**OFFICE OF AUDIT**
**FINANCIAL AUDITS DIVISION**
**WASHINGTON, DC**

# Federal Housing Administration Fiscal Years 2012 and 2011 Financial Statement Audit

**2013-FO-0002** **NOVEMBER 9, 2012**

Issue Date: November 9, 2012

Audit Report Number: 2013-FO-0002

TO: Carol Galante, Acting Assistant Secretary for Housing – FHA Commissioner, H

/s/

FROM: Thomas R. McEnanly, Director, Financial Audit Division, GAF

SUBJECT: Audit of the Federal Housing Administration's Financial Statements for Fiscal Years 2012 and 2011

In accordance with the Government Corporation Control Act as amended (31 U.S.C. 9105), the Office of Inspector General engaged the independent certified public accounting firms of CliftonLarsonAllen LLP (CLA) to audit the fiscal year 2012 and Clifton Gunderson LLP[1] to audit the fiscal year 2011 financial statements of the Federal Housing Administration (FHA). The contracts required that the audit be performed according to Generally Accepted Government Auditing Standards (GAGAS).

In connection with the contract, we reviewed CLA's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with U.S. GAGAS, was not intended to enable us to express, and we do not express, opinions on FHA's financial statements or internal controls or conclusions on compliance with laws and regulations. CLA is responsible for the attached Independent Auditor's Report dated November 9, 2012 and the conclusions expressed in the report. Our review disclosed no instances where CLA did not comply, in all material respects, with U.S. GAGAS.

This report includes both the Independent Auditors' Report and FHA's principal financial statements. Under Federal Accounting Standards Advisory Board (FASAB) standards, a general-purpose federal financial report should include as required supplementary information (RSI) a section devoted to Management's Discussion and Analysis (MD&A) of the financial statements and related information. The MD&A is not included with this report. FHA plans to separately publish an annual report for fiscal year 2012 that conforms to FASAB standards.

The report contains one significant deficiency in FHA's internal control and one reportable instance of non-compliance with laws and regulations. The report contains four new recommendations. Within 120 days of the report issue date, FHA is required to provide its final management decision which includes the corrective action plan for each recommendation. As part of the audit resolution process, we will record four new recommendation(s) in the Department's Audit Resolution and Corrective Action Tracking system (ARCATS). We will also

[1] In early 2012, Clifton Gunderson LLP merged with another firm and became CliftonLarsonAllen LLP.

endeavor to work with FHA to reach a mutually acceptable management decision prior to the mandated deadline. The proposed management decision and corrective action plans will be reviewed and evaluated for OIG concurrence.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

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

Within 60 days of this report, CLA expects to issue a separate letter to management dated November 9, 2012 regarding other matters that came to its attention during the audit.

We appreciate the courtesies and cooperation extended to the CLA and OIG audit staffs during the conduct of the audit. If you have any questions or comments about this report, please do not hesitate to call me at 202-402-8216.

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## INDEPENDENT AUDITOR'S REPORT

Inspector General
United States Department of Housing and Urban Development

Acting Commissioner
Federal Housing Administration

We have audited the accompanying balance sheets of the Federal Housing Administration (FHA) as of September 30, 2012 and 2011, and the related statements of net cost and changes in net position, and the combined statements of budgetary resources ("financial statements") for the years then ended. The objective of our audit was to express an opinion on the fairness of these financial statements. In connection with our audit, we also considered the internal control over financial reporting and considered FHA's compliance with laws and regulations. In our audit, we found:

- The financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America (U.S.);
- One significant deficiency in internal control over financial reporting (including safeguarding of assets) and compliance with laws and regulations; and
- One instance of reportable noncompliance with selected provisions of laws and regulations tested.

The following sections and Exhibits A through C discuss in more detail: (1) these conclusions, (2) our conclusions on Management's Discussion and Analysis (MD&A), and other required supplementary information included in the Annual Management Report, (3) our responsibility for the audit, (4) management's responsibility for the financial statements, (5) FHA's response and our evaluation of their response, and (6) the current status of prior year findings and recommendations.

### Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FHA as of September 30, 2012 and 2011, and its net costs; changes in net position; and budgetary resources for the years then ended in conformity with accounting principles generally accepted in the U.S.

As discussed in Note 6 to the financial statements, the Loan Guarantee Liability (LGL) is an actuarially determined estimate of the net present value of future claims, net of premiums and recoveries, from loans insured as of the end of the fiscal year. This estimate is developed using econometric models that integrate historical loan-level program and economic data with regional

## INDEPENDENT AUDITORS' REPORT (Continued)

house price appreciation forecasts to develop assumptions about future portfolio performance. This year's estimate is the mean value from a series of projections using numerous economic scenarios. This stochastic analysis projects a 25% probability that the Single Family Liability for Loan Guarantee may be overstated by $8 billion or understated by $7.5 billion, depending on which economic outcome ultimately prevails. This forecast method helps control the risk that the estimate will be affected by an adverse economic scenario but does not reduce the risk that the models may not accurately reflect current borrower behavior or contain technical errors.

As also discussed in Note 6, the MMI Fund includes a Capital Reserve account from which increases in funding to cover additional claim losses have historically been drawn. As of September 30, 2012, this Capital Reserve account had less funds available than the MMI Fund FY2012 upward reestimate. The Credit Reform Act of 1990 provides for permanent, indefinite budget authority to fund such deficiencies. However, the amount of funds to be transferred from the Capital Reserve account to the MMI Financing Fund will be determined by the FY2013 annual budgeting process. The transfer amount may differ from the amount reported in the financial statements due to differences in the requirements of the budget process and the different timing of the calculation. Once determined, the funds will be transferred in the latter half of FY2013. The budgeting process may also consider projected excess subsidy from FY2013 endorsements deposited into the Capital Reserve account in determining whether permanent, indefinite budget authority will be required to fund the FY2012 reestimate transfer.

### Report on Internal Control

In planning and performing our audit, we considered FHA's internal control over financial reporting and compliance (internal control) as a basis for designing our auditing procedures and to comply with the Office of Management and Budget (OMB) audit guidance for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of FHA's internal control. Accordingly, we do not express an opinion on the effectiveness of FHA's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we identified one deficiency in internal control, described below, that we consider to be a significant deficiency. A *significant deficiency* is a control deficiency, or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

<u>FHA Management and HUD OCIO Should Mitigate Persistent IT Control Deficiencies</u>

**INDEPENDENT AUDITORS' REPORT (Continued)**

FHA has over forty individual information technology (IT) applications including one core financial system and fifteen mixed financial systems. Those applications use a mix of old and new software languages (from COBOL to Cold Fusion) that are connected to each other, customers, and FHA's core financial general ledger through hundreds of electronic interfaces. To manage this complex application environment, the Office of Housing (Housing), which owns and operates FHA applications, has implemented expensive and manual compensating controls, including monthly reconciliations of data among the interfaced systems to ensure the reliability of its day-to-day financial transaction processing and reporting.

For many years, we (and the HUD OIG) have reported various weaknesses in security and access controls, as well as in configuration management and contingency planning. These issues have been found not only in FHA applications, but also in the general support systems owned by the Office of the Chief Information Officer (OCIO). HUD IT policy defines roles and responsibilities for Executive IT Investment Owners as well as for individual "system owners", who manage the operations and security of the individual applications. The day-to-day management of the FHA portfolio of financial systems has been performed by the Office of Systems and Technology under the Office of the Comptroller, but the lack of such an Executive IT Investment Owner has contributed to the ineffective and untimely remediation of application control weaknesses and repeat deficiencies identified across multiple applications.

During the past year, OCIO implemented a new IT portfolio structure that grouped applications into "investments" according to their functions. Each investment was aligned to a functional business "Segment." Each Segment is lead by a Segment Sponsor at an executive level. This new structure has the potential to provide the needed strategic IT management.

The operational and systemic limitations discussed above impact Housing's ability to ensure FHA systems "continue to operate in an effective and efficient manner" and support Housing's "changing business practices" as required by OMB Circular No. A-127, *Financial Management Systems* and the Federal Manager's Financial Integrity Act of 1982 (FMFIA). These control deficiencies and system limitations also affect FHA's overall information security that could ultimately affect the reliability of FHA's financial reporting.

We recommend that the Assistant Secretary for Housing:

1a. Work with the HUD Chief Information Officer to continue the development of the IT portfolio management structure, establish clear roles and responsibilities for remediating the identified control deficiencies in Housing's applications, and monitor the effectiveness of that structure in managing IT investments. (New)

1b. Assign a Housing representative to oversee and report on the remediation of control deficiencies in general support systems that affect Housing systems and data. (New)

**INDEPENDENT AUDITORS' REPORT (Continued)**

1c. Clarify the future role of Housing's Office of Risk Management and Assessment with regard to the IT risk assessment process for FHA applications. (New)

We recommend that the HUD Chief Information Officer:

1d. Assign a senior OCIO manager to document the plan of action and to provide regular status reports on the progress toward mitigation of the outstanding control deficiencies reported for the general support systems and the applications affecting Housing data. (New)

**Report on Compliance and Other Matters**

In connection with our audit, we performed tests of FHA's compliance with certain provisions of laws and regulations. The results of our tests disclosed one instance of noncompliance that is required to be reported in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States or OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements,* as amended (OMB Bulletin 07-04). However, the objective of our audit was not to provide an opinion on compliance with laws and regulations. Accordingly, we do not express such an opinion.

Capital Ratio: The Cranston-Gonzales National Affordable Housing Act of 1990 required that FHA's Mutual Mortgage Insurance (MMI) Fund maintain a minimum level of capital sufficient to withstand a moderate recession. This capital requirement, termed the Capital Ratio, is defined as capital resources (assets minus current liabilities) less the liability for future claim costs (net of future premiums and recoveries), divided by the value of amortized insurance-in-force. The Act requires FHA to maintain a minimum Capital Ratio of two percent and conduct an annual independent actuarial study to, among other things, calculate this ratio. The Housing and Economic Recovery Act of 2008 requires that the Secretary submit a report annually to the Congress describing the results of the study, assess the financial status of the MMI Fund, recommend program adjustments, and to evaluate the quality control procedures and accuracy of information used in the process of underwriting loans guaranteed by the MMI Fund. As of the date of our audit, this report had not yet been submitted to Congress, but preliminary FHA data indicated that this ratio remained substantially below the required two percent throughout FY2012.

We noted certain matters that we will report to FHA management in a separate letter.

**Status of Prior Year's Control Deficiencies and Noncompliance Issues**

As required by *Government Auditing Standards* and OMB Bulletin 07-04, we have reviewed the status of FHA's corrective actions with respect to the findings and recommendations included in the prior year's Independent Auditors' Report, dated November 3, 2011. Exhibit C provides the current status of prior year findings and recommendations.

**INDEPENDENT AUDITORS' REPORT (Continued)**

## Other Information

Accounting principles generally accepted in the U.S. require that FHA's Management Discussion and Analysis (MD&A) and other required supplementary information be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the MD&A and required supplementary information in accordance with auditing standards generally accepted in the U.S., which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## Management's Responsibility for the Financial Statements

FHA management is responsible for (1) preparing the financial statements in conformity with accounting principles generally accepted in the United States, (2) designing, implementing, and maintaining internal control to provide reasonable assurance that the broad control objectives of the FMFIA are met, (3) ensuring that FHA's financial management systems substantially comply with the Federal Financial Management Improvement Act (FFMIA) requirements, and (4) complying with other applicable laws and regulations.

## Auditor's Responsibility

We are responsible for conducting our audit in accordance with auditing standards generally accepted in the U.S.; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin 07-04. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the U.S. We are also responsible for: (1) obtaining a sufficient understanding of internal control over financial reporting and compliance to plan the audit, (2) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements and laws for which OMB Bulletin 07-04 requires testing, and (3) performing limited procedures with respect to certain other information appearing in the Annual Management Report.

In order to fulfill these responsibilities, we (1) examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements; (2) assessed the appropriateness of the accounting policies used and the reasonableness of significant estimates made by management; (3) evaluated the overall presentation of the financial statements; (4) obtained an understanding of FHA and its operations, including its internal control related to financial reporting (including safeguarding of assets) and compliance with laws and regulations (including execution of transactions in accordance with budget authority); (5) evaluated the effectiveness of the design of internal control; (6) tested the operating effectiveness of relevant internal controls over financial reporting and compliance, (7) considered the design of the process for evaluating and reporting on internal control and financial management systems under FMFIA;

**INDEPENDENT AUDITORS' REPORT (Continued)**

and (8) tested compliance with selected provisions of certain laws. The procedures selected depend on the auditors' judgment, including our assessment of risks of material misstatement of the financial statements, whether due to fraud or error. We believe we obtained sufficient and appropriate audit evidence on which to base our opinion.

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

We did not test compliance with all laws and regulations applicable to FHA. We limited our tests of compliance to selected provisions of laws and regulations that have a direct and material effect on the financial statements and those required by OMB Bulletin 07-04 that we deemed applicable to FHA's financial statements for the fiscal year ended September 30, 2012. We caution that noncompliance with laws and regulations may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

**Agency Comments and our Evaluation**

Management's response to our report is presented in Exhibit A. We did not audit FHA's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of FHA management, HUD, the HUD Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress, and is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

Arlington, Virginia
October 29, 2012

# Federal Housing Administration
# Management's Response
# Appendix A

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

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

MEMORANDUM FOR: CliftonLarsonAllen LLP

FROM: George Tomchick III, Deputy Assistant Secretary for Finance and Budget, HW

SUBJECT: Response to Fiscal Year 2012 FHA Audit Report

Thank you for providing us the opportunity to respond to FHA's Independent Audit Report.

FHA is pleased that CliftonLarsonAllen LLP has recognized our progress and efforts made in resolving prior year findings and improving the management of Housing's IT portfolio. FHA will continue to work to improve and address the concerns identified.

**Report on Internal Control – Significant Deficiency**

***1. FHA Management and HUD OCIO should mitigate persistent IT control deficiencies.***

FHA concurs with this finding and recommendations 1a through 1c, which are addressed to FHA. FHA and OCIO will work together to address these recommendations.

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# Federal Housing Administration
# Management's Response
# Appendix A (Continued)

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

CHIEF INFORMATION OFFICER

NOV 0 7 2012

MEMORANDUM FOR: Clifton Larson Allen LLP

FROM: Jerry E. Williams, Chief Information Officer, Q

SUBJECT: Response to the Fiscal Year 2012 FHA Audit Report on Internal Control and Compliance

Thank you for providing us the opportunity to respond to FHA's Independent Audit Report on Internal Control and Compliance. My staff and I have reviewed the subject audit report and concur with the finding and recommendation 1d, which is addressed to the Office of the Chief Information Officer (OCIO).

We look forward to working with you and your staff to resolve and close-out the recommendation. Should you have any questions or need additional information, please contact Joyce Little, Director, Office of Investment Strategies Policy and Management at (202) 402-7404.

# Federal Housing Administration
# CLA's Assessment of Management Response
# Appendix B

We reviewed FHA management's response (see Exhibit A) to the findings and recommendations made in connection with our audit of FHA's 2012 financial statements. We did not perform audit procedures on the response to the findings and recommendations and accordingly, we express no opinion on it. Our assessment of management's response is discussed below.

**Assessment of management's response to significant deficiency:**

As indicated in Exhibit A, FHA management concurred with our finding and recommendations 1a through 1c, but did not provide specific information regarding planned corrective actions or the information needed to assess whether management will be able to effectively implement the recommendations.

Recommendation 1d is addressed to HUD's Chief Information Officer who concurred with the recommendation but did not provide specific information regarding planned corrective actions or the information needed to assess whether management will be able to effectively implement the recommendation.

**Assessment of management's response to noncompliance with the *Cranston-Gonzales National Affordable Housing Act of 1990*:**

FHA management did not specifically respond to this finding. However, management is well aware of this issue.

