Issue Date November 7, 2011	
Audit Case Number 2012-FO-0002	

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

/s/
FROM: Thomas R. McEnanly, Director, Financial Audits Division, GAF

SUBJECT: Audit of the Federal Housing Administration's Financial Statement for Fiscal Years 2011 and 2010

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 firm of Clifton Gunderson LLP (CG) to audit the fiscal years 2011 and 2010 financial statements of the Federal Housing Administration (FHA). The contract required that the audit be performed according to Generally Accepted Government Auditing Standards (GAGAS).

CG is responsible for the attached auditors' report dated November 3, 2011 and the conclusions expressed in the report. Accordingly, we do not express an opinion on FHA's financial statements or conclusions on FHA's internal controls or compliance with laws and regulations and government-wide policies. Within 60 days of this report, CG expects to issue a separate letter to management dated November 3, 2011 regarding other matters that came to its attention during the audit.

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 2011 that conforms to FASAB standards.

The report contains one significant deficiency in FHA's internal control and two reportable instances of non compliance with laws and regulations. The report contains three 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 three new recommendation(s) in the Department's Audit Resolution and Corrective Action Tracking system (ARCATS). We will also endeavor to work with FHA to reach a mutually acceptable management decision prior to the mandated deadline. The proposed management decision and corrective action plan will be reviewed and evaluated with concurrence from the OIG.

We appreciate the courtesies and cooperation extended to the CG and OIG audit staffs during the conduct of the audit.

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Clifton Gunderson LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

Inspector General
United States Department of Housing and Urban Development

Acting Commissioner
Federal Housing Administration

In our audit of the Federal Housing Administration (FHA), a wholly owned government corporation within the United States Department of Housing and Urban Development (HUD), for fiscal year (FY) 2011, we found:

- The consolidated balance sheets of FHA as of September 30, 2011 and 2010, and the related consolidated statements of net cost, changes in net position, and the combined statement of budgetary resources (hereinafter referred to as "Principal Financial Statements") are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America
- No material weaknesses in internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations
- One significant deficiency, entitled "Identified information technology control deficiencies are not being effectively analyzed and resolved"
- Two reportable instances of noncompliance with laws and regulations related to FHA's financial management systems and the capital requirements for the Mutual Mortgage Insurance Fund (MMI Fund).

The following sections (including Appendices A through C) discuss in more detail: (1) these conclusions and our conclusions relating to supplemental information presented in the Annual Management Report, (2) management's responsibilities, (3) our objectives, scope and methodology, (4) management's response and our evaluation of their response, and (5) the current status of prior year findings and recommendations.

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INDEPENDENT AUDITOR'S REPORT, Continued

Opinion on the Principal Financial Statements

The Principal Financial Statements present fairly, in all material respects, the financial position of FHA as of September 30, 2011 and 2010, and its net cost, changes in net position, and combined budgetary resources for the years then ended.

As discussed in the footnotes to the Principal 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 data with regional house price appreciation forecasts to develop assumptions about future portfolio performance. Deviations from these forecasts or historical performance relationships could have a material impact on this estimate.

The MMI Fund includes a Capital Reserve account from which increases in funding to cover accrued claim losses are drawn. As of September 30, 2011, this Capital Reserve account had $4.1 billion available to cover further increases in the LGL. The Credit Reform Act of 1990 provides for permanent, indefinite budget authority should future increases in the LGL exceed funds available in the Capital Reserve account.

Consideration of Internal Control over Financial Reporting and Compliance

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 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 over financial reporting and compliance or on management's assertion on internal control included in Management's Discussion and Analysis (MD&A). Accordingly, we do not express an opinion on the effectiveness of FHA's internal control over financial reporting or on management's assertion on internal control included in the MD&A.

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 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 over financial reporting and compliance was for the limited purpose described above and would not necessarily identify all deficiencies in internal control over financial reporting and compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified one deficiency in internal control over financial reporting, described below, that we consider to be a significant deficiency. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Identified information technology control deficiencies are not being effectively analyzed and resolved

FHA's financial reporting process receives transaction information from numerous business applications that are owned by the Office of Single Family Housing or the Office of Multifamily Housing. Those applications support both HUD and FHA business and financial operations. The technical infrastructure and general support of FHA and HUD systems are provided by HUD's Office of the Chief Information Officer (OCIO). The policies and procedures governing these applications are the responsibility of OCIO. HUD policy assigns responsibility for implementing those policies and procedures to the system owners. FHA has designated senior managers in each of the Housing program offices to serve as system owners of FHA applications.

