calculate the loss contingency. As of September 30, 2020, no GNMA issuer was considered probable of defaulting, and GNMA estimated potential losses up to $286 million related to reasonably possible losses in the event of issuer defaults. Amounts related to reasonably possible defaults are not recorded as a liability in the financial statements. As of September 30, 2020, the contingent liability related to pooled Multifamily loans probable of defaulting was $44 million which is included in the Liability Loss on Remaining Coverage. Determining a contingent liability requires considerable management judgment including the evaluation of the likelihood that future events will confirm the loss. When assessing whether it is probable that a default will occur, management takes into consideration various factors including the issuer's financial and operational vulnerability, a qualitative and quantitative corporate credit analysis, other evidence of potential default (e.g., known regulatory investigations or actions), interest rates, and general economic conditions.

In March 2020, The President of the United States proclaimed that the COVID-19 outbreak in the United States constitutes a national emergency. Liquidity issues arose as market conditions changed and borrowers affected by COVID-19 were offered widespread forbearance, including forbearance on loans purchased and securitized by GNMA. As GNMA issuers must continue to advance mortgage principal and interest payments for GNMA loans during the forbearance period, liquidity pressures on certain issuers may increase. In response to these potential liquidity concerns, GNMA has heightened its monitoring and review of the financial stability of issuers. For additional information on GNMA's PTAP program refer to Note (1) Significant Accounting Policies and Note (8) Other Non-Credit Reform Loans.

Note 26: Reclassification of Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position for FR Compilation Process

To prepare the Financial Report of the U.S. Government (FR), the Department of the Treasury requires agencies to submit an adjusted trial balance, which is a listing of amounts by U.S. Standard General Ledger account that appear in the financial statements. Treasury uses the trial balance information reported in the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) to develop a Reclassified Balance Sheet, Reclassified Statement of Net Cost, and a Reclassified Statement of Changes in Net Position for each agency, which are accessed using GTAS. Treasury eliminates all intragovernmental balances from the reclassified statements and aggregates lines with the same title to develop the FR statements. HUD's financial statements and HUD's reclassified statements prior to elimination of intragovernmental balances and prior to aggregation of repeated FR line items. A copy of the 2019 FR can be found here: https://www.fiscal.treasury.gov/reports-statements/ and a copy of the 2020 FR will be posted to this site as soon as it is released.

In late FY 2020, the most recent OMB Circular A-136 updated its regulatory guidance for this note disclosure. The updated guidance changed the presentation of this note by adding additional columns for the following: Dedicated Collections Combined, Dedicated Collections Eliminations, All Other Amounts (with Eliminations), and Eliminations between Dedicated and All Other.

The term "intragovernmental" is used in this note to refer to amounts that results from other components of the federal government. The term "non-federal" is used in this note to refer to federal government amounts that result from transactions with non-federal entities. These include transactions with individuals, businesses, non-profit entities, and State, local, and foreign governments.

The Net Position section of the Balance Sheet presented in HUD's accompanying Balance Sheet is shown before eliminations, or "Combined." This is consistent with HUD's presentation of a "Combining" Statement of Change in Net Position in the accompanying Balance Sheet. The Reclassified Balance Sheet from GTAS differs from HUD's accompanying Balance Sheet in that it elects to show two lines with no distinction between Cumulative Results of Operations and Unexpended Appropriations "Funds from Dedicated Collections" and "All Other Funds." Whereas HUD's accompanying Balance Sheet displays four lines with the distinction between "Funds from Dedicated Collections" and "All Other Funds."

Under the Reclassified Balance Sheet column of the reconciliation, HUD has a reclass entry between FHA's LLG and the GNMA allowance. The Reclassified Balance Sheet lines that were impacted by the manual adjustment are "Direct loan and loan guarantees receivables" and "Loan guarantee liabilities."