# Federal Housing Administration
# Status of Prior Year Recommendations
# Appendix C

Our assessment of the current status of the recommendations related to significant deficiencies identified in the prior year audit is presented below:

| *FY 2011 Recommendation* | *Type* | *Fiscal Year 2012 Status* |
|---|---|---|
| 1a. Work with OCIO to develop a process to analyze identified systems control weaknesses for their root causes. | Significant Deficiency 2011 | Closed |
| 1b. Work with OCIO to strengthen the POA&M process by ensuring that the status of plans is reviewed regularly by FHA and HUD management with the authority to take action or accept the risks related to the weakness. | Significant Deficiency 2011 | Closed |
| 1c. Develop and implement procedures for FHA senior management to acknowledge and accept system risks that cannot be mitigated within the fiscal year. | Significant Deficiency 2011 | Closed |

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# FEDERAL HOUSING ADMINISTRATION
# FISCAL YEAR 2012
# FINANCIAL
# STATEMENTS

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**FEDERAL HOUSING ADMINISTRATION**
**(AN AGENCY OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT)**
**CONSOLIDATED BALANCE SHEETS**
**As of September 30, 2012 and 2011**
**(Dollars in Millions)**

| | FY 2012 | FY 2011 |
|---|---|---|
| ***ASSETS*** | | |
| Intragovernmental | | |
| Fund Balance with U.S. Treasury (Note 3) | $ 47,640 | $ 42,006 |
| Investments (Note 4) | 2,775 | 4,135 |
| Other Assets (Note 7) | 3 | 3 |
| Total Intragovernmental | $ 50,418 | $ 46,144 |
| Investments (Note 4) | $ 60 | $ 63 |
| Accounts Receivable, Net (Note 5) | 24 | 32 |
| Loans Receivable and Related Foreclosed Property, Net (Note 6) | 5,441 | 5,460 |
| Other Assets (Note 7) | 60 | 69 |
| **TOTAL ASSETS** | **$ 56,003** | **$ 51,768** |
| ***LIABILITIES*** | | |
| Intragovernmental | | |
| Accounts Payable (Note 8) | $ 6 | $ - |
| Borrowings from U.S. Treasury (Note 9) | 11,527 | 6,032 |
| Other Liabilities (Note 10) | 3,473 | 3,051 |
| Total Intragovernmental | $ 15,006 | $ 9,083 |
| Accounts Payable (Note 8) | $ 721 | $ 723 |
| Loan Guarantee Liability (Note 6) | 54,984 | 36,103 |
| Debentures Issued to Claimants (Note 9) | - | 10 |
| Other Liabilities (Note 10) | 396 | 430 |
| **TOTAL LIABILITIES** | **$ 71,107** | **$ 46,349** |
| ***NET POSITION*** | | |
| Unexpended Appropriations (Note 16) | $ 862 | $ 850 |
| Cumulative Results of Operations | (15,966) | 4,569 |
| **TOTAL NET POSITION** | **(15,104)** | **$ 5,419** |
| **TOTAL LIABILITIES AND NET POSITION** | **$ 56,003** | **$ 51,768** |

**The accompanying notes are an integral part of these statements**

**FEDERAL HOUSING ADMINISTRATION**
**(AN AGENCY OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT)**
**CONSOLIDATED STATEMENTS OF NET COST**
**For the Periods Ended September 30, 2012 and 2011**
**(Dollars in Millions)**

| | FY 2012 | FY 2011 |
|---|---|---|
| **Single Family Forward** | | |
| Intragovernmental Gross Costs | $ 327 | $ 274 |
| Less: Intragovernmental Earned Revenue | 2,608 | 1,426 |
| Intragovernmental Net Costs | (2,281) | (1,152) |
| Gross Costs With the Public | 15,455 | 7,246 |
| Less: Earned Revenues | 50 | 25 |
| Net Costs With the Public | 15,405 | 7,221 |
| **Single Family Forward Net Cost (Surplus)** | **$ 13,124** | **$ 6,069** |
| **HECM** | | |
| Intragovernmental Gross Costs | $ 52 | $ 48 |
| Less: Intragovernmental Earned Revenue | 477 | 631 |
| Intragovernmental Net Costs | (425) | (583) |
| Gross Costs With the Public | 8,159 | (1,626) |
| Less: Earned Revenues | 5 | 1 |
| Net Costs With the Public | 8,154 | (1,627) |
| **HECM Net Cost (Surplus)** | **$ 7,729** | **$ (2,210)** |
| **Multifamily/Healthcare** | | |
| Intragovernmental Gross Costs | $ 85 | $ 89 |
| Less: Intragovernmental Earned Revenue | 28 | 49 |
| Intragovernmental Net Costs | 57 | 40 |
| Gross Costs With the Public | $ (1,244) | $ (1,029) |
| Less: Earned Revenues | 58 | 47 |
| Net Costs With the Public | (1,302) | (1,076) |
| **Multifamily/Healthcare Net Cost (Surplus)** | **$ (1,245)** | **$ (1,036)** |
| **Administrative and Contracts** | | |
| Intragovernmental Gross Costs | $ 29 | $ 22 |
| Less: Intragovernmental Earned Revenue | - | - |
| Intragovernmental Net Costs | 29 | 22 |
| Gross Costs With the Public | 660 | 674 |
| Less: Earned Revenues | - | - |
| Net Costs With the Public | 660 | 674 |
| **Adminstrative and Contracts Net Cost (Surplus)** | **$ 689** | **$ 696** |
| **Net Cost of Operations** | **$ 20,297** | **$ 3,519** |

**The accompanying notes are an integral part of these statements.**

**FEDERAL HOUSING ADMINISTRATION**
**(AN AGENCY OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT)**
**CONSOLIDATED STATEMENTS OF Changes in NET POSITION**
**For the Periods Ended September 30, 2012 and 2011**
**(Dollars in Millions)**

| | FY 2012 Cumulative Results of Operations | FY 2012 Unexpended Appropriations | FY 2011 Cumulative Results of Operations | FY 2011 Unexpended Appropriations |
|---|---|---|---|---|
| **BEGINNING BALANCES** | **$ 4,569** | **$ 850** | **$ 6,761** | **880** |
| **Budgetary Financing Sources** | | | | |
| Appropriations Received (Note 16) | - | 983 | - | 3,311 |
| Other Adjustments (Note 16) | - | (24) | 3 | (25) |
| Appropriations Used (Note 16) | 875 | (875) | 3,244 | (3,244) |
| Transfers-Out (Note 15 and Note 16) | (395) | (72) | (492) | (72) |
| **Other Financing Sources** | | | | |
| Transfers In/Out (Note 15) | (481) | - | (1,229) | - |
| Imputed Financing (Note 12) | 15 | - | 18 | - |
| Other | (252) | - | (217) | |
| **Total Financing Sources** | **$ (238)** | **$ 12** | **$ 1,327** | **(30)** |
| **Net (Cost) Surplus of Operations** | **(20,297)** | **-** | **(3,519)** | **-** |
| **ENDING BALANCES** | **$ (15,966)** | **$ 862** | **$ 4,569** | **$ 850** |

**The accompanying notes are an integral part of these statements.**

**FEDERAL HOUSING ADMINISTRATION**
**(AN AGENCY OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT)**
**COMBINED STATEMENT OF BUDGETARY RESOURCES**
**For the Period Ended September 30, 2012**
**(Dollars in Millions)**

| | FY 2012 Budgetary | FY 2012 Non-Budgetary | FY 2012 Total |
|---|---|---|---|
| **Budgetary Resources:** | | | |
| Unobligated balance brought forward, October 1 | 5,565 | 36,249 | 41,814 |
| Unobligated balance brought forward, October 1, as adjusted | 5,565 | 36,249 | 41,814 |
| Recoveries of prior year unpaid obligations | 26 | 122 | 148 |
| Other changes in unobligated balance (+ or -) | (276) | - | (276) |
| Unobligated balance from prior year budget authority, net | 5,315 | 36,371 | 41,686 |
| Appropriations (discretionary and mandatory) | 912 | - | 912 |
| Borrowing authority (discretionary and mandatory) | - | 5,760 | 5,760 |
| Spending authority from offsetting collections (discretionary and mandatory) | 12,737 | 34,329 | 47,066 |
| **Total budgetary resources** | **18,964** | **76,460** | **95,424** |
| **Status of Budgetary Resources:** | | | |
| Obligations incurred | 14,890 | 36,185 | 51,075 |
| Unobligated balance, end of year: | | | |
| Apportioned | 59 | 18,346 | 18,405 |
| Unapportioned | 4,015 | 21,929 | 25,944 |
| Total unobligated balance, end of year | 4,074 | 40,275 | 44,349 |
| **Total budgetary resources** | **18,964** | **76,460** | **95,424** |
| **Change in Obligated Balance:** | | | |
| Unpaid obligations, brought forward, October 1 (gross) | 737 | 2,320 | 3,057 |
| Uncollected customer payments from Federal sources, brought forward, October 1 (-) | (20) | (1) | (21) |
| Obligated balance, start of year (net), before adjustments (+ or -) | 717 | 2,319 | 3,036 |
| Obligated balance, start of year (net), as adjusted | 717 | 2,319 | 3,036 |
| Obligations incurred | 14,890 | 36,185 | 51,075 |
| Outlays (gross) (-) | (14,868) | (35,911) | (50,779) |
| Change in uncollected customer payments from Federal sources (+ or -) | 18 | 1 | 19 |
| Recoveries of prior year unpaid obligations (-) | (26) | (122) | (148) |
| Unpaid obligations, end of year (gross) | 733 | 2,472 | 3,205 |
| Uncollected customer payments from Federal sources, end of year | (2) | - | (2) |
| Obligated balance, end of year (net) | 731 | 2,472 | 3,203 |
| Budget Authority and Outlays, Net: | | | |
| Budget authority, gross (discretionary and mandatory) | 13,649 | 40,089 | 53,738 |
| Actual offsetting collections (discretionary and mandatory) (-) | (12,766) | (34,595) | (47,361) |
| Change in uncollected customer payments from Federal sources (discretionary and mandatory) (+ or -) | 18 | 1 | 19 |
| Budget authority, net (discretionary and mandatory) | 901 | 5,495 | 6,396 |
| Outlays, gross (discretionary and mandatory) | 14,868 | 35,911 | 50,779 |
| Actual offsetting collections (discretionary and mandatory) (-) | (12,766) | (34,595) | (47,361) |
| Outlays, net (discretionary and mandatory) | 2,102 | 1,316 | 3,418 |
| Less Distributed offsetting receipts (-) | 2,611 | - | 2,611 |
| **Agency outlays, net (discretionary and mandatory)** | **(509)** | **1,316** | **807** |

**The accompanying notes are an integral part of these statements**

**FEDERAL HOUSING ADMINISTRATION**
**(AN AGENCY OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT)**
**COMBINED STATEMENT OF BUDGETARY RESOURCES**
**For the Period Ended September 30, 2011**
**(Dollars in Millions)**

| | FY 2011 Budgetary | FY 2011 Non-Budgetary | FY 2011 Total |
|---|---|---|---|
| **Budgetary Resources:** | | | |
| Unobligated balance brought forward, October 1 | 5,257 | 34,649 | 39,906 |
| Unobligated balance brought forward, October 1, as adjusted | 5,257 | 34,649 | 39,906 |
| Recoveries of prior year unpaid obligations | 84 | 26 | 110 |
| Other changes in unobligated balance (+ or -) | (227) | (16) | (243) |
| Unobligated balance from prior year budget authority, net | 5,114 | 34,659 | 39,773 |
| Appropriations (discretionary and mandatory) | 3,239 | 4 | 3,243 |
| Borrowing authority (discretionary and mandatory) | - | 3,838 | 3,838 |
| Spending authority from offsetting collections (discretionary and mandatory) | 8,165 | 25,316 | 33,481 |
| **Total budgetary resources** | 16,518 | 63,817 | 80,335 |
| | | | |
| **Status of Budgetary Resources:** | | | |
| Obligations incurred | 10,952 | 27,569 | 38,521 |
| Unobligated balance, end of year: | | | |
| Apportioned | 222 | 13,170 | 13,392 |
| Unapportioned | 5,344 | 23,078 | 28,422 |
| Total unobligated balance, end of year | 5,566 | 36,248 | 41,814 |
| **Total budgetary resources** | 16,518 | 63,817 | 80,335 |
| | | | |
| **Change in Obligated Balance:** | | | |
| Unpaid obligations, brought forward, October 1 (gross) | 772 | 1,891 | 2,663 |
| Uncollected customer payments from Federal sources, brought forward, October 1 (-) | (24) | - | (24) |
| Obligated balance, start of year (net), before adjustments (+ or -) | 748 | 1,891 | 2,639 |
| Obligated balance, start of year (net), as adjusted | 748 | 1,891 | 2,639 |
| Obligations incurred | 10,952 | 27,569 | 38,521 |
| Outlays (gross) (-) | (10,904) | (27,113) | (38,017) |
| Change in uncollected customer payments from Federal sources (+ or -) | 4 | (1) | 3 |
| Recoveries of prior year unpaid obligations (-) | (84) | (26) | (110) |
| Unpaid obligations, end of year (gross) | 736 | 2,321 | 3,057 |
| Uncollected customer payments from Federal sources, end of year | (20) | (1) | (21) |
| Obligated balance, end of year (net) | 716 | 2,320 | 3,036 |
| | | | |
| Budget Authority and Outlays, Net: | | | |
| Budget authority, gross (discretionary and mandatory) | 11,404 | 29,158 | 40,562 |
| Actual offsetting collections (discretionary and mandatory) (-) | (8,169) | (27,869) | (36,038) |
| Change in uncollected customer payments from Federal sources (discretionary and mandatory) (+ or -) | 4 | (1) | 3 |
| Budget authority, net (discretionary and mandatory) | 3,239 | 1,288 | 4,527 |
| Outlays, gross (discretionary and mandatory) | 10,904 | 27,113 | 38,017 |
| Actual offsetting collections (discretionary and mandatory) (-) | (8,169) | (27,869) | (36,038) |
| Outlays, net (discretionary and mandatory) | 2,735 | (756) | 1,979 |
| Less Distributed offsetting receipts (-) | 1,033 | - | 1,033 |
| **Agency outlays, net (discretionary and mandatory)** | 1,702 | (756) | 946 |

**The accompanying notes are an integral part of these statements.**

# NOTES TO THE FINANCIAL STATEMENTS
## September 30, 2012

## Note 1. Significant Accounting Policies

### Entity and Mission

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

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

FHA categorizes its insurance programs as Single Family (including Title 1), Multifamily and HECM. Single Family activities support initial or continued home ownership; Title I activities support manufactured housing and property improvement. Multifamily activities support high-density housing and medical facilities. HECM activities support reverse mortgages which allow homeowners 62 years of age or older to convert the equity in their homes into lump sum or monthly cash payments without having to repay the loan until the loan terminates.

FHA supports its insurance operations through five funds. The Mutual Mortgage Insurance fund (MMI), FHA's largest fund, provides basic Single Family mortgage insurance and is a mutual insurance fund, whereby mortgagors, upon non-claim termination of their mortgages, share surplus premiums paid into the MMI fund that are not required for operating expenses and losses or to build equity. The Cooperative Management Housing Insurance fund (CMHI), another mutual fund, provides mortgage insurance for management-type cooperatives. The General Insurance fund (GI), provides a large number of specialized mortgage insurance activities, including insurance of loans for property improvements, cooperatives, condominiums, housing for the elderly, land development, group practice medical facilities, nonprofit hospitals, and reverse mortgages. The Special Risk Insurance fund (SRI) provides mortgage insurance on behalf of mortgagors eligible for interest reduction payments who otherwise would not be eligible for mortgage insurance. Activities related to most Single Family programs, including HECM, endorsed in Fiscal Year 2009 and going forward, are in the MMI fund. The Single Family activities in the GI fund from Fiscal Year 2008 and prior remain in the GI fund. The HOPE for Homeowners (H4H) program began on October 1, 2008 for Fiscal Year 2009 as a result of *The Housing and Economic Recovery Act of 2008*. This legislation required FHA to modify existing programs and initiated the H4H program and fund.

For the Loan Guarantee Program at FHA, in both the MMI/CMHI and GI/SRI funds there are Single Family and Multifamily activities. The H4H fund only contains Single Family activity.