In prior audit reports and management letters, we have reported numerous weaknesses in security and access controls, as well as in configuration management and contingency planning. Likewise, HUD's Office of the Inspector General has reported such weaknesses at the HUD level. This year, we found the following weaknesses.

Security Management

- HUD's Information Technology Security Policies and Procedures have not been updated to comply with the National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53 Revision 3, *Recommended Security Controls for Federal Information Systems and Organizations* as required by Federal Information Processing Standard (FIPS) 200, *Minimum Security Requirements for Federal Information and Information Systems*
- The System Security Plans for FHA applications and general support systems are not being reviewed and updated in accordance with HUD policy and NIST standards
- Vulnerability scanning practices do not comply with written HUD policy and the identified vulnerabilities are not being effectively tracked and remediated
- Specialized security training required by HUD policy and NIST standards is not being monitored and enforced
- Agreements for external information systems and interface control documentation are not being maintained in accordance with HUD policy and NIST standards

Access Control

- Management of user accounts is not being performed in accordance with HUD policy and NIST standards
- Password and security parameter settings are not being consistently applied in accordance with HUD policy
- Remote access authentication does not meet HUD policy and is not in compliance with NIST standards
- Inactive user accounts are not always deactivated as required by HUD policy and in compliance with NIST standards

Configuration Management

- Standard baseline configuration policies for FHA's general support systems are not fully documented and implemented in accordance with HUD policy and NIST standards

Contingency Planning

- Systems supporting critical operations are not consistently identified and tested in accordance with HUD policy and in compliance with NIST standards
- Contingency plans for certain systems were incomplete or not updated in accordance with HUD policy and NIST standards

Most of these weaknesses have been observed and reported in prior audits. FHA tracks actions to improve controls using corrective action plans (CAPs) and plans of action and milestones (POA&Ms). While these plans often result in improvements to the specific application weaknesses reported, such remediation does not always occur. Furthermore, we find the same type of weaknesses when we examine different applications. This indicates that the root causes of the deficiencies are not being effectively addressed for all systems. Relying on numerous system owners to implement HUD's information technology (IT) policies and procedures requires strong oversight of those policies and procedures.

FHA's ability to improve application controls is complicated by HUD's complex IT environment. FHA's financial management infrastructure is comprised of numerous aging information systems developed over the last thirty years that are connected to each other, customers, and the general ledger through hundreds of electronic interfaces. This complex and outdated IT environment provides numerous challenges in maintaining the integrity of the environment as a whole, as well as appropriate accessibility levels and security controls across the many applications.

Recommendations

We recommend that the Deputy Assistant Secretary for Finance and Budget:

1a. Work with OCIO to develop a process to analyze identified systems control weaknesses for their root causes. (New)

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. (New)

1c. Develop and implement procedures for FHA senior management to acknowledge and accept system risks that cannot be mitigated within the fiscal year. (New)

Due to the sensitive nature of the specific matters noted, additional detail and the related detailed recommendations for this finding are being provided to FHA and HUD management in a separate limited distribution report.

We noted other non-reportable matters involving FHA's internal control and its operations that we communicated in a separate letter to FHA management.

Compliance with Laws and Regulations

Our tests of FHA's compliance with selected provisions of laws and regulations for FY2011 disclosed two instances of noncompliance that are reportable under United States generally accepted government auditing standards or OMB audit guidance. However, the objective of our audit was not to express an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

Financial Management Systems: FHA's financial management infrastructure is comprised of numerous aging information systems developed over the last thirty years that are connected to each other, customers, and the general ledger through hundreds of electronic interfaces. The current IT environment has a mix of old and new software languages – from COBOL to Cold Fusion.

This complex and outdated infrastructure is becoming increasingly difficult and costly to maintain. System performance issues are difficult to analyze with a mix of old and new software and hardware. The complex environment requires multiple contractors to support the systems. Furthermore, the environment limits FHA's ability to 1) effectively adapt and efficiently scale its operations to regulatory and market changes, 2) incorporate data management practices that improve the reliability and accuracy of information, and 3) enhance data rationalization and enterprise integration for greater operational efficiency.