Reclassification of Balance Sheet to Line Items Used for the Government-wide Balance Sheet

FY 2020 U.S. Department of Housing and Urban Development SNC		Line Items Used to Prepare FY 2020 Government-wide SNC					
Financial Statement Line	**Amounts**	**Dedicated Collections Combined**	**Dedicated Collections Eliminations**	**All Other Amounts (with Eliminations)**	**Eliminations between Dedicated and All Other**	**Total**	**Reclassified Financial Statement Line**
ASSETS *Intragovernmental Assets*							**ASSETS** *Intragovernmental Assets*
Fund Balance with Treasury	$ 135,587	$ 17,654	-	$ 117,933		$ 15,587	Fund Balance with Treasury
Investments	77,770	8,524	-	68,924	-	77,448	Federal Investments
		-	-	322	-	322	Interest Receivable - Investments
Total Investments	*$ 77,770*	*$ 8,524*	-	*$ 69,246*	-	*$ 77,770*	*Total Reclassified Investments*
Accounts Receivable, Net	-	-	-	-	-	-	Accounts Receivable, Capital Transfers
		-	-	-	-	-	Benefit Program Contributions Receivable
		1	-	-	(1)	-	Accounts Receivable, Net
		-	-	-	-	-	Transfers Receivable
Total Accounts Receivable, Net	-	$ 1	-	-	$ (1)	-	Total Reclassified Accounts Receivable
	-	-	-	-	-	-	Interest Receivable - Loans and Not Otherwise Classified
		-	-	-	-	-	Loans Receivable
Loans Receivable		-	-	-	-	-	*Total Reclassified Loans Receivable*
	46	-	-	46	-	46	Advances to Others and Prepayments
Other Assets		-	-	-	-	-	Other Assets
Total Other Assets	*$ 46*	-	-	*$ 46*	-	*$ 46*	*Total Reclassified Other*
Total Intragovernmental Assets	**$ 213,403**	**$ 26,179**	**-**	**$ 187,225**	**$ (1)**	**$ 213,403**	**Total Intragovernmental Assets**
Cash and Other Monetary Assets	$ 69	$ 36	-	$ 33	-	$ 69	Cash and Other Monetary Assets
	-	-	-	-	-	-	Securities and Investments
Investments		-	-	-	-	-	Investments in Government-Sponsored Enterprises
Accounts Receivable, Net	1,064	169	-	895	-	1,064	Accounts Receivable, Net
Taxes Receivable, Net	-						
Direct Loan and Loan Guarantees Other Non-Credit Reform Loans	44,278 2,062	2,469	-	43,990	(119)	46,340	Direct Loan and Loan Guarantees Receivable, Net
Inventory and Related Property, Net	-	-	-	-	-	-	Inventory and Related Property, Net

Reclassification of Balance Sheet to Line Items Used for the Government-wide Balance Sheet							
FY 2020 U.S. Department of Housing and Urban Development SNC		Line Items Used to Prepare FY 2020 Government-wide SNC					
Financial Statement Line	**Amounts**	**Dedicated Collections Combined**	**Dedicated Collections Eliminations**	**All Other Amounts (with Eliminations)**	**Eliminations between Dedicated and All Other**	**Total**	**Reclassified Financial Statement Line**
General Property, Plant, and Equipment, Net	137	67	-	70	-	137	General Property, Plant, & Equipment, Net
PIH Prepayments and Advances	385						
PIH Prepayments - CARES Act	793						
Other Assets	-	-	-	1,178	-	1,178	Other Assets
Total Assets	**$ 262,191**	**$ 28,920**	**-**	**$ 233,391**	**$ (120)**	**$ 262,191**	**Total Assets**
LIABILITIES							**LIABILITIES**
Intragovernmental Liabilities							**Intragovernmental Liabilities**
Accounts Payable	68						
		-	-	$ 23	-	$ 23	Benefit Program Contributions Payable
		36	-	45	(1)	80	Accounts Payable
		-	-	-	-	-	Transfers Payable
Total Accounts Payable	$ 68	$ 36	-	$ 68	$ (1)	$ 103	*Total Reclassified Accounts Payable*
Debt	$ 54,222						
		-	-	-	-	-	Federal Debt
		-	-	-	-	-	Interest Payable, Debt
		-	-	-	-	-	Total Reclassified Federal Debt and Interest Payable
		-	-	6	-	6	Interest Payable - Loans and Not Otherwise Classified
		-	-	54,216	-	54,216	Loans Payable
		-	-	*54,222*	-	*54,222*	*Total Reclassified Debt Associated with Loans*
Other Liabilities	1,690						
		-	-	6	-	6	Advances from Others and Deferred Credits
		-	-	3	-	3	Other Liabilities (Without Reciprocals)
		-	-	1,646	-	1,646	Liabilities to the General Fund of the U.S. Government for Custodial and Other Non-Entity Assets
Total Other - Miscellaneous Liabilities	*$ 1,690*	-	-	*$ 1,655*	-	*$ 1,655*	*Total Reclassified Other - Miscellaneous Liabilities*
Total Intragovernmental Liabilities	**$ 55,980**	**$ 36**	**-**	**$ 55,945**	**$ (1)**	**$ 55,980**	**Total Intragovernmental Liabilities**
Accounts Payable	$ 1,334	$ 36	-	$ 1,298	-	$ 1,334	Accounts Payable
Debt Held by the Public	2	-	-	2	-	2	Federal Debt And Interest Payable
Loan Guarantee Liability	(6,165)	-	-	(6,046)	(119)	(6,165)	Loan Guarantee Liability
Federal Employee and Veteran Benefits	66	3	-	163	-	166	Federal Employee and Veteran Benefits Payable