To comply with the FHA Modernization Act of 2008, activities related to most Single Family programs, including HECM and Condominiums (Section 234(c)), endorsed in Fiscal Year 2009 and going forward, are now in the MMI fund. The Single Family activities in the GI fund from Fiscal Year 2008 and prior remain in the GI fund. The following table illustrates how the primary Single Family program activities for FHA are now distributed between MMI/CMHI and GI/SRI funds based on the year of endorsement:

| Fund | Loans Endorsed in Fiscal Years 2008 and Prior | Loans Endorsed in Fiscal Years 2009 and Onward |
|---|---|---|
| **GI** | 234(c), HECM | N/A |
| **MMI** | 203(b) | 203(b), 234(c), HECM |

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

**Basis of Accounting**

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

**Basis of Consolidation**

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

**Fund Balance with U.S. Treasury**

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

**Investments**

FHA investments include investments in U.S. Treasury securities, multifamily risk sharing debentures and investments in private-sector entities where FHA is a member with other parties under the Accelerated Claims Disposition Demonstration program (see Note 4).

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

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

**Credit Reform Accounting**

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

In accordance with the SFFAS No. 2, *Accounting for Direct Loans and Loan Guarantees,* the program account receives and obligates appropriations to cover the subsidy cost of a direct loan or loan guarantee and disburses the subsidy cost to the financing account. The program account also receives appropriations for administrative expenses. The financing account is a Non-Budgetary account that is used to record all of the cash flows resulting from Credit Reform direct loans, assigned loans, loan guarantees and related foreclosed property. It includes loan disbursements, loan repayments and fees, claim payments, recoveries on sold collateral, borrowing from the U.S. Treasury, interest, negative subsidy and the subsidy cost received from the program account.

The general fund receipt account is used for the receipt of amounts paid from the GI/SRI financing account when there is negative subsidy from the original estimate or a downward reestimate. The receipt account is a general fund receipt account and amounts are not earmarked for the FHA's credit programs. 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 the beginning of the following fiscal year, the fund balance in the general fund receipt account is transferred to the U.S. Treasury general fund. Negative subsidy and downward reestimates in the MMI/CMHI fund are transferred to the Capital Reserve account.

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

In FY 2011, FHA began reporting on a second general fund receipt account. This receipt account is used for the unobligated balance transferred from the GI/SRI liquidating account and loan modifications. Similar to the general fund receipt account used for the GI/SRI negative subsidy and downward reestimates, the amounts in this account are not earmarked for FHA's credit programs and are returned to Treasury at the beginning of the next fiscal year. Any assets in this account are non-entity assets and are offset by intragovernmental liabilities.

**Loans Receivable and Related Foreclosed Property, Net**

FHA's loans receivable include mortgage notes assigned (MNA), also described as Secretary-held notes, purchase money mortgages (PMM), and notes related to partial claims. Under the requirements of the FCRA, PMM notes are considered to be direct loans while MNA notes are considered to be defaulted guaranteed loans. The PMM loans are generated from the sales on credit of FHA's foreclosed properties to qualified non-profit organizations. The MNA notes are created when FHA pays the lenders for claims on defaulted guaranteed loans and takes assignment of the defaulted loans for direct collections. In addition, Multifamily and Single Family performing notes insured pursuant to Section 221(g)(4) of the National Housing Act may be assigned automatically to FHA at a pre-determined point. Partial claims notes arise when FHA pays a loss mitigation amount to keep a borrower current on their loan. FHA, in turn, records a loan receivable which takes a second position to the primary mortgage.

In accordance with the FCRA and SFFAS No. 2, Credit Reform direct loans, defaulted guaranteed loans and related foreclosed property are reported at the net present value of expected cash flows associated with these assets, primarily estimated proceeds less selling and maintenance costs. The difference between the cost of these loans and property and the net present value is called the Allowance for Subsidy. Pre-Credit Reform loans receivable and related foreclosed property in inventory are recorded at net realizable value which is based on recovery rates net of any selling expenses (see Note 6).

**Loan Guarantee Liability**

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

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

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

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

**Use of Estimates**

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

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

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

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

**General Property, Plant and Equipment**

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

Current HUD policy concerning SFFAS No. 10, *Accounting for Internal Use Software,* indicates that HUD will either own the software or the functionality provided by the software in the case of licensed or leased software. This includes "commercial off-the-shelf" software, contractor-developed software, and internally developed software. FHA had several procurement actions in place and had incurred expenses for software development. FHA identified and transferred those expenses to HUD to comply with departmental policy.

**Appropriations**

FHA receives annual appropriations for certain operating expenses for its MMI/CMHI, GI/SRI, and H4H program activities, some of which are transferred to HUD. Additionally, FHA receives appropriations for GI/SRI positive subsidy, upward reestimates, and permanent indefinite authority to cover any shortage of resources in the liquidating account. Permanent indefinite authority is also available to the MMI Program Fund if the Capital Reserve Fund does not have sufficient resources to be transferred to the MMI Financing Fund to cover upward reestimates.

**Full Cost Reporting**

SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards* and SFFAS No. 30, *Inter-Entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts to account for costs assumed by other Federal organizations on their behalf*, require that Federal agencies report the full cost of program outputs in the financial statements. Full cost reporting includes all direct, indirect, and inter-entity costs. HUD allocates each responsibility segment's share of the program costs or resources provided by other Federal agencies. As a responsibility segment of HUD, FHA's portion of these costs was $15 million for fiscal year 2012 and $18 million for fiscal year 2011, and was included in FHA's financial statements as an imputed cost in the Consolidated Statements of Net Cost, and an imputed financing in the Consolidated Statements of Changes in Net Position.

**Distributive Shares**

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

**Liabilities Covered by Budgetary Resources**

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

**Statement of Budgetary Resources**

The Statement of Budgetary Resources has been prepared as a combined statement and as such, intra-entity transactions have not been eliminated. Budget authority is the authorization provided by law to enter into obligations to carry out the guaranteed and direct loan programs and their associated administrative costs, which would result in immediate or future outlays of federal funds. FHA's budgetary resources include current budgetary authority (i.e., appropriations and borrowing authority) and unobligated balances brought forward from multi-year and no-year budget authority received in prior years, and recoveries of prior year obligations. Budgetary resources also include spending authority from offsetting collections credited to an appropriation or fund account.

Unobligated balances associated with appropriations that expire at the end of the fiscal year remain available for obligation adjustments, but not for new obligations, until that account is canceled. When accounts are canceled, five years after they expire, amounts are not available for obligations or expenditure for any purpose.

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

**Statement of Net Cost**

In FY 2012, FHA revised the presentation of the Statement of Net Cost (SNC) to more closely align with FHA's major programs. For comparison purposes, the presentation of the FY 2011 SNC was also revised. Although overall net program cost for the FY 2011 SNC was not changed, certain reclassifications were made to the previously issued FY 2011 SNC to conform to the new format.

**Note 2. Non-entity Assets**

Non-entity assets consist of assets that belong to other entities but are included in FHA's consolidated balance sheets. To reflect FHA's net position accurately, these non-entity assets are offset by various liabilities. FHA's non-entity assets as of September 30, 2012 and 2011 are as follows:

(Dollars in millions)

| | FY 2012 | FY 2011 |
|---|---|---|
| Intragovernmental: | | |
| Fund Balance with Treasury | $ 2,894 | $ 1,292 |
| Investments in U.S. Treasury Securities | 3 | 3 |
| Total Intragovernmental | 2,897 | 1,295 |
| | | |
| Other Assets | 54 | 66 |
| Total Non-Entity Assets | 2,951 | 1,361 |
| Total Entity Assets | 53,052 | 50,407 |
| **Total Assets** | **$ 56,003** | **$ 51,768** |

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

According to the FCRA, FHA transfers GI/SRI negative credit subsidy from new endorsements, downward credit subsidy reestimates, loan modifications, and unobligated balances from the liquidating account to the GI/SRI general fund receipt accounts. At the beginning of each fiscal year, fund balances in the GI/SRI general fund receipt accounts are transferred into the U.S. Treasury's general fund.

Other assets consisting of escrow monies collected from FHA borrowers are either deposited at the U.S. Treasury or minority-owned banks or invested in U.S. Treasury securities. Subsequently, FHA disburses these escrow monies to pay for property taxes, property insurance or maintenance expenses on behalf of the borrowers.

## Note 3. Fund Balance with U.S. Treasury

FHA's fund balance with U.S. Treasury was comprised of the following as of September 30, 2012 and 2011:

| (Dollars in millions) | FY 2012 | FY 2011 |
|---|---|---|
| Fund Balances: | | |
| Revolving Funds | $ 43,449 | $ 39,386 |
| Appropriated Funds | 790 | 795 |
| Other Funds | 3,401 | 1,825 |
| **Total** | **$ 47,640** | **$ 42,006** |
| | | |
| Status of Fund Balance with U.S. Treasury: | | |
| Unobligated Balance | | |
| Available | $ 18,405 | $ 13,392 |
| Unavailable | 26,030 | 25,557 |
| Obligated Balance Not Yet Disbursed | 3,205 | 3,057 |
| **Total** | **$ 47,640** | **$ 42,006** |

### Revolving Funds

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

### Appropriated Funds

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

### Other Funds

FHA's other funds include the general fund receipt accounts established under the FCRA. Additionally, the capital reserve account is included with these funds and is used to retain the MMI/CMHI negative subsidy and downward credit subsidy reestimates transferred from the financing account. If subsequent upward credit subsidy reestimates are calculated in the financing account or there is shortage of budgetary resources in the liquidating account, the capital reserve account will return the retained negative subsidy to the financing account or transfer the needed funds to the liquidating account, respectively.

### Status of Fund Balance with U.S. Treasury

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

## Note 4. Investments

**Investment in U.S. Treasury Securities**

As discussed in Note 1, all FHA investments in Treasury securities are in non-marketable securities issued by the U.S. Treasury. These securities carry market-based interest rates. The market value of these securities is calculated using the bid amount of similar marketable U.S. Treasury securities as of September 30th. The cost, net amortized premium/discount, net investment, and market values of FHA's investments in U.S. Treasury securities as of September 30, 2012 were as follows:

(Dollars in millions)

| FY 2012 | Cost | Amortized (Premium) / Discount, Net | Investments, Net | Market Value |
|---|---|---|---|---|
| MMI/CMHI Investments | $ 2,771 | $ 1 | $ 2,772 | $ 2,772 |
| GI/SRI Investments | 3 | - | 3 | 3 |
| **Total** | **$ 2,774** | **$ 1** | **$ 2,775** | **$ 2,775** |

The cost, net amortized premium/discount, net investment, and market values as of September 30, 2011 were as follows:

| FY 2011 | Cost | Amortized (Premium) / Discount, Net | Investments, Net | Market Value |
|---|---|---|---|---|
| MMI/CMHI Investments | $ 4,091 | $ 23 | $ 4,114 | $ 5,106 |
| GI/SRI Investments | 3 | - | 3 | 3 |
| Subtotal | $ 4,095 | $ 23 | $ 4,117 | $ 5,109 |
| MMI/CMHI Accrued Interest | - | - | 18 | 18 |
| **Total** | **$ 4,095** | **$ 23** | **$ 4,135** | **$ 5,127** |

### Investments in Private-Sector Entities

Investments in Section 601 and Risk Sharing Debentures as of September 30, 2012 and 2011 were as follows:

| (Dollars in millions) | Beginning Balance | New Acquisitions | Share of Earnings or Losses | Returns of Investment | Redeemed | Ending Balance |
|---|---|---|---|---|---|---|
| **FY 2012** | | | | | | |
| 601 Program and Note Sales | $ 6 | $ 21 | $ 7 | $ (31) | $ - | $ 3 |
| Risk Sharing Debentures | 57 | - | - | - | - | 57 |
| **Total** | **$ 63** | **$ 21** | **$ 7** | **$ (31)** | **$ -** | **$ 60** |
| **FY 2011** | | | | | | |
| 601 Program and Note Sales | $ 9 | $ - | $ (1) | $ (2) | $ - | $ 6 |
| Risk Sharing Debentures | 127 | 1 | - | - | (71) | 57 |
| **Total** | **$ 136** | **$ 1** | **$ (1)** | **$ (2)** | **$ (71)** | **$ 63** |

## Note 5. Accounts Receivable, Net

Accounts receivable, net, as of September 30, 2012 and 2011 are as follows:

| | Gross | | Allowance | | Net | |
|---|---|---|---|---|---|---|
| (Dollars in millions) | FY 2012 | FY2011 | FY 2012 | FY2011 | FY 2012 | FY2011 |
| **With the Public:** | | | | | | |
| Receivables related to credit program assets | $ 16 | $ 16 | $ - | $ - | $ 16 | $ 16 |
| Premiums receivable | 6 | 4 | - | - | 6 | 4 |
| Generic Debt Receivables | 79 | 80 | (79) | (80) | - | - |
| Miscellaneous receivables | 2 | 12 | - | - | 2 | 12 |
| **Total** | **$ 103** | **$ 112** | **$ (79)** | **$ (80)** | **$ 24** | **$ 32** |

### Receivables Related to Credit Program Assets

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

### Premiums Receivable

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

### Generic Debt Receivables

These amounts are mainly composed of receivables from various sources, the largest of which are partial claims, indemnifications, and restitutions relating to Single Family programs.

### Miscellaneous Receivables

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

### Allowance for Loss

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

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

**Direct Loan and Loan Guarantee Programs Administered by FHA Include:**

| |
|---|
| MMI/CMHI Direct Loan Program |
| GI/SRI Direct Loan Program |
| MMI/CMHI Loan Guarantee Program |
| GI/SRI Loan Guarantee Program |
| H4H Loan Guarantee Program |

FHA Direct Loan and Loan Guarantee Programs and the related loans receivable, foreclosed property, and Loan Guarantee Liability as of September 30, 2012 and 2011 are as follows:

**Direct Loan Program**

(Dollars in Millions)

| FY 2012 | Total |
|---|---|
| **Direct Loans** | |
| Loan Receivables | 15 |
| Interest Receivables | 11 |
| Allowance | (11) |
| **Total Direct Loans** | **15** |

(Dollars in Millions)

| FY2011 | Total |
|---|---|
| **Direct Loans** | |
| Loan Receivables | 16 |
| Interest Receivables | 10 |
| Allowance | (11) |
| **Total Direct Loans** | **15** |

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

(Dollars in Millions)

| FY 2012 | MMI/CMHI | GI/SRI | Total |
|---|---|---|---|
| **Guaranteed Loans** | | | |
| **Single Family Forward** | | | |
| Loan Receivables | 17 | 1 | 18 |
| Allowance for Loan Losses | (35) | (16) | (51) |
| Foreclosed Property | 24 | 10 | 34 |
| **Subtotal** | **6** | **(5)** | **1** |
| **Multifamily/Healthcare** | | | |
| Loan Receivables | - | 2,338 | 2,338 |
| Interest Receivables | - | 219 | 219 |
| Allowance for Loan Losses | - | (1,362) | (1,362) |
| Foreclosed Property | - | 1 | 1 |
| **Subtotal** | **-** | **1,196** | **1,196** |
| **HECM** | | | |
| Loan Receivables | - | 5 | 5 |
| Interest Receivables | - | 1 | 1 |
| Allowance for Loan Losses | - | (2) | (2) |
| Foreclosed Property | - | 5 | 5 |
| **Subtotal** | - | 9 | 9 |
| **Total Guaranteed Loans** | **6** | **1,200** | **1,206** |

(Dollars in Millions)

| FY2011 | MMI/CMHI | GI/SRI | Total |
|---|---|---|---|
| **Guaranteed Loans** | | | |
| **Single Family Forward** | | | |
| Loan Receivables | 17 | 3 | 20 |
| Interest Receivables | - | 1 | 1 |
| Allowance for Loan Losses | (43) | (13) | (56) |
| Foreclosed Property | 32 | 11 | 43 |
| **Subtotal** | **6** | **2** | **8** |
| **Multifamily/Healthcare** | | | |
| Loan Receivables | - | 2,459 | 2,459 |
| Interest Receivables | - | 215 | 215 |
| Allowance for Loan Losses | - | (1,660) | (1,660) |
| Foreclosed Property | - | 1 | 1 |
| **Subtotal** | **-** | **1,015** | **1,015** |
| **HECM** | | | |
| Loan Receivables | - | 5 | 5 |
| Interest Receivables | - | 1 | 1 |
| Allowance for Loan Losses | - | (1) | (1) |
| Foreclosed Property | - | 4 | 4 |
| **Subtotal** | - | 9 | 9 |
| **Total Guaranteed Loans** | **6** | **1,026** | **1,032** |