These limitations present a risk to FHA's ability to continue to operate in an effective and efficient manner and for its financial management system "to support the most current Federal business practices and systems requirements" as required by the Office of Management and Budget (OMB) Circular No. A-127, *Financial Management Systems* and the *Federal Managers Financial Integrity Act of 1982.* FHA has also implemented numerous expensive and manual compensating controls to ensure the reliability of its day-to-day financial transaction processing and reporting.

FHA is currently undergoing a major systems modernization process that is designed to improve efficiency and enhance management analysis and reporting while migrating business processes to more modern platforms.

Capital Ratio: The Cranston-Gonzales National Affordable Housing Act of 1990 required that FHA's MMI Fund maintain a minimum level of capital sufficient to sustain 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 required 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 indicates that this ratio remains substantially below the required two percent through FY2011.

Status of Prior Year Control Deficiencies and Noncompliance Issues

As required by United States generally accepted government auditing standards and OMB audit guidance, we reviewed the status of FHA's corrective actions with respect to the recommendations related to the significant deficiencies included in the FY2010 Independent Auditor's Report dated November 3, 2010. Appendix C provides the status of the prior year recommendations.

Consistency of Other Information

FHA's MD&A and required supplementary information contain a wide range of information, some of which is not directly related to the financial statements. We reviewed this information for consistency with the financial statements and discussed the methods of measurement and presentation with FHA officials. Based on this limited work, we found no material inconsistencies with the financial statements; accounting principles generally accepted in the United States, or OMB guidance. However, we do not express an opinion on this information.

Objectives, Scope and Methodology

FHA management is responsible for (1) preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, (2) establishing, maintaining and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers Financial Integrity Act of 1982 (FMFIA) are met, and (3) complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether the financial statements are presented fairly in all material respects, in conformity with accounting principles generally accepted in the United States of America. 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 audit guidance requires testing, and (3) performing limited testing with respect to other information appearing in the Annual 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 accounting principles used and 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 over financial reporting (including safeguarding of assets) and compliance with laws, regulations (including execution of transactions in accordance with budget authority); (5) tested relevant internal controls over financial reporting and compliance; (6) considered the design of the process for evaluating and reporting on internal control and financial management systems under FMFIA; and (7) tested compliance with selected provisions of certain laws and regulations.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by 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, fraud, losses or noncompliance may nevertheless occur and not be detected. We also caution that projecting our evaluation to future periods is subject to the 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 those laws and regulations that have a direct and material effect on the financial statements and those required by OMB audit guidance that we deemed applicable to FHA's financial statements for the fiscal year ended September 30, 2011. We caution that noncompliance with laws and regulations may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

We performed our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB audit guidance. We believe that our audits provide a reasonable basis for our opinion.

FHA Comments and Our Evaluation

FHA management concurred with the significant deficiency and the related recommendations, and disagreed with our assessment that FHA's financial management systems do not comply with federal standards. The full text of FHA management's response is included in Appendix A. We did not perform audit procedures on management's written response and accordingly, we express no opinion on it. Our assessment of management's response is included in Appendix B.

Distribution

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

Clifton Gunderson LLP

Arlington, Virginia
November 3, 2011

Appendix A
Management's Response

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

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

NOV 3 2011

MEMORANDUM FOR: Clifton Gunderson LLP

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

SUBJECT: Response to Fiscal Year 2011 FHA Audit Report

Thank you for providing us the opportunity to respond to FHA's Independent Auditor's Report. I am pleased to present Federal Housing Administration's (FHA) response to this report.

General Comments

FHA is pleased that Clifton Gunderson recognized the progress and efforts made in resolving prior year findings. FHA will continue to improve and address the concerns identified.

Compliance with Laws and Regulations

FHA disagrees with the auditor's assertion that its systems are not compliant with OMB Circular A-127, *Financial Management Systems*. FHA has conducted its annual review of financial management systems, in compliance with Section 8(E) of Circular A-127. Based on these reviews, FHA has determined that its systems are routinely providing reliable and timely financial information for management of day-to-day operations as well as reliable financial statements, effective internal controls and compliance with legal and regulatory requirements.