Reclassification of Balance Sheet to Line Items Used for the Government-wide Balance Sheet							
FY 2020 U.S. Department of Housing and Urban Development SNC		Line Items Used to Prepare FY 2020 Government-wide SNC					
Financial Statement Line	Amounts	Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Eliminations between Dedicated and All Other	Total	Reclassified Financial Statement Line
Environmental and Disposal Liabilities	-	-	-	-	-	-	Environmental and Disposal Liabilities
Benefits Due and Payable	-	-	-	-	-	-	Benefits Due and Payable
Other Liabilities	1,180	537	-	2,078	-	2,615	Other Liabilities
Accrued Grant Liabilities	1,535						
Loss Reserves	-						
Insurance and Guarantee Program Liabilities	1,324	1,324	-	-	-	1,324	Insurance and Guarantee Program Liabilities
Total Liabilities	**$ 55,256**	**$ 1,936**	**-**	**$ 53,440**	**$ (120)**	**$ 55,256**	**Total Liabilities**
Commitments and Contingencies							
NET POSITION							**NET POSITION**
Unexpended Appropriations - Funds from Dedicated Collections	$ -	-	-	$ -	$ -	$ -	Unexpended Appropriations - Funds from Dedicated Collections
Unexpended Appropriations - All Other Funds	97,993			97,993	-	97,993	Unexpended Appropriations - All Other Funds
Cumulative Results of Operations - Funds From Dedicated Collections	26,984	26,984			7	26,991	Cumulative Results of Operations - Funds From Dedicated Collections
Cumulative Results of Operations - All Other Funds	81,958			81,958	(7)	81,951	Cumulative Results of Operations - All Other Funds
Total Net Position	**$ 206,935**	**$ 26,984**	**-**	**$ 179,951**	**-**	**$ 206,935**	**Total Net Position**
Total Liabilities and Net Position	**$ 262,191**	**$ 28,920**	**-**	**$ 233,391**	**$ (120)**	**$ 262,191**	**Total Liabilities & Net Position**

Reclassification of Statement of Net Cost to Line Items Used for the Government-wide Statement of Net Cost							
FY 2020 U.S. Department of Housing and Urban Development SNC		Line Items Used to Prepare FY 2020 Government-wide SNC					
Financial Statement Line	**Amounts**	**Dedicated Collections Combined**	**Dedicated Collections Eliminations**	**All Other Amounts (with Eliminations)**	**Eliminations between Dedicated and All Other**	**Amounts**	**Reclassified Financial Statement Line**
Gross Costs	$ 38,747						**Non-Federal Costs**
		$ 502	$ -	$ 35,305	$ -	$ 35,807	Non-Federal Gross Cost
		-	-	-	-	-	Interest on Debt Held by the Public
		2	-	-	-	2	General Property Plant and Equipment (PP&E) Partial Impairment Loss
		$ 504	**$ -**	**$ 35,305**	**$ -**	**$ 35,809**	**Total Non-Federal Costs**
							Intragovernmental Costs
		5	-	210	-	215	Benefit Program Costs
		1	-	77	-	78	Imputed Costs
		182	-	342	(1)	523	Buy/Sell Costs
		-	-	5	-	5	Purchase of Assets
		-	-	-	-	-	Federal Securities Interest Expense
		-	-	2,059	-	2,059	Borrowing and Other Interest Expense
		-	-	-	-	-	Borrowing Losses
		1	-	62	-	63	Other Expenses (w/o Reciprocals)
		-	-	(5)	-	(5)	Purchase of Assets Offset
		$ 189	**$ -**	**$ 2,750**	**$ (1)**	**$ 2,938**	**Total Intragovernmental Costs**
Total Gross Costs	**$ 38,747**	**$ 693**	**$ -**	**$ 38,055**	**$ (1)**	**$ 38,747**	**Total Reclassified Gross Costs**
Earned Revenue	$ (3,987)	$ (1,702)	$ -	$ (466)	$ -	$ (2,168)	Non-Federal Earned Revenue
							Intragovernmental Revenue
		$ -	$ -	$ (4)	$ 1	$ (3)	Buy/Sell Revenue
		-	-	-	-	-	Benefit Program Revenue
		(119)	-	(852)	-	(971)	Federal Securities Interest Revenue Including Associated Gains/Losses (Exchange)
		-	-	(845)	-	(845)	Borrowing and Other Interest Revenue
		-	-	-	-	-	Borrowing Gains
	-	**$ (119)**	**$ -**	**$ (1,701)**	**$ 1**	**$ (1,819)**	**Total Intragovernmental Earned Revenue**
Total Earned Revenue	**$ (3,987)**	**$ (1,821)**	**$ -**	**$ (2,167)**	**$ 1**	**$ (3,987)**	**Total Reclassified Earned Revenue**
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	-	-	-	-	-	-	Gains/Losses from Changes in Actuarial Assumptions
Total Net Cost of Operations	**$ 34,760**	**$ (1,128)**	**$ -**	**$ 35,888**	**$ -**	**$ 34,760**	**Total Net Cost of Operations**