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

**Defaulted Guaranteed Loans from Post-1991 Guarantees:**

(Dollars in Millions)

| FY 2012 | MMI/CMHI | GI/SRI | Total |
|---|---|---|---|
| **Guaranteed Loans** | | | |
| **Single Family Forward** | | | |
| Loan Receivables | 1,582 | 53 | 1,635 |
| Interest Receivables | 3 | 2 | 5 |
| Foreclosed Property | 4,888 | 200 | 5,088 |
| Allowance | (4,410) | (177) | (4,587) |
| **Subtotal** | **2,063** | **78** | **2,141** |
| **Multifamily/Healthcare** | | | |
| Loan Receivables | - | 631 | 631 |
| Interest Receivables | - | - | - |
| Foreclosed Property | - | 1 | 1 |
| Allowance | - | (382) | (382) |
| **Subtotal** | **-** | **250** | **250** |
| **HECM** | | | |
| Loan Receivables | 163 | 1,775 | 1,938 |
| Interest Receivables | 38 | 805 | 843 |
| Foreclosed Property | - | 53 | 53 |
| Allowance | (71) | (934) | (1,005) |
| **Subtotal** | **130** | **1,699** | **1,829** |
| **Total Guaranteed Loans** | **2,193** | **2,027** | **4,220** |

(Dollars in Millions)

| FY2011 | MMI/CMHI | GI/SRI | Total |
|---|---|---|---|
| **Guaranteed Loans** | | | |
| **Single Family Forward** | | | |
| Loan Receivables | 1,116 | 43 | 1,159 |
| Interest Receivables | - | 2 | 2 |
| Foreclosed Property | 5,199 | 277 | 5,476 |
| Allowance | (3,859) | (199) | (4,058) |
| **Subtotal** | **2,456** | **123** | **2,579** |
| **Multifamily/Healthcare** | | | |
| Loan Receivables | - | 681 | 681 |
| Interest Receivables | - | - | - |
| Foreclosed Property | - | - | - |
| Allowance | - | (448) | (448) |
| **Subtotal** | **-** | **233** | **233** |
| **HECM** | | | |
| Loan Receivables | 26 | 1,395 | 1,421 |
| Interest Receivables | 5 | 643 | 648 |
| Foreclosed Property | - | 61 | 61 |
| Allowance | (8) | (521) | (529) |
| **Subtotal** | **23** | **1,578** | **1,601** |
| **Total Guaranteed Loans** | **2,479** | **1,934** | **4,413** |

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

## Guaranteed Loans Outstanding:

(Dollars in Millions)

| Loan Guarantee Programs | Outstanding Principal of Guaranteed Loans, Face Value | Amount of Outstanding Principal Guaranteed |
|---|---|---|
| **Guaranteed Loans Outstanding (FY 2012):** | | |
| MMI/CMHI | | |
| Single Family Forward | 1,141,279 | 1,069,003 |
| Multifamily/Healthcare | 439 | 417 |
| **MMI/CMHI Subtotal** | **1,141,718** | **1,069,420** |
| GI/SRI | | |
| Single Family Forward | 18,094 | 14,868 |
| Multifamily/Healthcare | 93,492 | 85,852 |
| **GI/SRI Subtotal** | **111,586** | **100,720** |
| H4H | | |
| Single Family - 257 | 124 | 122 |
| **H4H Subtotal** | **124** | **122** |
| **Total** | **1,253,428** | **1,170,262** |
| **Guaranteed Loans Outstanding (FY 2011):** | | |
| MMI/CMHI | | |
| Single Family Forward | 1,062,363 | 1,002,724 |
| Multifamily/Healthcare | 407 | 384 |
| **MMI/CMHI Subtotal** | **1,062,770** | **1,003,108** |
| GI/SRI | | |
| Single Family Forward | 20,678 | 17,538 |
| Multifamily/Healthcare | 83,556 | 76,058 |
| **GI/SRI Subtotal** | **104,234** | **93,596** |
| H4H | | |
| Single Family - 257 | 125 | 124 |
| **H4H Subtotal** | **125** | **124** |
| **Total** | **1,167,129** | **1,096,828** |

## New Guaranteed Loans Disbursed:

| | | |
|---|---|---|
| **New Guaranteed Loans Disbursed (FY 2012):** | | |
| MMI/CMHI | | |
| Single Family Forward | 213,159 | 210,936 |
| Multifamily/Healthcare | 108 | 107 |
| **MMI/CMHI Subtotal** | **213,267** | **211,043** |
| GI/SRI | | |
| Single Family Forward | 163 | 161 |
| Multifamily/Healthcare | 18,643 | 18,548 |
| **GI/SRI Subtotal** | **18,806** | **18,709** |
| H4H | | |
| Single Family - 257 | - | - |
| **H4H Subtotal** | **-** | **-** |
| **Total** | **232,073** | **229,752** |
| **New Guaranteed Loans Disbursed (FY 2011):** | | |
| MMI/CMHI | | |
| Single Family Forward | 217,629 | 215,282 |
| Multifamily/Healthcare | 85 | 85 |
| **MMI/CMHI Subtotal** | **217,714** | **215,367** |
| GI/SRI | | |
| Single Family Forward | 177 | 176 |
| Multifamily/Healthcare | 16,512 | 16,442 |
| **GI/SRI Subtotal** | **16,689** | **16,618** |
| H4H | | |
| Single Family - 257 | 101 | 100 |
| **H4H Subtotal** | **101** | **100** |
| **Total** | **234,504** | **232,085** |

**Home Equity Conversion Mortgage (HECM)**

HECM (reverse mortgages) are not included in the previous tables due to the unique nature of the program. Since the inception of the program, FHA has insured 778,327 HECM loans with a maximum claim amount of $176 billion. Of these 778,327 HECM loans insured by FHA, 595,351 loans with a maximum claim amount of $140 billion are still active. As of September 30, 2012 the insurance-in-force (the outstanding balance of active loans) was $94 billion. The insurance in force includes balances drawn by the mortgagee; interest accrued on the balances drawn, service charges, and mortgage insurance premiums. The maximum claim amount is the dollar ceiling to which the outstanding loan balance can grow before being assigned to FHA.

**Home Equity Conversion Mortgage Loans Outstanding (not included in the balances in the previous table)**

(Dollars in Millions)

| Loan Guarantee Programs | | | Current Year Endorsements | Cumulative Current Outstanding Balance | Cumulative Maximum Potential Liability |
|---|---|---|---|---|---|
| **FY 2012** | MMI/CMHI | | $ 13,111 | $ 48,412 | $ 76,220 |
| | GI/SRI | | - | 45,153 | 63,639 |
| | | **Total** | **$ 13,111** | **$ 93,565** | **$ 139,859** |
| **FY 2011** | MMI/CMHI | | $ 18,141 | $ 39,686 | $ 65,624 |
| | GI/SRI | | - | 44,949 | 66,151 |
| | | **Total** | **$ 18,141** | **$ 84,635** | **$ 131,775** |

**Loan Guarantee Liability, Net:**

(Dollars in Millions)

| FY 2012 | | MMI/CMHI | | GI/SRI | | H4H | | Total |
|---|---|---|---|---|---|---|---|---|
| **LLR** | | | | | | | | |
| Single Family Forward | $ | 11 | $ | 1 | $ | - | $ | 12 |
| Multifamily/Healthcare | | - | | 5 | | - | | 5 |
| **Subtotal** | **$** | **11** | **$** | **6** | **$** | **-** | **$** | **17** |
| | | | | | | | | |
| **LLG** | | | | | | | | |
| Single Family Forward | $ | 37,105 | $ | 1,662 | $ | 20 | $ | 38,787 |
| Multifamily/Healthcare | | (17) | | (1,593) | | - | | (1,610) |
| HECM | | 5,548 | | 12,242 | | - | | 17,790 |
| **Subtotal** | **$** | **42,636** | **$** | **12,311** | **$** | **20** | **$** | **54,967** |
| | | | | | | | | |
| **Loan Guarantee Liability Total** | **$** | **42,647** | **$** | **12,317** | **$** | **20** | **$** | **54,984** |

| FY2011 | | MMI/CMHI | | GI/SRI | | H4H | | Total |
|---|---|---|---|---|---|---|---|---|
| **LLR** | | | | | | | | |
| Single Family Forward | $ | 18 | $ | - | $ | - | $ | 18 |
| Multifamily/Healthcare | | - | | 16 | | - | | 16 |
| **Subtotal** | **$** | **18** | **$** | **16** | **$** | **-** | **$** | **34** |
| | | | | | | | | |
| **LLG** | | | | | | | | |
| Single Family Forward | $ | 26,305 | $ | 799 | $ | 19 | $ | 27,123 |
| Multifamily/Healthcare | | (12) | | (1,055) | | - | | (1,067) |
| HECM | | 2,149 | | 7,864 | | - | | 10,013 |
| **Subtotal** | $ | 28,442 | $ | 7,608 | $ | 19 | $ | 36,069 |
| | | | | | | | | |
| **Loan Guarantee Liability Total** | **$** | **28,460** | **$** | **7,624** | **$** | **19** | **$** | **36,103** |

**Subsidy Expense for Loan Guarantees by Program and Component:**

(Dollars in millions)

| FY 2012 | MMI/CMHI | GI/SRI | H4H | Total |
|---|---|---|---|---|
| **Single Family Forward** | | | | |
| Defaults | 6,825 | 5 | - | 6,830 |
| Fees and Other Collections | (13,194) | (7) | - | (13,201) |
| Other | 992 | - | - | 992 |
| **Subtotal** | **(5,377)** | **(2)** | **-** | **(5,379)** |
| **Multifamily/Healthcare** | | | | |
| Defaults | 4 | 642 | - | 646 |
| Fees and Other Collections | (9) | (1,035) | - | (1,044) |
| Other | 1 | - | - | 1 |
| **Subtotal** | **(4)** | **(393)** | **-** | **(397)** |
| **HECM** | | | | |
| Defaults | 754 | - | - | 754 |
| Fees and Other Collections | (953) | - | - | (953) |
| **Subtotal** | **(199)** | **-** | **-** | **(199)** |
| **Total** | **(5,580)** | **(395)** | **-** | **(5,975)** |

| FY 2011 | MMI/CMHI | GI/SRI | H4H | Total |
|---|---|---|---|---|
| **Single Family Forward** | | | | |
| Defaults | 5,199 | 6 | 16 | 5,221 |
| Fees and Other Collections | (14,103) | (8) | (6) | (14,117) |
| Other | 2,170 | - | 1 | 2,171 |
| **Subtotal** | (6,734) | (2) | 11 | (6,725) |
| **Multifamily/Healthcare** | | | | |
| Defaults | 2 | 424 | - | 426 |
| Fees and Other Collections | (5) | (874) | - | (879) |
| Other | 1 | - | - | 1 |
| **Subtotal** | (2) | (450) | - | (452) |
| **HECM** | | | | |
| Defaults | 931 | - | - | 931 |
| Fees and Other Collections | (933) | - | - | (933) |
| **Subtotal** | (2) | - | - | (2) |
| **Total** | **(6,738)** | **(452)** | **11** | **(7,179)** |

**Subsidy Expense for Modifications and Reestimates:**

(Dollars in millions)

| FY 2012 | Total Modifications | Technical Reestimate |
|---|---|---|
| MMI/CMHI | - | 16,636 |
| GI/SRI | - | 3,993 |
| **Total** | - | 20,629 |
| **FY 2011** | | |
| MMI/CMHI | - | 8,395 |
| GI/SRI | (37) | (574) |
| **Total** | (37) | 7,821 |

**Total Loan Guarantee Subsidy Expense:**

(Dollars in millions)

| | FY 2012 | FY 2011 |
|---|---|---|
| MMI/CMHI | 11,054 | 1,657 |
| GI/SRI | 3,599 | (1,063) |
| H4H | - | 11 |
| **Total** | 14,653 | 605 |

## Subsidy Rates for Loan Guarantee Endorsements by Program and Component:

| (Percentage) | Defaults | Fees and Other Collections | Other | Total |
|---|---|---|---|---|
| **Budget Subsidy Rates for FY 2012 Loan Guarantees:** | | | | |
| **MMI/CMHI** | | | | |
| **Single Family** | | | | |
| Forward - 06/11/2012 - present | 3.65 | (6.40) | - | (2.75) |
| Forward - 04/09/2012 - 06/10/2012 | 3.65 | (6.65) | - | (3.00) |
| Forward - 10/01/11 - 04/08/2012 | 2.67 | (5.84) | 1.01 | (2.16) |
| HECM | 5.73 | (7.25) | - | (1.52) |
| Short Refinance | 6.38 | (5.99) | (0.39) | - |
| **Multifamily** | | | | |
| Cooperatives - 06/11/2012 - present | 3.65 | (6.40) | - | (2.75) |
| Cooperatives - 04/09/2012 - 06/10/2012 | 3.65 | (6.65) | - | (3.00) |
| Cooperatives - 10/01/11 - 04/08/2012 | 2.67 | (5.84) | 1.01 | (2.16) |
| **GI/SRI** | | | | |
| **Multifamily** | | | | |
| Apartments | 5.32 | (6.41) | - | (1.09) |
| Apartments Refinance | 3.45 | (5.62) | - | (2.17) |
| Apartments Refinance | 3.45 | (5.62) | - | (2.17) |
| **Healthcare** | | | | |
| Residential Care | 3.60 | (5.56) | - | (1.96) |
| Hospitals | 1.79 | (5.61) | - | (3.82) |

| (Percentage) | Defaults | Fees and Other Collections | Other | Total |
|---|---|---|---|---|
| **Budget Subsidy Rates for FY 2011 Loan Guarantees:** | | | | |
| **MMI/CMHI** | | | | |
| **Single Family** | | | | |
| Forward - (4/18/2011 - 9/30/2011) | 2.10 | (6.90) | 1.02 | (3.78) |
| Forward (10/1/2010 - 4/17/2011) | 2.61 | (6.17) | 0.98 | (2.58) |
| HECM | 5.11 | (5.12) | - | (0.01) |
| Short Refinance | - | - | - | - |
| **Multifamily** | | | | |
| Cooperatives - (4/18/2011 - 9/30/2011) | 2.63 | (6.50) | 1.02 | (2.85) |
| Cooperatives - Section 213 (10/1/2010 - 4/17/2011) | 2.61 | (6.17) | 0.98 | (2.58) |
| **GI/SRI** | | | | |
| **Multifamily** | | | | |
| Apartments - (1/1/2011 - 9/30/2011) | 3.59 | (5.50) | - | (1.91) |
| Apartments - (10/1/2010 - 12/31/2010) | 3.71 | (5.49) | - | (1.78) |
| Apartments Refinance (1/1/2011 - 9/30/2011) | 1.95 | (5.35) | - | (3.40) |
| Apartments Refinance - (10/1/2010 - 12/31/2010) | 1.97 | (5.32) | - | (3.35) |
| Apartments Refinance - (1/1/2011 - 9/30/2011) | 1.95 | (5.35) | - | (3.40) |
| Apartments Refinance - (10/1/2010 - 12/31/2010) | 1.97 | (5.32) | - | (3.35) |
| **Healthcare** | | | | |
| Residential Care (11/17/2010 - 9/30/2011) | 4.49 | (6.00) | - | (1.51) |
| Residential Care - (10/1/2010 - 11/16/2010) | 4.62 | 5.94 | - | 10.56 |
| Hospitals | 1.81 | (5.48) | - | (3.67) |
| H4H | | | | |
| Single Family - Section 257 | 15.95 | (6.14) | 1.09 | 10.90 |

## Schedule for Reconciling Loan Guarantee Liability Balances:

| (Dollars in Millions) | FY 2012 LLR | FY 2012 LLG | FY2011 LLR | FY2011 LLG |
|---|---|---|---|---|
| **Beginning Balance of the Loan Guarantee Liability** | $ 34 | $ 36,070 | $ 53 | $ 34,905 |
| Add: Subsidy Expense for guaranteed loans disbursed during the reporting fiscal years by component: | | | | |
| Default Costs (Net of Recoveries) | - | 8,230 | - | 6,578 |
| Fees and Other Collections | - | (15,198) | - | (15,929) |
| Other Subsidy Costs | - | 993 | - | 2,172 |
| **Total of the above subsidy expense components** | **-** | **(5,975)** | **-** | **(7,179)** |
| Adjustments: | | | | |
| Fees Received | | 10,733 | | 8,582 |
| Foreclosed Property and Loans Acquired | | 5,857 | | 5,082 |
| Claim Payments to Lenders | | (20,260) | | (17,200) |
| Interest Accumulation on the Liability Balance | | 1,417 | | 1,388 |
| Other | | (36) | | 11 |
| **Ending Balance before Reestimates** | **34** | **27,806** | **53** | **25,589** |
| Add or Subtract Subsidy Reestimates by Component: | | | | |
| Technical/Default Reestimate | | | | |
| Subsidy Expense Component | (17) | 14,553 | (19) | (1,647) |
| Interest Expense Component | - | 5,616 | - | 1,397 |
| Adjustment of prior years' credit subsidy reestimates | - | 6,992 | - | 10,730 |
| **Total Technical/Default Reestimate** | **(17)** | **27,161** | **(19)** | **10,480** |
| **Ending Balance of the Loan Guarantee Liability** | **$ 17** | **$ 54,967** | **$ 34** | **$ 36,069** |

## Administrative Expense:

| (Dollars in Millions) | FY 2012 | FY2011 |
|---|---|---|
| MMI/CMHI | 646 | 663 |
| GI/SRI | - | 6 |
| H4H | - | 4 |
| **Total** | **646** | **673** |

**Credit Reform Valuation Methodology**

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

To apply the present value computations, FHA divides loans into cohorts and risk categories. Multifamily and Healthcare cohorts are defined based on the year in which loan guarantee commitments are made. Single Family mortgages are grouped into cohorts based on loan endorsement dates for the GI/SRI and MMI fund. Within each cohort year, loans are subdivided by "risk" categories, which are programmatic groupings used for the President's Budget. Each risk category has characteristics that distinguish it from others, including types of loans and properties, premium rate structure, and underwriting and servicing requirements. For activity related to fiscal years 1992-2008, the MMI Fund has one risk category, and for activity related to fiscal years 2009 and onward, the MMI Fund has two risk categories, with HECM loans considered a separate category from standard forward loans. The Single Family GI/SRI Fund loans are grouped into four risk categories. There are thirteen different Multifamily risk categories and six Healthcare categories.