FHA agrees with our auditors that our financial management infrastructure is comprised of numerous information systems, many aging, that are connected to each other, customers, and the general ledger through numerous electronic interfaces. FHA agrees that these systems must be evaluated for their ability to "continue to operate in an effective and efficient manner" and to meet changing business conditions. FHA has concluded that its systems currently meet these requirements. At some point as yet undetermined, FHA will likely need to replace some or all of its systems to continue to meet the requirements of Circular A-127. However, FHA assesses the current risk that its systems will not meet these requirements as low. Using the compliance framework of Circular A-127, Section 8(a), a low risk places FHA's systems in the 'nominal' risk category. FHA is therefore currently achieving substantial compliance.

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Report on Internal Controls – Significant Deficiency

1. Identified control deficiencies are not being effectively analyzed and resolved resulting in risks to the security of FHA's applications.

FHA concurs with the finding and recommendations identified. FHA and OCIO will work together to address these recommendations.

Appendix B
Clifton Gunderson's Assessment of Management's Response

We obtained and reviewed FHA management's response to the findings and recommendations made in connection with our audit of FHA's 2011 Principal Financial Statements, which is included as Appendix A. We did not perform audit procedures on FHA's written 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 Appendix A, FHA management concurred with our finding and recommendations but did not provide specific information regarding planned corrective actions or information needed to assess whether management will be able to effectively implement the recommendations.

Assessment of management's response to noncompliance with OMB Circular No. A-127, *Financial Management Systems,* and the *Federal Managers Financial Integrity Act of 1982*:

As indicated in Appendix A, FHA management disagrees with our assessment of the compliance of their financial management system with federal standards. Management agrees with our description of the financial management infrastructure and that it poses a risk to effective and efficient operations but they assess that risk as low at this time. We believe that the risk could have a potentially severe impact and, therefore, requires additional risk management planning.

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.

Appendix C
Status of Prior Year Recommendations

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

FY 2010 Recommendation	*Type*	*Fiscal Year 2011 Status*
1a. The Chair, FHA Transformation, should further refine the risk management plan for the FHA Infrastructure Transformation Initiative to include formal risk mitigation strategies, key metrics, milestones, and monitoring and reporting requirements. The risk management plan should also include any potential risks associated with achievement of the strategic objectives related to the modernization plan. (New)	Significant Deficiency 2010	Resolved
1b. Continue developing the initiative specific risk assessment plans and ensure they address the risks inherent in the comprehensive nature of the modernization project. (Updated)	Significant Deficiency 2010	Resolved
1c. Define a project governance structure and key success factors (KSFs) for monitoring the consultants and measuring the success and achievement of the KSFs for the systems transformation project over the next phase as well as the next three years. (New)	Significant Deficiency 2010	Resolved
1d. Perform a formal documented risk assessment on the sustainability and scalability of the current systems and processes during the modernization project. Based on the risk assessment, develop a risk management plan incorporating the risk identified for the sustainability of the legacy environment over the next five years. (New)	Significant Deficiency 2010	Partially resolved (See Management Letter)
2a. FHA's Deputy Assistant Secretary for Finance and Budget and Deputy Assistant Secretary for Risk Management and Regulatory Affairs should document their specific review and acceptance of the key assumptions, including key variables, in conjunction with their acceptance of the actuarial study. (New)	Significant Deficiency 2010	Resolved
2b. Document the final overall management conclusion on whether the analyses performed suggest whether adjustments to the model, calculated assumptions, or projected cash flows are warranted, and if so, how those adjustments are determined and their resulting value. (Updated)	Significant Deficiency 2010	Resolved
2c. Review and monitor the potential impact of delayed	Significant	Resolved

FY 2010 Recommendation	*Type*	*Fiscal Year 2011 Status*
claims and the growth in loss mitigation programs on the counterintuitive model results to ensure the anticipated variable relationships will continue. (New)	Deficiency 2010	
2d. Analyze the risk of redefaults and claims on loans that have undergone loss mitigation. (New)	Significant Deficiency 2010	Resolved
2e. Investigate potential enhancements to the actuarial model to better communicate the precision of its estimates. (New)	Significant Deficiency 2010	Partially resolved (See Management Letter)
2f. Ensure the Annual Report and financial statements effectively present critical factors that may impact current estimates and management's views on the probability of significant changes in these factors. (New)	Significant Deficiency 2010	Resolved