Reclassification of Statement of Changes in Net Position to Line Items Used for Government-wide Statement of Operations and Changes in Net Position							
FY 2020 U.S. Department of Housing and Urban Development SNC			Line Items Used to Prepare FY 2020 Government-wide SNC				
Financial Statement Line	**Amounts**	**Dedicated Collections Combined**	**Dedicated Collections Eliminations**	**All Other Amounts (with Eliminations)**	**Eliminations between Dedicated and All Other**	**Amounts**	**Reclassified Financial Statement Line**
UNEXPENDED APPROPRIATIONS							
Unexpended Appropriations, Beginning Balance	$ 86,250	-	-	$ 86,250	-	$ 86,250	Net Position, Beginning of Period
Changes in Accounting Principles	-	-	-	-	-	-	Changes in Accounting Principles - Federal
		-	-	-	-	-	Changes in Accounting Principles - Non-Federal
	-	-	-	-	-	-	Corrections of Errors - Federal
Corrections of Errors		-	-	-	-	-	Corrections of Errors - Non-Federal
		-	-	-	-	-	Corrections of Errors – Years Preceding the Prior Year - Federal
		-	-	-	-	-	Corrections of Errors – Years Preceding the Prior Year - Non-Federal
Total Corrections of Errors	-	-	-	-	-	-	*Total Reclassified Corrections of Errors*
Appropriations Received	69,844	-	-	69,525	-	69,525	Appropriations Received as Adjusted
Other Adjustments	(319)						
Appropriations Transferred-in/out	-	-	-	-	-	-	Non-Expenditure Transfers-In of Unexpended Appropriations and Financing Sources (Federal)
		-	-	-	-	-	Non-Expenditure Transfers-Out of Unexpended Appropriations and Financing Sources (Federal)
Total Appropriations Transferred-in/out	-	-	-	-	-	-	*Total Reclassified Appropriations Transferred-in/out*
Appropriations Used	(57,782)	-	-	(57,782)	-	(57,782)	Appropriations Used (Federal)
Total Unexpended Appropriations	**$ 97,993**	**-**	**-**	**$ 97,993**	**-**	**$ 97,993**	
CUMULATIVE RESULTS OF OPERATIONS							
Cumulative Results, Beginning Balance	$ 88,273	$ 25,859	-	$ 62,414	-	$ 88,273	Net Position, Beginning of Period
Changes in Accounting Principles	320	-	-	-	-	-	Changes in Accounting Principles - Federal
		-	-	320	-	320	Changes in Accounting Principles - Non-Federal
	(9)	-	-	-	-	-	Corrections of Errors - Federal
Correction of Errors		-	-	(9)	-	(9)	Corrections of Errors - Non-Federal
		-	-	-	-	-	Corrections of Errors – Years Preceding the Prior Year - Federal
		-	-	-	-	-	Corrections of Errors – Years Preceding the Prior Year - Non-Federal
Other Adjustments	(1)	(1)	-	-	-	(1)	Other Budgetary Financing Sources
	10						**Non-Federal Nonexchange Revenues**
		-	-	-	-	-	Individual Income Tax and Tax Withholdings
		-	-	-	-	-	Corporation Income Taxes
		-	-	-	-	-	Excise Taxes
		-	-	-	-	-	Unemployment Taxes
		-	-	-	-	-	Customs Duties
		-	-	-	-	-	Estate and Gift Taxes
Nonexchange Revenues		3	-	7	-	10	Other Taxes and Receipts
		$ 3	**-**	***$ 7***	**-**	***$ 10***	***Total Non-Federal Nonexchange Revenues***
							Intragovernmental Nonexchange Revenue
		-	-	-	-	-	Federal Securities Interest Revenue, including Associated Gains/Losses (Nonexchange)
		-	-	-	-	-	Borrowings and Other Interest Revenue (Nonexchange)
		-	-	-	-	-	Benefit Program Revenue (Nonexchange)
		-	-	-	-	-	Accruals for Agency Amounts to be Collected in a TAS Other than the General Fund
		-	-	-	-	-	Other Taxes and Receipts