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

**Significant Assumptions** – FHA developed economic and financial models in order to estimate the present value of future program cash flows. The models incorporate information on the cash flows' expected magnitude and timing. The results of those models rely heavily on the following loan performance assumptions:

- <u>Conditional Termination Rates:</u> The estimated probability of an insurance policy claim or non-claim termination in each year of the loan guarantee's term, given that a loan survives until that year. Surviving loans generally provide an ongoing (premium) revenue stream.

- <u>Claim Amount:</u> The estimated amount of the claim payment relative to the unpaid principal balance at the time the claim occurs.

- <u>Recovery Rates:</u> The estimated percentage of a claim payment or defaulted loan balance that is recovered through disposition of a mortgage note or underlying property.

Additional information about loan performance assumptions is provided below:

<u>Sources of data</u>: FHA uses historical data obtained from its internal business systems as the basis for behavioral models of insured-loan performance. Those data include loan, borrower, and property characteristics, as well as servicing records (delinquencies) and information on Secretary-held notes and properties.

<u>Economic assumptions</u>: Independent forecasts of economic conditions are used in conjunction with loan-level data to generate program specific claim and prepayment rates. Sources of forecast data include IHS Global Insight and Moody's Analytics. OMB provides other economic assumptions used such as discount rates from the latest President's Budget.

<u>Actuarial Review</u>: An independent actuarial study of the MMI Fund each year produces the conditional claim and prepayment rates and loss severity rates used as inputs to the Single Family LLG calculation, both for forward and HECM loans.

Reliance on historical performance: FHA analyzes the historical performance of its insured portfolio in relation to economic conditions at the time. This performance is integrated econometrically with economic forecasts to generate future performance patterns for the outstanding portfolios. Changes in legislation, program requirements, tax treatment, and economic factors all influence loan performance. FHA assumes that each portfolio will continue to perform consistently with its historical experience, taking into account differences due to changing portfolio composition—-via loan, borrower, and property characteristics—and forecasted economic conditions.

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

Discount rates: The disbursement-weighted interest rate on U.S. Treasury securities of maturity comparable to guaranteed loan term is the discount factor used in the present value calculation for cohorts 1992 to 2000. For the 2001 and future cohorts, the rate on U.S. Treasury securities of maturities comparable to cash flow timing for the loan guarantee is used in the present value calculation. This latter methodology is referred to as the basket-of-zeros discounting methodology. OMB provides these rates to all Federal agencies for use in preparing credit subsidy estimates and requires their use under OMB Circular A-11, Part 4, and "Instructions on Budget Execution." The basket-of-zeros discount factors are also disbursement weighted. For 2012 LLG estimation we use discount rates consistent with the FY2013 President's Budget.

**Analysis of Change in the Liability for Loan Guarantees** LLG values are estimates of future cash flows based upon business run-off or run-down scenarios. They provide an accounting of requirements for loss reserves against anticipated future credit expenses, net of anticipated future premium revenues, on active insurance portfolios at the end of the fiscal year of record. There is no consideration of any potential offsets from future insurance commitments. Increases in LLG from the previous year suggest the need for larger loss reserves, and declines suggest that some current reserves can be released. This treatment is in accordance with Federal GAAP standards. The LLG provides to FHA management an anticipation of what can be expected in the formal budget re-estimate exercise that takes place in December of each year. That is where final determinations are made concerning required cash reserves against future, anticipated credit losses. In that exercise, the value of each portfolio run-off is compared to current balances in the various Financing Accounts that support each program and budget cohort. Under Federal Credit Reform, comparison of the updated net-present-value calculations of the run-off to current balances in the Financing Accounts determines whether there are to be net flows from those business accounts to the Federal budget (net receipts), or net flows from budget accounts to the business accounts (indirect appropriations). This annual budget re-estimate exercise is performed for all Federal direct loan and guarantee programs.

FHA has estimated and reported on LLG calculations since fiscal year 1992, the first year that Federal Credit Reform was in effect. Over this time, FHA's reported LLG values have shown measurable year-to-year variance. That variance is caused by four factors: (1) adding a new year of insurance commitments each year; (2) an additional year of actual loan performance data used to calibrate forecasting models, (3) revisions to the methodologies employed to predict future loan performance along with updated economic forecasts, and (4) programmatic/policy changes that affect the characteristics of insured loans or potential credit losses.

Described below are the programs that comprise the majority of FHA's loan guarantee business. These descriptions highlight factors that contributed to changing LLG estimates for FY 2012. Overall, FHA's liability increased from the fiscal year 2011 estimates.

*Mutual Mortgage Insurance (MMI) Fund* – On net, the MMI Fund LLG increased from $28,454 million at the end of fiscal year 2011 to $42,652 at the end of fiscal year 2012. This increase is the result of many factors. There are, however, three primary factors at work this year in the forward-loan portfolio and three in the HECM (reverse mortgage) portfolio. First for forward loans is that historically low interest rates accelerate portfolio run-off and decrease anticipated revenues. Any recapture of those loans (and revenue streams) in future books-of-business is not considered in the LLG calculation. Second are modeling refinements that have the effect of changing the balance of anticipated claims to favor more conveyance actions (via foreclosure) and fewer short sales, and that also increase anticipated losses on conveyance claims in the near term. The third major factor affecting portfolio valuation this year is that home-price forecasts now call for an additional year delay before recovery takes place, and slower price growth in that recovery.

The first factor affecting the HECM LLG calculation this year is revised estimates of borrower and loan longevity. Loans that are active for 15 years or more have heightened risk of net losses for FHA once termination occurs and final recoveries (via property sales) are known. This year's model predicts more loans in the current portfolio will likely survive beyond the 15-year mark. Not only are borrowers expected to live longer, but current housing market conditions create situations where those that might otherwise have sold their homes and moved in the first five-to-ten years decide, instead, to age in-place. Second is a recessionary effect of more properties being conveyed to HUD after loan termination than has been program experience in the past. In the past, it was common for as many as 70 percent of properties to be sold directly by owners and estate executors. In the current environment, that rate has fallen to just 30 percent. The impact for LLG calculations comes via the property management expenses HUD incurs after conveyance. Those contractor expenses are not present when there is a direct owner/executor property-sale. The third principal factor increasing HECM LLG this year is an updated adjustment for so-called tax-and-insurance defaults. Borrowers are required to pay all property tax assessments and maintain hazard insurance during the life of the HECM loan. When they do not make these payments, the loan servicer advances funds, charges that to the loan balance, and then works with the borrower on a repayment plan. This year we estimate that fewer borrowers will be successful under such repayment plans. That creates predictions of more early loan terminations, which both lower revenue predictions and increase estimates of short-fall claims (property value less than loan amount).

To address continued weakness in housing markets, and its impact on LLG, FHA raised forward-loan insurance premiums in April 2012. This was the fourth premium increase under the current Administration and the fifth since the financial crisis of 2008. An additional pricing adjustment was made in June of this year, with a 25 basis point annual premium add-on for loans above $625,500. In a separate move, and in order to accelerate refinancing of loans insured during the peak years of the housing market into today's historically-low interest rates, FHA created a premium-rate carve-out for loans insured prior to June 2009. Starting in June 2012, loans with FHA insurance dates before June 2009 have the option of a streamline refinance action with a minimum upfront premium (1 basis point) and annual premiums consistent with their present payments (55 basis points). Though that will serve to create surplus-income cushions in household budgets that will reduce anticipated credit costs of the new refinance loans, it has the immediate effect of increasing LLG by expanding anticipated payoff rates during the next two years.

FHA continues to face delayed claim actions because of significant foreclosure process bottlenecks in so-called judicial States, where court approval is required to schedule foreclosure auctions. Those delays are addressed in the loan performance forecasts. This year, the MMI Fund LLG includes an assumption that 56,000 of those loans will go to conveyance claim in FY 2013, apart from normal model predictions out of the seriously delinquent inventory. While that might result in an over-prediction of near-term claims, it is done to avoid the possibility that the LLG calculations might under-predict claims over the next three years because the forecasting equations cannot accurately measure the decline in cure potential for loans in serious delinquency for multiple years.

There are also many loans still subject to servicer review of previous foreclosure actions, under the National Mortgage Settlement. That Settlement was reached in mid 2012. In addition to requirements for new evaluations of borrower assistance and review of previous foreclosure actions, the Settlement resulted in payments of $1.1 billion to HUD for anticipated costs of faulty foreclosures and claims. Though such funds do not directly reduce the LLG, they provide a cash offset. Likewise, the primary effect of premium rate increases in 2012 is not on the 2012 LLG calculation, but rather on future LLG calculations and HUD's ability to re-establish the statutory two percent capital ratio for the MMI Fund. Internal calculations show that premium rate changes since 2009 have resulted in a $10 billion improvement in MMI Fund financial status at this time. The effect of the current premium structure as opposed to that which existed prior to 2009 on just the upcoming FY2013 cohort is estimated to be another $10 billion.

*GI/SRI Home Equity Conversion Mortgage (HECM)* - HECM endorsements from fiscal years 1990-2008 remain in the GI/SRI Fund. The liability for these loans increased from $7,865 million at the end of FY 2011 to $12,242 million at the end of FY 2012. This change was primarily due to the same factors mentioned above for MMI Fund HECM loans. Loans remaining in the GI/SRI fund did benefit this year from continued slower UPB (Unpaid Principal Balance) growth due to lower current and future (projected) interest rates for adjustable-rate mortgages. Over 99 percent of the remaining GI/SRI HECM loans have adjustable interest rates.

*GI/SRI Section 223(f)* - Section 223(f) of the National Housing Act permits FHA mortgage insurance for the refinance or acquisition of existing multifamily rental properties consisting of five or more units. Under this program, FHA may insure up to 85 percent of the lesser of the project's appraised value or its replacement cost. Projects insured under the program must be at least three years old. The Section 223(f) program is the largest multifamily program in the GI/SRI Fund with an insurance-in-force of $20 billion. The Section 223(f) liability is negative, meaning that the present value of expected future premium revenues is greater than the present value of expected future (net) claim expenses. The 223(f) liability decreased this year by $246 million, from ($280) million to ($526) million, and principally due to lower claim expectations and an additional $5.8 billion of FY 2012 endorsements.

*GI/SRI Section 223(a)(7)* - Section 223(a)(7) gives HUD authority to insure refinance mortgages that replace loans currently guaranteed by FHA. Under this program, the principal amount of the new mortgage may be no more than the lesser of the original amount of the prior mortgage and the remaining unpaid principal balance of that loan. Commercial property loans insured under any sections of the National Housing Act may be refinanced under 223(a)(7), including those already under 223(a)(7). The Section 223(a)(7) program is the second largest multifamily program with an insurance-in-force of $15.5 billion. The Section 223(a)(7) liability is negative, meaning that the present value of expected future premium revenues is greater than the present value of expected future (net) claim expenses. The 223(a)(7) liability decreased this year by $170 million, from ($273) million to ($443) million, principally due to lower claim expectations and an additional $4.3 billion of endorsements in FY 2012.

*GI/SRI Section 221(d)(4)* - Section 221(d)(4) of the National Housing Act authorizes FHA mortgage insurance for the construction or substantial rehabilitation of multifamily rental properties with five or more units. Under this program, FHA may insure up to 90 percent of the total project cost. This is the third largest multifamily program in the GI/SRI Fund, with an insurance-in-force of $12 billion. The Section 221(d)(4) liability increased by $24 million this year, from ($10) million to $14 million. This was principally due to lower premium revenue expectations resulting from increased projected prepayment speeds caused by historically low interest rates.

*GI/SRI Section 232 Healthcare New Construction* (NC) - The Section 232 NC program provides mortgage insurance for construction or substantial rehabilitation of nursing homes and assisted-living facilities. FHA insures a maximum of 90 percent of the estimated value of the physical improvements and major movable equipment. The Section 232 NC program has an insurance-in-force of $4 billion. The Section 232 NC liability decreased by $22 million from ($16) million in FY 2011 to ($38) million in FY 2012 due to improved recovery rate expectations and lower projected prepayments. A negative LLG value means that FHA anticipates that future premium revenues will be larger than net credit expenses of the current, active insured portfolio.

*GI/SRI Section 232 Healthcare Purchasing or Refinancing* - The Section 232 Refinance program provides mortgage insurance for two purposes: purchasing or refinancing of projects that do not need substantial rehabilitation, and installation of fire safety equipment for either private, for-profit businesses or non-profit associations. For existing projects, FHA insures a maximum of 85 percent of the estimated value of the physical improvements and major movable equipment. The Section 232 Refinance program has an insurance-in-force of $17 billion. Its LLG decreased by $115 million, from ($143) million in FY 2011 to ($258) million in FY 2012, due to lower claim expectations and significantly increased insurance-in-force. New insurance commitments in FY 2012 were for $5.2 billion.

*GI/SRI Section 242 Hospitals* - The Section 242 Hospitals program provides mortgage insurance for the construction, substantial rehabilitation, or refinance of hospitals and/or the purchase of major hospital equipment to either private, for-profit businesses, or non-profit associations. FHA insures a maximum of 90 percent of the estimated replacement cost of the hospital, including the installed equipment. The Section 242 program has an insurance-in-force of $8.6 billion. The Section 242 liability decreased by $23 million from ($193) million in FY 2011 to ($216) million in FY 2012 due to revised loan performance modeling and a slightly higher insurance-in-force.

**Risks to LLG Calculations**

LLG calculations for most major programs now use Monte Carlo simulations and stochastic economic forecasts. What is booked as an LLG value is the average or arithmetic “mean” value from a series of projections that view loan portfolio performance under a large variety of possible economic circumstances. The individual economic-scenario forecasts are designed to mimic the types of movements in factors such as home prices, interest rates, and apartment vacancy rates that have actually occurred in the historical record. By creating a large number of these scenarios, each independent of the others, one creates a universe of potential outcomes that define the possible set of LLG values in an uncertain world. Using the mean value across all forecast scenarios is valuable for providing some consideration for “tail risk.” Tail risk occurs in most loan guarantee portfolios because potential losses under the worst scenarios are multiples of potential gains under the best scenarios. The size of that multiple creates an addition to LLG, which is the difference between the mean value from the simulations and the median value. The median is the point at which half of the outcomes are worse and half are better. By booking a mean value rather than a median, FHA is essentially providing some additional protection in its loss reserves against adverse outcomes. At the same time, booking an LLG based on a mean value results in a better than even chance future revisions will be in the downward direction. Comparisons of mean-value results to indicators of the range of possible outcomes from the Monte Carlo simulations for Single Family forward and HECM mortgages in the MMI LLG are shown in the table below. The representative outcomes shown there are for the inter-quartile range ($25^{th}$ and $75^{th}$ percentiles), and a standard indicator of “tail” outcomes ($95^{th}$ percentile).

| Range of LLG Values Found in Monte Carlo Simulations (*all dollars in millions*) | | | | |
|---|---|---|---|---|
| **Program Area** | **25th Percentile** | **Mean** | **75th Percentile** | **95th Percentile** |
| **MMI Fund** | | | | |
| Single-Family Forward Mortgages | $ 30,698 | $ 37,105 | $ 43,275 | $ 53,327 |
| Single Family Reverse Mortgages (HECM) | $ 3,790 | $ 5,548 | $ 6,815 | $ 10,744 |
| Total | $ 34,488 | $ 42,653 | $ 50,090 | $ 64,071 |

The uncertainty built into Monte Carlo forecasts is only for economic risk, and not for model risk. Model risk is the chance that the actual forecasting equations could be outdated because: 1) borrower behavioral patterns are changing, 2) they might not give the best predictions under economic conditions rare in the past but expected to be more prevalent in the present and/or future, or 3) some mis-specification in how variables are calculated or the types of forecasting equations used. Each year, FHA undergoes an evaluation of these factors with the various contractors that support loan-performance forecast model development. There is a continuous cycle of improvement, whereby lessons learned from the most recent round of annual portfolio valuations—in the independent actuarial study, the LLG valuations, and the President's Budget—are used as a basis for new research and model development in the next year.

This fiscal year, the Mutual Mortgage Insurance Fund capital reserve ratio fell below zero to -1.44 percent. While this point-in-time valuation of the economic net worth of FHA's portfolio is obviously of concern, it does not mean that FHA will have to request permanent indefinite authority from the Treasury. Any required draw would be determined not by the economic assumptions of this review but those used in the President's budget released in February. The FY 2012 year-end capital reserve balance was $3.3 billion. It should be noted that the economic value of the MMI fund does not take into consideration revenues generated after FY 2012. Any upward re-estimate of the FY 2012 LGL using the economic assumptions from the budget would be paid for in FY 2013 with the balance of funds in the capital reserve plus the negative subsidy that will be generated from the FY 2013 book of business.

At this point in the economic cycle, with demand for rental units high, and loans refinancing to historically low interest rates, near term risks to the multifamily LLG calculation appear to be low. However, over the longer term, risks come from many sources--changes in population growth and household formation, the supply of rental housing in each market where FHA has a presence, and local employment conditions. Risks also come from FHA's policy of insuring loans pre-construction in its 221(d)(4) program. LLG calculations are then subject to risk from the abilities of new projects to find viable markets when they do come on-line. New construction loans approved in 2007 – 2009 have now gone through several annual rounds of rentals to prove market viability. The combined 2010-2012 cohorts, which are just now starting to come into rent-up, are more than twice as large as 2007-2009, by dollar volume. Valuations of the newer portfolio are dependent upon continued trends in rental vacancy rates and rental-price growth.

For Healthcare programs (Sections 232 and 242), LLG risk comes principally from health-care reimbursement rates from Medicare and Medicaid. In addition, the financial health of State and Municipal government entities also is a source of LLG risk, as many of the FHA-insured projects benefit, in part, from periodic cash infusions from those entities. Risk also varies as does the quality of business management at each facility, and from the supply of medical care in each community relative to demand

and the abilities of facility management to adapt to changing technologies and the competitive landscape. These are factors for which it is difficult to predict future trends.

**Pre-Credit Reform Valuation Methodology**

FHA values its Pre-Credit Reform related notes and properties in inventory at net realizable value, determined on the basis of net cash flows. To value these items, FHA uses historical claim data, revenues from premiums and recoveries, and expenses of selling and maintaining property.

*MMI Single Family LLR* For the single family portfolio, the remaining insurance-in-force for pre-credit reform loans is $3.5 billion. The aggregate liability for the remaining pre-credit reform loans in FY 2012 is $11 million, which is a $7 million increase from the $18 million estimate in FY 2011.

*GI/SRI Multifamily & Healthcare LLR* - For the Multifamily and Healthcare portfolio, the remaining insurance-in-force for pre-credit reform loans is $1.2 billion. The aggregate liability for the remaining pre-credit reform loans in FY 2012 is ($1.5) million, which is a $6.5 million decrease from the $5 million estimate in FY 2011. The year-over-year decrease in aggregate liability is due to lower prepayment expectations for the remaining loans compared with those for loans that terminated or matured in the past year.

## Note 7. Other Assets

The following table presents the composition of Other Assets held by FHA as of September 30, 2012 and 2011:

(Dollars in millions)

| | FY 2012 | FY2011 |
|---|---|---|
| **Intragovernmental:** | | |
| Advances to HUD for Working Capital Fund Expenses | $ 3 | $ 3 |
| **Total** | **$ 3** | **$ 3** |
| | | |
| **With the Public:** | | |
| Escrow Monies Deposited at Minority-Owned Banks | $ 55 | $ 66 |
| Deposits in Transit | 5 | 3 |
| **Total** | **$ 60** | **$ 69** |

### Advances to HUD for Working Capital Fund Expenses

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

### Escrow Monies Deposited at Minority-Owned Banks

FHA holds in trust escrow monies received from the borrowers of its multifamily mortgage notes to cover property repairs and renovations expenses. These escrow monies are deposited at the U.S. Treasury (see Note 2), invested in U.S. Treasury securities (see Note 4 - GI/SRI Investments) or deposited at minority-owned banks.

### Deposits in Transit

Deposits in Transit is cash that has not been confirmed as being received by the U.S. Treasury. Once the U.S. Treasury has confirmed that this cash has been received, the cash will be moved from Deposits in Transit to Fund Balance with U.S. Treasury.

## Note 8. Accounts Payable

Accounts Payable as of September 30, 2012 and 2011 are as follows:

(Dollars in millions)

| | FY 2012 | FY2011 |
|---|---|---|
| **Intragovernmental:** | | |
| Claims Payable to Ginnie Mae | $6 | $ - |
| **Total** | $6 | $0 |

| | FY 2012 | FY2011 |
|---|---|---|
| **With the Public:** | | |
| Claims Payable | $503 | $ 474 |
| Premium Refunds Payable | 143 | 142 |
| Single Family Property Disposition Payable | 42 | 79 |
| Miscellaneous Payables | 33 | 28 |
| **Total** | **$721** | **$ 723** |

### Claims Payable

Claims payable represents the amount of claims that have been processed by FHA, but the disbursement of payment to lenders has not taken place at the end of the reporting period.

### Premium Refunds

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

### Single Family Property Disposition Payable

Single family property disposition payable includes management and marketing contracts and other property disposition expenses related to foreclosed property.

### Miscellaneous Payables

Miscellaneous payables include interest enhancement payables, interest penalty payables for late payment of claims, generic debt payables and other payables related to various operating areas within FHA.

## Note 9. Debt

The following tables describe the composition of Debt held by FHA as of September 30, 2012 and 2011:

(Dollars in millions)

| | FY2011 | | | FY 2012 | |
|---|---|---|---|---|---|
| | Beginning Balance | Net Borrowing | Ending Balance | Net Borrowing | Ending Balance |
| **Agency Debt:** | | | | | |
| Debentures Issued to Claimants | $ 10 | $ - | $ 10 | $ (10) | $ - |
| **Other Debt:** | | | | | |
| Borrowings from U.S. Treasury | 4,749 | 1,283 | 6,032 | 5,495 | 11,527 |
| **Total** | **$ 4,759** | **$ 1,283** | **$ 6,042** | **$ 5,485** | **$ 11,527** |

| | FY 2012 | FY2011 |
|---|---|---|
| **Classification of Debt:** | | |
| Intragovernmental Debt | $ 11,527 | $ 6,032 |
| Debt Held by the Public | - | 10 |
| **Total** | **$ 11,527** | **$ 6,042** |

### Debentures Issued to Public

The National Housing Act authorizes FHA, in certain cases, to issue debentures in lieu of cash to settle claims. FHA-issued debentures bear interest at rates established by the U.S. Treasury. There are no debentures outstanding at the end of FY 2012. The interest rates related to the outstanding debentures in FY 2011 ranged from 4.00 percent to 13.375 percent. Lenders may redeem FHA debentures prior to maturity in order to pay mortgage insurance premiums to FHA, or they may be called with the approval of the Secretary of the U.S. Treasury.

The par value of debentures outstanding, not including accrued interest, as of September 30, 2011 was $10.3 million. The fair value for fiscal year 2011 was $21 million.

### Borrowings from U.S. Treasury

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

During fiscal year 2012, FHA's U.S. Treasury borrowings carried interest rates ranging from 1.68 percent to 7.39 percent. In fiscal year 2011, they carried interest rates ranged from 2.42 percent to 7.59 percent. The maturity dates for these borrowings occur from September 2017 – September 2032. Loans may be repaid in whole or in part without penalty at any time prior to maturity.

## Note 10. Other Liabilities

The following table describes the composition of Other Liabilities as of September 30, 2012 and 2011:

(Dollars in millions)

| FY 2012 | | Current |
|---|---|---|
| **Intragovernmental:** | | |
| Receipt Account Liability | | 3,473 |
| **Total** | **$** | **3,473** |
| | | |
| **With the Public:** | | |
| Trust and Deposit Liabilities | $ | 88 |
| Multifamily Notes Unearned Revenue | | 234 |
| Miscellaneous Liabilities | | 74 |
| **Total** | **$** | **396** |

| FY2011 | | Current |
|---|---|---|
| **Intragovernmental:** | | |
| Receipt Account Liability | | 3,051 |
| **Total** | **$** | **3,051** |
| | | |
| **With the Public:** | | |
| Trust and Deposit Liabilities | $ | 111 |
| Multifamily Notes Unearned Revenue | | 230 |
| Disbursements in Transit | | 75 |
| Miscellaneous Liabilities | | 14 |
| **Total** | **$** | **430** |

### Receipt Account Liability

The receipt account liability is created from negative credit subsidy from new endorsements, downward credit subsidy reestimates, loan modifications, and unobligated balances from the liquidating account in the GI/SRI receipt account. A corresponding amount of Fund Balance with Treasury is classified as a non-entity asset.

### Trust and Deposit Liabilities

Trust and deposit liabilities include mainly escrow monies received by FHA for the borrowers of its mortgage notes and earnest money received from potential purchasers of the FHA foreclosed properties. The escrow monies are eventually disbursed to pay for insurance, property taxes, and maintenance expenses on behalf of the borrowers. The earnest money becomes part of the sale proceeds or is returned to any unsuccessful bidders.

### Disbursements in Transit

Disbursements in Transit is cash that has not been confirmed as being disbursed by the U.S. Treasury. Once the U.S. Treasury has confirmed that this cash has been disbursed, the cash will be removed from Disbursements in Transit and taken out of Fund Balance with U.S. Treasury.

**Multifamily Notes Unearned Revenue**

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

**Miscellaneous Liabilities**

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

## Note 11. Commitments and Contingencies

**Litigation**

FHA is party in various legal actions and claims brought by or against it. In the opinion of management and general counsel, the ultimate resolution of these legal actions will not have a material effect on FHA's consolidated financial statements as of September 30, 2012. There are pending or threatened legal actions where judgment against FHA is reasonably possible with an estimated potential loss of $101 million or more. In addition, there are legal actions where judgment is probable but FHA is unable to estimate the amount or range of the potential loss. Therefore, no amount is being accrued.

Related Party

As of September 30, 2012 and 2011, the Government National Mortgage Association (Ginnie Mae), another component of HUD, held defaulted FHA-insured mortgage loans. These loans, acquired from defaulted mortgage-backed securities issuers, had the following balances:

| | FY 2012 (in millions) | FY 2011 (in millions) |
|---|---|---|
| Mortgages Held for Investment | $6,210 | $5,886 |
| Foreclosed Properties (Pre-Claim) | $829 | $568 |
| Short Sale Claims Receivable | $15 | $25 |

Ginnie Mae may submit requests for foreclosure on short sale claim payments to FHA for some or all of these loans. The foreclosure properties represent post foreclosure FHA insured loans where properties have not yet been conveyed and the claims filled. Subject to all existing claim verification controls, FHA would pay such claims to Ginnie Mae upon conveyance of the foreclosed property to FHA. Any liability for such claims, and offsetting recoveries, has been reflected in the Loan Guaranty Liability on the accompanying financial statements based on the default status of the insured loans.

## Note 12. Gross Costs

Gross costs incurred by FHA for the period ended September 30, 2012 and 2011 are as follows:

(Dollars in millions)

| | FY2012 Total | FY2011 Total |
|---|---|---|
| **Intragovernmental:** | | |
| Interest Expense | $ 463 | $ 412 |
| Imputed Cost | 15 | 18 |
| Other Expenses | 14 | 5 |
| **Total** | **$ 492** | **$ 435** |
| | | |
| **With the Public:** | | |
| Salary and Administrative Expense | $ 633 | $ 668 |
| Subsidy Expense | 14,653 | 605 |
| Interest Expense | 6,532 | 2,658 |
| Interest Accumulation Expense | 1,417 | 1,388 |
| Bad Debt Expense | (303) | (160) |
| Loan Loss Reserve | (16) | (20) |
| Other Expenses | 115 | 123 |
| **Total** | **$ 23,031** | **$ 5,262** |
| | | |
| **Total Gross Costs** | **$ 23,523** | **$ 5,697** |

**Interest Expense**

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

**Interest Accumulation Expense**

Interest accumulation expense is the net of interest expense on borrowing and interest revenue in the financing accounts for MMI/CMHI and GI/SRI.

**Imputed Costs/Imputed Financing**

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

**Salary and Administrative Expenses**

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

**Subsidy Expense**

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

**Bad Debt Expense**

Bad debt expense represents the provision for loss recorded for uncollectible amounts related to FHA's pre-1992 accounts receivable and credit program assets. FHA calculates its bad debt expense based on the estimated change of these assets' historical loss experience and FHA management's judgment concerning current economic factors.

**Loan Loss Reserve Expense**

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

**Other Expenses**

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

## Note 13. Earned Revenue

Earned revenues generated by FHA for the period ended September 30, 2012 and 2011 are as follows:

| (Dollars in millions) | | FY 2012 Total | | FY 2011 Total |
|---|---|---|---|---|
| **Intragovernmental:** | | | | |
| Interest Revenue from Deposits at U.S. Treasury | $ | 1,881 | $ | 1,799 |
| Interest Revenue from MMI/CMHI Investments | | 117 | | 173 |
| Gain on Sale of MMI/CMHI Investments | | 1,116 | | 133 |
| **Total Intragovernmental** | **$** | **3,114** | **$** | **2,105** |
| | | | | |
| **With the Public:** | | | | |
| Insurance Premium Revenue | $ | 9 | $ | 13 |
| Income from Notes and Properties | | 82 | $ | 55 |
| Other Revenue | | 21 | $ | 5 |
| **Total With the Public** | **$** | **112** | **$** | **73** |
| | | | | |
| **Total Earned Revenue** | **$** | **3,226** | **$** | **2,178** |

### Interest Revenue

Intragovernmental interest revenue includes interest revenue from deposits at the U.S. Treasury and investments in U.S. Treasury securities. FHA's U.S. Treasury deposits are generated from post-1991 loan guarantees and direct loans in the financing accounts. FHA's investments in U.S. Treasury securities consist of investments of surplus resources in the MMI/CMHI Capital Reserve account and of escrow monies collected from borrowers in the GI/SRI liquidating accounts.