Reclassification of Statement of Changes in Net Position to Line Items Used for Government-wide Statement of Operations and Changes in Net Position							
FY 2020 U.S. Department of Housing and Urban Development SNC		**Line Items Used to Prepare FY 2020 Government-wide SNC**					
Financial Statement Line	**Amounts**	**Dedicated Collections Combined**	**Dedicated Collections Eliminations**	**All Other Amounts (with Eliminations)**	**Eliminations between Dedicated and All Other**	**Amounts**	**Reclassified Financial Statement Line**
		-	-	-	-	-	***Total Intragovernmental Nonexchange Revenues***
Total Nonexchange Revenues	*$ 10*	*$ 3*	-	*$ 7*	-	*$ 10*	*Total Reclassified Nonexchange Revenues*
Donations and Forfeitures of Property	-	-	-	-	-	-	Other Taxes and Receipts (Non-Federal) - Donations and Forfeitures of Property
	$ (3)	$ 13	$ (13)	-	-	-	Appropriation of Unavailable Special/Trust Fund Receipts Transfers-In
		(13)	13	-	-	-	Appropriation of Unavailable Special/Trust Fund Receipts Transfers-Out
		8,380	(8,380)	-	-	-	Non-Expenditure Transfers-In of Unexpended Appropriations and Financing Sources
		(8,380)	8,380	-	-	-	Non-Expenditure Transfers-Out of Unexpended Appropriations and Financing Sources
		-	-	-	-	-	Expenditure Transfers-In of Financing Sources
Transfers-in/out without Reimbursement - Budgetary		-	-	(3)	-	(3)	Expenditure Transfers-Out of Financing Sources
		-	-	-	-	-	Non-expenditure transfer-in of financing sources - capital transfers
		-	-	-	-	-	Non-expenditure transfer-out of financing sources - capital transfers
		2,749	(2,749)	-	-	-	Transfers-In without Reimbursement
		(2,749)	2,749	-	-	-	Transfers-Out without Reimbursement
		-	-	-	-	-	Other Non-Budgetary Financing Sources
		-	-	(3)	-	(3)	Total Reclassified Transfers-In/Out without Reimbursement - Budgetary (Federal)
Total Transfers-In/Out without Reimbursement - Budgetary	$ (3)	-	-	$ (3)	-	$ (3)	*Total Reclassified Transfers-In/Out without Reimbursement - Budgetary*
	$ (2,748)						***Non-Federal Non-exchange Revenues Other***
		-	-	$ 171	-	$ 171	Other Taxes and Receipts
		-	-	-	-	-	Miscellaneous Earned Revenues
		-	**-**	**$ 171**	**-**	**$ 171**	***Total Non-Federal Non-exchange Revenues Other***
							Intragovernmental Other
		-	-	-	-	-	Miscellaneous Earned Revenues
		-	-	-	-	-	Federal Securities Interest Revenue including Associated Gains/Losses (Nonexchange)
Other		(6)	-	6	-	-	Borrowing and Other Interest Revenue (Nonexchange)
		-	-	-	-	-	Accrual of Collections Yet to be Transferred to a TAS Other than the General Fund
		-	-	(4,785)	-	(4,785)	Non-entity collections transferred to the General Fund
		-	-	1,866	-	1,866	Accrual for non-entity amounts to be collected and transferred to the General Fund
		-	-	-	-	-	Other Budgetary Financing Sources
		-	-	-	-	-	Other Taxes and Receipts
		$ (6)	**-**	**$ (2,913)**	**-**	**$ (2,919)**	***Total Intragovernmental Other***
Total Other	$ (2,748)	$ (6)	-	$ (2,742)	-	$ (2,748)	*Total Reclassified Other*
Donations and Forfeitures of Cash and Cash Equivalents	-	-	-	-	-	-	Other Taxes and Receipts (Non-Federal) - Donations and Forfeitures of Cash and Cash Equivalents
Imputed Financing	78	1	-	77	-	78	Imputed Financing Sources (Federal)
Appropriations Used	57,782	-	-	57,782	-	57,782	Appropriations Used
Total Financing Sources	**$ 55,118**						
Net Cost of Operations	**$ (34,760)**	**$ 1,128**	**-**	**$ (35,888)**	**-**	**$ (34,760)**	**Net Cost of Operations**
Ending Balance - Cumulative Results of Operations	**$ 108,942**	**$ 26,984**	**-**	**$ 81,958**	**-**	**$ 108,942**	**Net Position - Ending Balance**
Total Net Position	**$ 206,935**	**$ 26,984**	**-**	**$ 179,951**	**-**	**$ 206,935**	**Total Net Position**