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

### Gain on Sale of MMI/CMHI Investments

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

### Premium Revenue

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

**Up-front Premiums**

The up-front premium rates vary according to the mortgage type and the year of origination. The FHA up-front premium rates in fiscal year 2012 were:

| | Upfront Premium Rates |
|---|---|
| Single Family: | |
| 10/1/2011 - 4/9/2012 | 1.00% |
| 4/9/2012 - Current | 1.75% |
| Multifamily | 0.25%, 0.45%, 0.50%,0.80% or 1.00% |
| HECM Standard | 2.00% (Based on Maximum Claim Amount) |
| HECM Saver | 0.01% (Based on Maximum Claim Amount) |

**Annual Periodic Premiums**

The periodic premium rate is used to calculate monthly or annual premiums. These rates also vary by mortgage type and program. The FHA annual periodic premium rates in fiscal year 2012 were:

| | Annual Periodic Premium Rates |
|---|---|
| Single Family: | |
| 10/1/2011 - 6/10/2012 | 1.10% or 1.15% |
| 6/11/2012 -9/30/2012 | 1.20%, 1.25%, 1.45%, or 1.50% |
| Multifamily | 0.45%, 0.50%,0.570% or 0.80% |
| HECM (Standard and Saver) | 1.25% |

For Title I, the maximum insurance premium paid for guaranteed cases endorsed in years 1992 through 2001 is equal to 0.50 percent of the loan amount multiplied by the number of years of the loan term. The annual insurance premium for a Title I Property Improvement loan is 0.50 percent of the loan amount until the maximum insurance charge is paid. The annual insurance premium of a Title I Manufactured Housing loan is calculated in tiers by loan term until the maximum insurance charge is paid. For guaranteed cases endorsed in fiscal year 2012, the Title I annual insurance premium is 1.00 percent of the loan amount until maturity.

**Income from Notes and Property**

Income from Notes and Property includes revenue associated with FHA pre-1992 loan guarantees. This income includes revenue from Notes and Properties held, sold, and gains associated with the sale.

**Other Revenue**

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

## Note 14. Gross Cost and Earned Revenue by Budget Functional Classification

FHA cost and earned revenue reported on the Statements of Net Cost is categorized under the budget functional classification (BFC) for Mortgage Credit (371). All FHA U.S. Treasury account symbols found under the department code “86” for Department of Housing and Urban Development appear with the Mortgage Credit BFC.

## Note 15. Transfers

Transfers in/out incurred by FHA for the period ended September 30, 2012 and 2011 are as follows:

(Dollars in millions)

| Budgetary Financing Sources | Cumulative Results of Operations | Unexpended Appropriations | Total |
|---|---|---|---|
| Treasury | $ (395) | $ - | $ (395) |
| HUD | - | (72) | (72) |
| **FY 2012 Total** | **$ (395)** | **$ (72)** | **$ (467)** |

| Other Financing Sources | Cumulative Results of Operations | Unexpended Appropriations | Total |
|---|---|---|---|
| Treasury | $ (1,025) | $ - | $ (1,025) |
| HUD | 544 | - | 544 |
| **FY 2012 Total** | **$ (481)** | **$ -** | **$ (481)** |

| Budgetary Financing Sources | Cumulative Results of Operations | Unexpended Appropriations | Total |
|---|---|---|---|
| Treasury | $ (492) | $ - | $ (492) |
| HUD | - | (72) | (72) |
| **FY2011 Total** | **$ (492)** | **$ (72)** | **$ (564)** |

| Other Financing Sources | Cumulative Results of Operations | Unexpended Appropriations | Total |
|---|---|---|---|
| Treasury | $ (1,796) | $ - | $ (1,796) |
| HUD | 567 | - | 567 |
| **FY2011 Total** | **$ (1,229)** | **$ -** | **$ (1,229)** |

**Transfers Out to U.S. Treasury**

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

**Transfers In/Out From HUD**

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

## Note 16. Unexpended Appropriations

Unexpended appropriation balances at September 30, 2012 and 2011 are as follows:

(Dollars in millions)

| FY 2012 | Beginning Balance | Appropriations Received | Other Adjustments | Appropriations Used | Transfers-Out | Ending Balance |
|---|---|---|---|---|---|---|
| Positive Subsidy | $ 465 | $ - | $ - | $ (1) | $ - | $ 464 |
| Working Capital and Contract Expenses | 317 | 207 | (24) | (119) | (72) | 309 |
| Reestimates | - | 746 | - | (746) | - | - |
| GI/SRI Liquidating | 68 | 30 | - | (9) | - | 89 |
| **Total** | **$ 850** | **$ 983** | **$ (24)** | **$ (875)** | **$ (72)** | **$ 862** |

| FY2011 | Beginning Balance | Appropriations Received | Other Adjustments | Appropriations Used | Transfers-Out | Ending Balance |
|---|---|---|---|---|---|---|
| Positive Subsidy | $ 468 | $ 9 | $ - | $ (12) | $ - | $ 465 |
| Working Capital and Contract Expenses | 314 | 207 | (25) | (106) | (72) | 318 |
| Reestimates | - | 3,024 | - | (3,024) | - | - |
| GI/SRI Liquidating | 98 | 71 | - | (102) | - | 67 |
| **Total** | **$ 880** | **$ 3,311** | **$ (25)** | **$ (3,244)** | **$ (72)** | **$ 850** |

As required under FCRA, FHA receives appropriations to cover expenses or fund shortages related to its loan guarantee and direct loan operations.

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

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

## Note 17. Budgetary Resources

The SF-133 and the Statement of Budgetary Resources for fiscal year 2011 have been reconciled to the fiscal year 2011 actual amounts included in the Program and Financing Schedules presented in the Budget of the United States Government. There were no significant reconciling items. Information from the fiscal year 2012 Statement of Budgetary Resources will be presented in the fiscal year 2014 Budget of the U.S. Government. The Budget will be transmitted to Congress on the first Monday in February 2013 and will be available from the Government Printing Office and online at that time.

Obligated balances as of September 30, 2012 and 2011 are as follows:

**Unpaid Obligations**

(Dollars in Millions)

| **Undelivered Orders** | **FY 2012** | **FY2011** |
|---|---|---|
| MMI/CMHI | $ 1,631 | $ 1,495 |
| GI/SRI | 403 | 403 |
| H4H | 1 | 1 |
| EI | 40 | 12 |
| TI | 3 | 12 |
| **Undelivered Orders Subtotal** | **$ 2,078** | **$ 1,923** |
| | | |
| **Accounts Payable** | | |
| MMI/CMHI | $ 613 | $ 813 |
| GI/SRI | 514 | 321 |
| H4H | - | - |
| EI | - | - |
| TI | - | - |
| **Accounts Payable Subtotal** | **$ 1,127** | **$ 1,134** |
| | | |
| **Total** | **$ 3,205** | **$ 3,057** |

## Note 18. Budgetary Resources – Collections

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

The following table presents the composition of FHA's collections for the period ended September 30, 2012 and 2011:

(Dollars in Millions)

| **FY 2012** | **MMI/CMHI** | **GI/SRI** | **H4H** | **Total** |
|---|---|---|---|---|
| **Collections:** | | | | |
| Premiums | $ 8,827 | $ 803 | $ 1 | $ 9,631 |
| Notes | 41 | 522 | - | 563 |
| Property | 6,656 | 322 | - | 6,978 |
| Interest Earned from U.S. Treasury | 2,747 | 405 | 1 | 3,153 |
| Subsidy | 5,582 | 1 | - | 5,583 |
| Reestimates | 19,523 | 746 | - | 20,269 |
| Collections from settlements | 1,119 | - | - | 1,119 |
| Other | 54 | 11 | - | 65 |
| **Total** | **$ 44,549** | **$ 2,810** | **$ 2** | **$ 47,361** |

| **FY2011** | **MMI/CMHI** | **GI/SRI** | **H4H** | **Total** |
|---|---|---|---|---|
| **Collections:** | | | | |
| Premiums | $ 7,745 | $ 784 | $ 2 | $ 8,531 |
| Notes | 123 | 438 | - | 561 |
| Property | 6,158 | 310 | - | 6,468 |
| Interest Earned from U.S. Treasury | 1,588 | 540 | - | 2,128 |
| Subsidy | 6,739 | 1 | 11 | 6,751 |
| Reestimates | 8,449 | 3,024 | - | 11,473 |
| Other | 48 | 77 | 1 | 126 |
| **Total** | **$ 30,850** | **$ 5,174** | **$ 14** | **$ 36,038** |

## Note 19. Budgetary Resources – Non-expenditure Transfers

The following table presents the composition of FHA's non-expenditure transfers for the period ended September 30, 2012 and 2011:

(Dollars in Millions)

| FY 2012 | MMI/CMHI | Total |
|---|---|---|
| **Transfers:** | | |
| Working Capital and Contract Expenses | $ (72) | $ (72) |

(Dollars in Millions)

| FY2011 | MMI/CMHI | Total |
|---|---|---|
| **Transfers** | | |
| Working Capital and Contract Expenses | $ (72) | $ (72) |

## Note 20. Budgetary Resources – Obligations

The following table presents the composition of FHA's obligations for the period ended September 30, 2012 and 2011:

(Dollars in Millions)

| FY 2012 | MMI/CMHI | GI/SRI | H4H | EI/TI | Total |
|---|---|---|---|---|---|
| **Obligations** | | | | | |
| Claims | $ 18,104 | $ 2,196 | $ 1 | $ - | $ 20,301 |
| Property Expenses | 1,460 | 80 | - | - | 1,540 |
| Interest on Borrowings | 305 | 159 | - | - | 464 |
| Subsidy | 5,582 | 438 | - | - | 6,020 |
| Downward Reestimates | 5,655 | 2,216 | - | - | 7,871 |
| Upward Reestimates | 13,868 | 746 | - | - | 14,614 |
| Admin, Contract and Working Capital | 124 | - | - | 31 | 155 |
| Other | 1 | 109 | - | - | 110 |
| **Total** | **$ 45,099** | **$ 5,944** | **$ 1** | **$ 31** | **$ 51,075** |

| FY2011 | MMI/CMHI | GI/SRI | H4H | EI/TI | Total |
|---|---|---|---|---|---|
| **Obligations** | | | | | |
| Claims | $ 15,130 | $ 1,840 | $ - | $ - | $ 16,970 |
| Property Expenses | 1,505 | 89 | - | - | 1,594 |
| Interest on Borrowings | 236 | 177 | - | - | 413 |
| Subsidy | 6,740 | 511 | 11 | - | 7,262 |
| Downward Reestimates | 847 | 542 | - | - | 1,389 |
| Upward Reestimates | 7,601 | 3,024 | - | - | 10,625 |
| Admin, Contract and Working Capital | 113 | - | - | 29 | 142 |
| Other | (1) | 127 | - | - | 126 |
| **Total** | **$ 32,171** | **$ 6,310** | **$ 11** | **$ 29** | **$ 38,521** |

## Note 21. Reconciliation of Net Cost of Operations to Budget

This note (formerly the Statement of Financing) links the proprietary data to the budgetary data. Most transactions are recorded in both proprietary and budgetary accounts. However, because different accounting bases are used for budgetary and proprietary accounting, some transactions may appear in only one set of accounts. The Reconciliation of Net Cost of Operations to Budget is as follows for the period ended September 30, 2012 and 2011:

| (Dollars in Millions) | | FY 2012 | | FY 2011 |
|---|---|---|---|---|
| ***RESOURCES USED TO FINANCE ACTIVITIES*** | | | | |
| Obligations Incurred - SBR | $ | 51,075 | $ | 38,521 |
| Spending Authority from Offsetting Collections and Recoveries - SBR | $ | (47,490) | | (33,481) |
| Offsetting Receipts - SBR | $ | (2,611) | | (1,033) |
| Transfers In / Out - NP | $ | (25,267) | | (1,229) |
| Imputed Financing from Costs Absorbed by Others | $ | 15 | | 18 |
| **TOTAL RESOURCES USED TO FINANCE ACTIVITIES** | **$** | **(24,278)** | **$** | **2,796** |
| | | | | |
| ***RESOURCES THAT DO NOT FUND THE NET COST OF OPERATIONS*** | | | | |
| Undelivered Orders and Adjustments | $ | (154) | $ | (327) |
| Revenue and Other Resources | | 46,767 | | 34,926 |
| Purchase of Assets | | (10,261) | | (11,781) |
| Appropriation for prior year Re-estimate | | (14,614) | | (10,625) |
| **TOTAL RESOURCES NOT PART OF NET COST OF OPERATIONS** | **$** | **21,738** | **$** | **12,193** |
| | | | | |
| **TOTAL RESOURCES USED TO FINANCE THE NET COST (SURPLUS) OF OPERATIONS** | **$** | **(2,540)** | **$** | **14,989** |
| | | | | |
| ***COMPONENTS OF THE NET COST (SURPLUS) OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD*** | | | | |
| Upward Re-estimate of Credit Subsidy Expense | $ | 31,423 | $ | 14,973 |
| Downward Re-estimate of Credit Subsidy Expense | | (4,260) | | (4,494) |
| Changes in Loan Loss Reserve Expense | | (3) | | (28) |
| Changes in Bad Debt Expenses Related to Uncollectible Pre-Credit Reform Receivables | | (303) | | (159) |
| Reduction of Credit Subsidy Expense from Endorsements and Modifications of Loan Guarantees | | (5,977) | | (7,228) |
| Gains or Losses on Sales of Credit Program Assets | | 31 | | 85 |
| Other | | 1,926 | | (14,619) |
| **TOTAL COMPONENTS OF THE NET COST (SURPLUS) OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD** | **$** | **22,837** | **$** | **(11,470)** |
| | | | | |
| **NET COST (SURPLUS) OF OPERATIONS** | **$** | **20,297** | **$** | **3,519** |

## Required Supplementary Information

### Schedule A: Intragovernmental Assets

FHA's Intragovernmental assets, by federal entity, are as follows on September 30, 2012 and 2011:

(Dollars in Millions)

| FY 2012 | Fund Balance with U.S. Treasury | Investments in U.S. Treasury Securities | Accounts Receivable | Other Assets | Total |
|---|---|---|---|---|---|
| U.S. Treasury | $ 47,640 | $ 2,775 | $ - | $ - | $ 50,415 |
| HUD | - | - | - | 3 | 3 |
| **Total** | **$ 47,640** | **$ 2,775** | **$ -** | **$ 3** | **$ 50,418** |

| FY2011 | Fund Balance with U.S. Treasury | Investments in U.S. Treasury Securities | Accounts Receivable | Other Assets | Total |
|---|---|---|---|---|---|
| U.S. Treasury | $ 42,006 | $ 4,135 | $ - | $ - | $ 46,141 |
| HUD | - | - | - | 3 | 3 |
| **Total** | **$ 42,006** | **$ 4,135** | **$ -** | **$ 3** | **$ 46,144** |

### Schedule B: Intragovernmental Liabilities

FHA's Intragovernmental liabilities, by federal entity, are as follows on September 30, 2012 and 2011:

(Dollars in Millions)

| FY 2012 | Accounts Payable | Borrowings from U.S. Treasury | Other Liabilities | Total |
|---|---|---|---|---|
| U.S. Treasury | $ - | $ 11,527 | $ 3,473 | $ 15,000 |
| HUD | 6 | - | - | 6 |
| **Total** | **$ 6** | **$ 11,527** | **$ 3,473** | **$ 15,006** |

| FY2011 | Accounts Payable | Borrowings from U.S. Treasury | Other Liabilities | Total |
|---|---|---|---|---|
| U.S. Treasury | $ - | $ 6,032 | $ 3,051 | $ 9,083 |
| HUD | - | - | - | - |
| **Total** | **$ -** | **$ 6,032** | **$ 3,051** | **$ 9,083** |

## Required Supplementary Information

### Schedule C: Comparative Combining Statement of Budgetary Resources by FHA Program for Budgetary September 30, 2012:

| | MMI/CMHI Capital Reserve | MMI/CMHI Program | GI/SRI Program | Other | Budgetary Total |
|---|---|---|---|---|---|
| **Budgetary Resources:** | | | | | |
| Unobligated balance brought forward, October 1 | $ 4,685 | $ 58 | $ 51 | $ 771 | $ 5,565 |
| Unobligated balance brought forward, October 1, as adjusted | 4,685 | 58 | 51 | 771 | 5,565 |
| Recoveries of prior year unpaid obligations | - | 10 | 6 | 10 | 26 |
| Other changes in unobligated balance (+ or -) | (4,685) | 4,677 | (16) | (252) | (276) |
| Unobligated balance from prior year budget authority, net | - | 4,744 | 41 | 530 | 5,315 |
| Appropriations (discretionary and mandatory) | - | 135 | 746 | 31 | 912 |
| Spending authority from offsetting collections (discretionary and mandatory) | 3,309 | 9,185 | - | 243 | 12,737 |
| **Total budgetary resources** | **$ 3,309** | **$ 14,064** | **$ 787** | **$ 804** | **$ 18,964** |
| **Status of Budgetary Resources:** | | | | | |
| Obligations incurred | - | 13,991 | 746 | 153 | 14,890 |
| Unobligated balance, end of year: | | | | | |
| Apportioned | - | - | 16 | 43 | 59 |
| Unapportioned | 3,309 | 72 | 25 | 609 | 4,015 |
| Total unobligated balance, end of year | 3,309 | 73 | 41 | 651 | 4,074 |
| **Total budgetary resources** | **$ 3,309** | **$ 14,064** | **$ 787** | **$ 804** | **$ 18,964** |
| **Change in Obligated Balance:** | | | | | |
| Unpaid obligations, brought forward, October 1 (gross) | - | 145 | 16 | 576 | 737 |
| Uncollected customer payments from Federal sources, brought forward, October 1 (-) | (19) | - | - | (1) | (20) |
| Obligated balance, start of year (net), before adjustments (+ or -) | (19) | 145 | 16 | 575 | 717 |
| Obligated balance, start of year (net), as adjusted | (19) | 145 | 16 | 575 | 717 |
| Obligations incurred | - | 13,991 | 746 | 153 | 14,890 |
| Outlays (gross) (-) | - | (13,970) | (749) | (149) | (14,868) |
| Change in uncollected customer payments from Federal sources (+ or -) | 18 | - | - | - | 18 |
| Recoveries of prior year unpaid obligations (-) | - | (10) | (6) | (10) | (26) |
| Unpaid obligations, end of year (gross) | - | 157 | 8 | 568 | 733 |
| Uncollected customer payments from Federal sources, end of year | (1) | - | - | (1) | (2) |
| **Obligated balance, end of year (net)** | **$ (1)** | **$ 157** | **$ 8** | **$ 567** | **$ 731** |
| **Budget Authority and Outlays, Net:** | | | | | |
| Budget authority, gross (discretionary and mandatory) | 3,309 | 9,320 | 746 | 274 | 13,649 |
| Actual offsetting collections (discretionary and mandatory) (-) | (12,510) | - | - | (256) | (12,766) |
| Change in uncollected customer payments from Federal sources (discretionary and mandatory) (+ or -) | 18 | - | - | - | 18 |
| Budget authority, net (discretionary and mandatory) | (9,183) | 9,319 | 746 | 19 | 901 |
| Outlays, gross (discretionary and mandatory) | - | 13,970 | 749 | 149 | 14,868 |
| Actual offsetting collections (discretionary and mandatory) (-) | (12,510) | - | - | (256) | (12,766) |
| Outlays, net (discretionary and mandatory) | (12,510) | 13,969 | 749 | (106) | 2,102 |
| Distributed offsetting receipts (-) | - | - | - | 2,611 | 2,611 |
| **Agency outlays, net (discretionary and mandatory)** | **$ (12,510)** | **$ 13,969** | **$ 749** | **$ 2,505** | **$ 4,713** |

## Required Supplementary Information

### Schedule C: Comparative Combining Statement of Budgetary Resources by FHA Program for Budgetary September 30, 2011:

| | MMI/CMHI Capital Reserve | MMI/CMHI Program | GI/SRI Program | Other | Budgetary Total Total |
|---|---|---|---|---|---|
| Budgetary Resources: | | | | | |
| Unobligated balance brought forward, October 1 | $ 4,375 | $ 35 | $ 57 | $ 790 | $ 5,257 |
| Unobligated balance brought forward, October 1, as adjusted | 4,375 | 35 | 57 | 790 | 5,257 |
| Recoveries of prior year unpaid obligations | - | 8 | 5 | 71 | 84 |
| Other changes in unobligated balance (+ or -) | (4,375) | 4,368 | (18) | (202) | (227) |
| Unobligated balance from prior year budget authority, net | - | 4,411 | 45 | 658 | 5,114 |
| Appropriations (discretionary and mandatory) | - | 135 | 3,033 | 71 | 3,239 |
| Spending authority from offsetting collections (discretionary and mandatory) | 4,685 | 3,226 | - | 254 | 8,165 |
| Total budgetary resources | $ 4,685 | $ 7,772 | $ 3,078 | $ 983 | $ 16,518 |
| Status of Budgetary Resources: | | | | | |
| Obligations incurred | - | 7,714 | 3,026 | 213 | 10,953 |
| Unobligated balance, end of year: | | | | | |
| Apportioned | - | 22 | 17 | 183 | 222 |
| Unapportioned | 4,685 | 36 | 35 | 587 | 5,343 |
| Total unobligated balance, end of year | 4,685 | 58 | 52 | 770 | 5,565 |
| Total budgetary resources | $ 4,685 | $ 7,772 | $ 3,078 | $ 983 | $ 16,518 |
| Change in Obligated Balance: | | | | | |
| Unpaid obligations, brought forward, October 1 (gross) | - | 132 | 27 | 613 | 772 |
| Uncollected customer payments from Federal sources, brought forward, October 1 (-) | (23) | - | - | (1) | (24) |
| Obligated balance, start of year (net), before adjustments (+ or -) | (23) | 132 | 27 | 612 | 748 |
| Obligated balance, start of year (net), as adjusted | (23) | 132 | 27 | 612 | 748 |
| Obligations incurred | - | 7,714 | 3,026 | 213 | 10,953 |
| Outlays (gross) (-) | - | (7,693) | (3,031) | (180) | (10,904) |
| Change in uncollected customer payments from Federal sources (+ or -) | 4 | - | - | - | 4 |
| Recoveries of prior year unpaid obligations (-) | - | (8) | (5) | (71) | (84) |
| Unpaid obligations, end of year (gross) | - | 145 | 16 | 576 | 737 |
| Uncollected customer payments from Federal sources, end of year | (19) | - | - | (1) | (20) |
| Obligated balance, end of year (net) | $ (19) | $ 145 | $ 16 | $ 575 | $ 717 |
| Budget Authority and Outlays, Net: | | | | | |
| Budget authority, gross (discretionary and mandatory) | 4,685 | 3,361 | 3,033 | 325 | 11,404 |
| Actual offsetting collections (discretionary and mandatory) (-) | (7,915) | - | - | (254) | (8,169) |
| Change in uncollected customer payments from Federal sources (discretionary and mandatory) (+ or | 4 | - | - | - | 4 |
| Budget authority, net (discretionary and mandatory) | (3,226) | 3,361 | 3,033 | 71 | 3,239 |
| Outlays, gross (discretionary and mandatory) | - | 7,693 | 3,031 | 180 | 10,904 |
| Actual offsetting collections (discretionary and mandatory) (-) | (7,915) | - | - | (254) | (8,169) |
| Outlays, net (discretionary and mandatory) | (7,915) | 7,693 | 3,031 | (74) | 2,735 |
| Distributed offsetting receipts (-) | - | - | - | 1,033 | 1,033 |
| Agency outlays, net (discretionary and mandatory) | $ (7,915) | $ 7,693 | $ 3,031 | $ (1,107) | $ 1,702 |

## Required Supplementary Information

### Schedule D: Comparative Combining Budgetary Resources by FHA Program for Non-Budgetary September 30, 2012:

| | MMI/CMHI Financing | GI/SRI Financing | Other | Non Budgetary Total Total |
|---|---|---|---|---|
| **Budgetary Resources:** | | | | |
| Unobligated balance brought forward, October 1 | $ 27,044 | $ 9,181 | $ 24 | $ 36,249 |
| Unobligated balance brought forward, October 1, as adjusted | 27,044 | 9,181 | 24 | 36,249 |
| Recoveries of prior year unpaid obligations | 103 | 19 | - | 122 |
| Unobligated balance from prior year budget authority, net | 27,147 | 9,199 | 25 | 36,371 |
| Borrowing authority (discretionary and mandatory) | 5,200 | 560 | - | 5,760 |
| Spending authority from offsetting collections (discretionary and mandatory) | 31,887 | 2,440 | 2 | 34,329 |
| **Total budgetary resources** | **$ 64,234** | **$ 12,199** | **$ 27** | **$ 76,460** |
| **Status of Budgetary Resources:** | | | | |
| Obligations incurred | 31,067 | 5,117 | 1 | 36,185 |
| Unobligated balance, end of year: | | | | |
| Apportioned | 17,169 | 1,167 | 10 | 18,346 |
| Unapportioned | 15,998 | 5,915 | 16 | 21,929 |
| Total unobligated balance, end of year | 33,167 | 7,082 | 26 | 40,275 |
| **Total budgetary resources** | **$ 64,234** | **$ 12,199** | **$ 27** | **$ 76,460** |
| **Change in Obligated Balance:** | | | | |
| Unpaid obligations, brought forward, October 1 (gross) | 2,007 | 313 | - | 2,320 |
| Uncollected customer payments from Federal sources, brought forward, October 1 (-) | - | (1) | - | (1) |
| Obligated balance, start of year (net), before adjustments (+ or -) | 2,007 | 312 | - | 2,319 |
| Obligated balance, start of year (net), as adjusted | 2,007 | 312 | - | 2,319 |
| Obligations incurred | 31,067 | 5,117 | 1 | 36,185 |
| Outlays (gross) (-) | (31,041) | (4,870) | - | (35,911) |
| Change in uncollected customer payments from Federal sources (+ or -) | - | 1 | - | 1 |
| Recoveries of prior year unpaid obligations (-) | (103) | (19) | - | (122) |
| Unpaid obligations, end of year (gross) | 1,931 | 541 | - | 2,472 |
| **Obligated balance, end of year (net)** | **$ 1,931** | **$ 541** | **$ -** | **$ 2,472** |
| **Budget Authority and Outlays, Net:** | | | | |
| Budget authority, gross (discretionary and mandatory) | 37,087 | 3,000 | 2 | 40,089 |
| Actual offsetting collections (discretionary and mandatory) (-) | (32,017) | (2,575) | (3) | (34,595) |
| Change in uncollected customer payments from Federal sources (discretionary and mandatory) (+ or -) | - | 1 | - | 1 |
| Budget authority, net (discretionary and mandatory) | 5,070 | 425 | - | 5,495 |
| Outlays, gross (discretionary and mandatory) | 31,041 | 4,870 | - | 35,911 |
| Actual offsetting collections (discretionary and mandatory) (-) | (32,017) | (2,575) | (3) | (34,595) |
| Outlays, net (discretionary and mandatory) | (976) | 2,294 | (2) | 1,316 |
| **Agency outlays, net (discretionary and mandatory)** | **$ (976)** | **$ 2,294** | **$ (2)** | **$ 1,316** |

## Required Supplementary Information

### Schedule D: Comparative Combining Budgetary Resources by FHA Program for Non-Budgetary September 30, 2011:

| | MMI/CMHI Financing | GI/SRI Financing | Other | Budgetary Total Total |
|---|---|---|---|---|
| Budgetary Resources: | | | | |
| Unobligated balance brought forward, October 1 | $ 27,321 | $ 7,319 | $ 9 | $ 34,649 |
| Unobligated balance brought forward, October 1, as adjusted | 27,321 | 7,319 | 9 | 34,649 |
| Recoveries of prior year unpaid obligations | 18 | 8 | - | 26 |
| Other changes in unobligated balance (+ or -) | - | (16) | - | (16) |
| Unobligated balance from prior year budget authority, net | 27,338 | 7,311 | 10 | 34,659 |
| Appropriations (discretionary and mandatory) | - | 3 | 1 | 4 |
| Borrowing authority (discretionary and mandatory) | 3,010 | 828 | - | 3,838 |
| Spending authority from offsetting collections (discretionary and mandatory) | 21,098 | 4,204 | 14 | 25,316 |
| Total budgetary resources | $ 51,446 | $ 12,346 | $ 25 | $ 63,817 |
| Status of Budgetary Resources: | | | | |
| Obligations incurred | 24,402 | 3,165 | 1 | 27,568 |
| Unobligated balance, end of year: | | | | |
| Apportioned | 12,488 | 671 | 11 | 13,170 |
| Unapportioned | 14,556 | 8,510 | 13 | 23,079 |
| Total unobligated balance, end of year | 27,044 | 9,181 | 24 | 36,249 |
| Total budgetary resources | $ 51,446 | $ 12,346 | $ 25 | $ 63,817 |
| Change in Obligated Balance: | | | | |
| Unpaid obligations, brought forward, October 1 (gross) | 1,558 | 333 | - | 1,891 |
| Obligated balance, start of year (net), before adjustments (+ or -) | 1,558 | 333 | - | 1,891 |
| Obligated balance, start of year (net), as adjusted | 1,558 | 333 | - | 1,891 |
| Obligations incurred | 24,402 | 3,165 | 1 | 27,568 |
| Outlays (gross) (-) | (23,935) | (3,178) | - | (27,113) |
| Change in uncollected customer payments from Federal sources (+ or -) | - | (1) | - | (1) |
| Recoveries of prior year unpaid obligations (-) | (18) | (8) | - | (26) |
| Unpaid obligations, end of year (gross) | 2,007 | 313 | - | 2,320 |
| Uncollected customer payments from Federal sources, end of year | - | (1) | - | (1) |
| Obligated balance, end of year (net) | $ 2,007 | $ 314 | $ (2) | $ 2,319 |
| Budget Authority and Outlays, Net: | | | | |
| Budget authority, gross (discretionary and mandatory) | 24,108 | 5,035 | 15 | 29,158 |
| Actual offsetting collections (discretionary and mandatory) (-) | (22,913) | (4,941) | (15) | (27,869) |
| Change in uncollected customer payments from Federal sources (discretionary and mandatory) (+ or -) | - | (1) | - | (1) |
| Budget authority, net (discretionary and mandatory) | 1,195 | 93 | - | 1,288 |
| Outlays, gross (discretionary and mandatory) | 23,935 | 3,178 | - | 27,113 |
| Actual offsetting collections (discretionary and mandatory) (-) | (22,913) | (4,941) | (15) | (27,869) |
| Outlays, net (discretionary and mandatory) | 1,022 | (1,763) | (15) | (756) |
| Distributed offsetting receipts (-) | - | - | - | - |
| Agency outlays, net (discretionary and mandatory) | $ 1,022 | $ (1,763) | $ (15) | $ (756) |

## Other Accompanying Information

**FEDERAL HOUSING ADMINISTRATION**
**(AN AGENCY OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT)**
**SCHEDULE OF SPENDING**
**As of September 30 2012**
**in millions**

| | | FY 2012 |
|---|---|---|
| **What Money is Available to spend?** | | |
| Total Resources | | $95,424 |
| Less Amount Available but Not Agreed to be Spent | | $18,405 |
| Less Amount Not Available to be Spent | | $25,944 |
| **Total Amounts Agreed to be Spent** | | $51,075 |
| | | |
| **How was the Money Spent?** | | |
| Category* | | |
| Claims | $ | 20,269 |
| Property Expenses | $ | 1,341 |
| Interest on Borrowings | $ | 464 |
| Subsidy | $ | 5,978 |
| Downward Reestimates | $ | 7,872 |
| Upward Reestimates | $ | 14,614 |
| Admin, Contract and Working Capital | $ | 116 |
| Other | $ | 125 |
| | | |
| Total Spending | $ | 50,779 |
| Amounts Remaining to be Spent | $ | 296 |
| **Total Amounts Agreed to be Spent** | | **$51,075** |
| | | |
| **Who did the Money go to?** | | |
| For Profit | $ | 22,147 |
| Government | $ | 28,928 |
| **Total Amounts Agreed to be Spent** | **$** | **51,075** |