Note 27: COVID-19 Activity

On March 11, 2020, a novel strain of the Coronavirus, also known as COVID-19, was declared a pandemic by the World Health Organization. As a result, a national emergency was declared in the United States concerning the COVID-19 outbreak on March 13, 2020.

In response to the pandemic, the United States Congress passed a series of Bills including the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) which was signed into law by President Trump on March 27, 2020, to provide aid and economic assistance to individuals, families and businesses across the nation impacted by COVID-19.

HUD was appropriated CARES Act funding, under Public Law 116-136, in the amount of $12,423 million to prevent, prepare for, and respond to Coronavirus, including to provide additional funds to maintain normal operations and cover other necessary authorized activities during the period that the programs are impacted by the Coronavirus. The following programs throughout HUD received funding: (1) Community Planning and Development (CPD) Programs $9,075 million – Community Development Fund, Homeless Assistance Grants and Housing Opportunities for People with AIDS; (2) Public Indian Housing (PIH) Programs $2,240 million – Tenant-Based Rental Assistance, Public Housing Operating Fund, and Native American Program; (3) Housing $1,065 million – Project-Based Rental Assistance, Housing for the Elderly and Housing for Persons with Disabilities; (4) Fair Housing and Equal Opportunity (FHEO) Program $3 million – Fair Housing Activities; (5) Management and Administration $35 million – Administrative Support Offices and Program Offices; and (6) Office of Inspector General $5 million. HUD's table below displays the budgetary resources obligated and unobligated, the programs that received funding, FBWT, and net outlays.

As of September 30, 2020, the CARES Act funding increased the following in HUD's financial statements and notes: Total Assets by $10,869 million, Total Liabilities by $8 million, Net Position by $10,860 million, and Total Gross Costs by $1,562 million.

The table below displays the status of the CARES Act Funding as of September 30, 2020:

COVID-19 Activity						
(Dollars in Millions)	2020					
	Appropriated	Unobligated Available	Unobligated Unavailable	Obligated Balance not yet Disbursed	Fund Balance with Treasury	Outlays, net (total)
HUD Programs						
Section 8 Rental Assistance						
Housing - Project Based	$ 1,000	$ 178	$ -	$ 10	$ 188	$ 812
PIH - Tenant Based	1,250	156	-	17	173	1,077
PIH						
Native American Housing Block Grant	300	5	-	254	259	41
Homeless Assistance Grants	4,000	2,288	-	1,697	3,985	15
Housing for the Elderly and Disabled						
Elderly	50	31	-	3	34	16
Disabled	15	10	-	1	11	4
CDBG	5,000	3,237	-	1,697	4,934	66
Other						
CPD - HOPWA	65	16	-	48	64	1
FHEO	3	1	-	1	2	1
PIH Operating Fund	685	-	-	373	373	312
Management and Administration (S&E)	35	25	-	9	34	1
Office of the Inspector General (S&E)	5	4	-	-	4	1
HUD Program Offices (S&E)	15	15	-	-	15	-
Total	**$ 12,423**	**$ 5,966**	**$ -**	**$ 4,110**	**$ 10,076**	**$ 2,347**

Section 4013 of the CARES Act also provides financial institutions the option to temporarily suspend the accounting and reporting requirements for TDRs for loan modifications provided they are: 1) related to the COVID-19 pandemic, 2) the modification occurs between March 1, 2020 through the earlier of December 31, 2020 or 60 days after the date on which the COVID-19 outbreak national emergency terminates, and 3) the loan was not more than 30 days delinquent as of December 31, 2019. The scope of this Section applies to forbearance agreements, repayment plans, interest rate modification, and any similar arrangement that defer or delays the payment of principal or interest.

In April 2020, the Board of Governors of the Federal Reserve, Federal Deposit Insurance Corporation, National Credit Union Administration, Office of the Comptroller of the Currency, and Consumer Financial Protection Bureau, in consultation with state financial regulators, issued a revision to the Interagency Statement on Loan Modifications by Financial Institutions Working with Customers Affected by the Coronavirus ("Interagency Statement"), which was confirmed with the staff of the Financial Accounting Standards Board. The Interagency Statement encourages financial institutions to work constructively with borrowers impacted by COVID-19, provides additional information over loan modifications, and clarifies interactions between the interagency statement and related relief provided by the CARES Act. The Interagency Statement allows for an entity to either choose to account for an eligible loan modification under Section 4013 of the CARES Act or in accordance with the Interagency Statement's interpretation of existing GAAP (ASC 310-40) in the context of COVID-19. Loan modifications eligible for relief under the Interagency Statement meet all of the following criteria: 1) related to the COVID-19 pandemic, 2) the loan was not more than 30 days delinquent as of the date of modification program implementation, and 3) the modification is short term in nature (e.g. six months). GNMA has elected to account for modifications in accordance with the guidance outlined within the Interagency Statement.

As described in more detail in Note (8) Other Non-Credit Reform Loans, GNMA has revised and expanded the issuer assistance programs in Chapter 34 of the MBS Guide to create a new PTAP in response to issuer liquidity impacts which have resulted from the economic disruption of COVID-19 and the forbearance programs described above.

As described in detail in Note (13) Debt, GNMA executed a borrowing agreement with Treasury on April 7, 2020 to support the PTAP program which provided GNMA borrowing authority of up to $8,700 million. In connection with the borrowing agreement memorandum of understanding, GNMA also agreed with Treasury to transfer $3,000 million into the PTAP fund from its Capital Reserve fund.
In addition, there are other HUD notes that discuss the COVID-19 impacts. These notes are as follows: Note(1) Summary of Significant Accounting , Note (3) FBWT, Note, Note (8) Other Non-Credit Reform Loans, Note (10) PIH Prepayment-CARES Act, Note (13) Debt, Note (19) Net Costs of HUD's Cross-Cutting Programs, Note (20) Undelivered Orders and Commitments under HUD's Grant, Subsidy, and Loan Programs, Note (21) Apportionment Categories of Obligations Incurred, and Note (25) Insurance Programs.

Note 28: Net Adjustments to Unobligated Balance Brought Forward, October 1:

During the year ended September 30, 2020, HUD made certain adjustments to the balances of unobligated budgetary resources available as of October 1, 2019. These adjustments include downward adjustments to undelivered and delivered orders that were obligated in a prior fiscal year as well as other adjustments.

The table below presents the adjustments to the unobligated balance, brought forward October 1 for September 30, 2020 are as follows:

Net Adjustments to Unobligated Balance, Brought Forward October 1	
(Dollars in Millions)	**2020**
Net Adjustments to Unobligated Balance, Brought Forward October 1	
Prior Year Ending Unobligated Balance	$ 121,691
	-
Adjustments to Budgetary Resources Made During Current Year	
Downward Adjustments of Prior Year Undelivered Orders	1,094
Downward Adjustments of Prior Year Delivered Orders	118
Other Adjustments	(577)
Net Adjustments to Unobligated Balance Brought Forward, October 1	**$ 635**
Unobligated Balance from Prior Year (Discretionary and Mandatory)	**$ 122,326**

HUD's other adjustments line primarily consists of actual capital transfers to the General Fund of the U.S. Government of prior year balances ($306) million, cancelled authority ($196) million, undelivered order prior year adjustments ($58) million, partial or early cancellation of authority ($13) million, actual repayment of debt of prior year balances ($6) million, transfers from prior year balances of $4 million, and borrowing authority withdrawn ($2) million.

U.S. Department of Housing and Urban Development
Combining Statement of Budgetary Resources
For the Year Ended September 30, 2020
(Dollars in Millions)

(Dollars in Millions)	2020														
	Federal Housing Administration (FHA)	Government National Mortgage Association (GNMA)	Section 8 Rental Assistance	Public and Indian Housing Loans and Grants (PIH)	Homeless Assistance Grants	Housing for the Elderly and Disabled	Community Development Block Grants (CDBG)	HOME	All Other	Budgetary Total	Federal Housing Administration Non-Budgetary	Government National Mortgage Association 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	$ 50,965	$ 12,840	$ 1,218	$ 340	$ 3,359	$ 462	$ 31,699	$ 267	$ 1,740	$ 102,890	$ 10,834	$ 8,416	$ 186	$ 19,436	$122,326
Appropriations (discretionary and mandatory)	947	-	38,782	3,961	6,777	1,060	8,425	1,350	8,767	70,069	-	-	-	-	70,069
Borrowing Authority (discretionary and mandatory)	-	8,700	-	-	-	-	-	-	-	8,700	23,436	-	13	23,449	32,149
Spending Authority from Offsetting Collections	19,439	2,483	-	-	-	185	-	-	83	22,190	20,801	2,335	48	23,184	45,374
Total Budgetary Resources	**$ 71,351**	**$ 24,023**	**$ 40,000**	**$ 4,301**	**$ 10,136**	**$ 1,707**	**$ 40,124**	**$ 1,617**	**$ 10,590**	**$ 203,849**	**$ 55,071**	**$ 10,751**	**$ 247**	**$ 66,069**	**$269,918**
Status of Budgetary Resources:															
New Obligations and Upward Adjustments (Total) (Note 21)	$ 2,169	$ 864	$ 38,686	$ 4,024	$ 4,231	$ 951	$ 9,188	$ 1,133	$ 8,065	$ 69,311	$ 40,410	$ 2,892	$ 69	$ 43,371	$112,682
Unobligated Balance, End of Year:															
Apportioned, Unexpired Accounts	96	11,860	1,205	257	5,119	564	30,904	458	1,673	52,136	2,576	7,432	41	10,049	62,185
Unapportioned, Unexpired Accounts	69,021	11,298	109	5	111	177	30	1	746	81,498	12,085	427	137	12,649	94,147
Unexpired Unobligated Balance, End of Year	$ 69,117	$ 23,158	$ 1,314	$ 262	$ 5,230	$ 741	$ 30,934	$ 459	$ 2,419	$ 133,634	$ 14,661	$ 7,859	$ 178	$ 22,698	$156,332
Expired Unobligated Balance, End of Year	65	1	-	15	675	15	2	25	106	904	-	-	-	-	904
Unobligated Balance, End of Year (Total)	69,182	23,159	1,314	277	5,905	756	30,936	484	2,525	134,538	14,661	7,859	178	22,698	157,236
Total Budgetary Resources	**$ 71,351**	**$ 24,023**	**$ 40,000**	**$ 4,301**	**$ 10,136**	**$ 1,707**	**$ 40,124**	**$ 1,617**	**$ 10,590**	**$ 203,849**	**$ 55,071**	**$ 10,751**	**$ 247**	**$ 66,069**	**$269,918**
Outlays, Net:															
Outlays, Net (Total) (discretionary and mandatory)	(17,040)	(1,956)	37,657	2,846	2,212	780	5,235	827	7,448	38,009	-	-	-	-	38,009
Distributed Offsetting Receipts (-)	(4,416)	-	-	-	-	-	-	-	(403)	(4,819)	-	-	-	-	(4,819)
Agency Outlays, Net (discretionary and mandatory)	**$ (21,456)**	**$ (1,956)**	**$ 37,657**	**$ 2,846**	**$ 2,212**	**$ 780**	**$ 5,235**	**$ 827**	**$ 7,045**	**$ 33,190**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 33,190**
Disbursements, Net (Total) (mandatory)	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 17,763**	**$ 98**	**$ 17**	**$ 17,878**	**$ 17,878**

The accompanying notes are an integral part of these statements.