PRINCIPAL 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, 2011 and 2010
(Dollars in Millions)

	FY 2011	FY 2010
ASSETS		
Intragovernmental		
Fund Balance with U.S. Treasury (Note 3)	$ 42,006	$ 39,078
Investments (Note 4)	4,135	4,150
Other Assets (Note 7)	3	5
Total Intragovernmental	$ 46,144	$ 43,233
Investments (Note 4)	$ 63	$ 136
Accounts Receivable, Net (Note 5)	32	16
Loans Receivable and Related Foreclosed Property, Net (Note 6)	5,460	6,136
Other Assets (Note 7)	69	76
TOTAL ASSETS	**$ 51,768**	**$ 49,597**
LIABILITIES		
Intragovernmental		
Borrowings from U.S. Treasury (Note 9)	$ 6,032	$ 4,749
Other Liabilities (Note 10)	3,051	1,165
Total Intragovernmental	$ 9,083	$ 5,914
Accounts Payable (Note 8)	723	647
Loan Guarantee Liability (Note 6)	36,103	34,958
Debentures Issued to Claimants (Note 9)	10	10
Other Liabilities (Note 10)	430	427
TOTAL LIABILITIES	**$ 46,349**	**$ 41,956**
NET POSITION		
Unexpended Appropriations (Note 16)	850	880
Cumulative Results of Operations	4,569	6,761
TOTAL NET POSITION	**5,419**	**7,641**
TOTAL LIABILITIES AND NET POSITION	**$ 51,768**	**$ 49,597**

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, 2011 and 2010
(Dollars in Millions)

	MMI/CMHI	GI/SRI	H4H	Total
FY 2011				
Intragovernmental				
Intragovernmental Gross Costs (Note 12)	$ 258	$ 176	$ 1	$ 435
Less: Intragovernmental Earned Revenue (Note 13)	1,565	540	-	2,105
Intragovernmental Net Costs	(1,307)	(364)	1	(1,670)
With The Public				
Gross Costs with the Public (Note 12)	$ 6,110	$ (862)	$ 14	$ 5,262
Less: Earned Revenue from the Public (Note 13)	22	$ 51	-	73
Net Costs with the Public	6,088	(913)	14	5,189
NET PROGRAM COST (SURPLUS)	**$ 4,781**	**$ (1,277)**	**$ 15**	**$ 3,519**

	MMI/CMHI	GI/SRI	H4H	Total
FY 2010				
Intragovernmental				
Intragovernmental Gross Costs (Note 12)	$ 160	$ 144	$ 2	$ 306
Less: Intragovernmental Earned Revenue (Note 13)	2,135	412	$ -	2,547
Intragovernmental Net Costs	(1,975)	(268)	$ 2	(2,241)
With The Public				
Gross Costs with the Public (Note 12)	$ (2,543)	$ 3,359	$ 10	$ 826
Less: Earned Revenue from the Public (Note 13)	63	70	$ -	133
Net Costs with the Public	(2,606)	3,289	10	693
NET PROGRAM COST (SURPLUS)	**$ (4,581)**	**$ 3,021**	**$ 12**	**$ (1,548)**

The accompanying notes are an integral part of these statements.

FEDERAL HOUSING ADMINISTRATION
(AN AGENCY OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT)
CONSOLIDATED STATEMENTS OF NET POSITION
For the Periods Ended September 30, 2011 and 2010
(Dollars in Millions)

	FY 2011 Cumulative Results of Operations	FY 2011 Unexpended Appropriations	FY 2010 Cumulative Results of Operations	FY 2010 Unexpended Appropriations
BEGINNING BALANCES	**$ 6,761**	**$ 880**	**$ 3,261**	**$ 832**
Budgetary Financing Sources				
Appropriations Received (Note 16)	-	3,311	-	1,231
Other Adjustments (Note 16)	3	(25)	7	(47)
Appropriations Used (Note 16)	3,244	(3,244)	981	(981)
Transfers-Out (Note 15 and Note 16)	(492)	(72)	(559)	(155)
Other Financing Sources				
Transfers In/Out (Note 15)	(1,229)	-	1,504	-
Imputed Financing (Note 12)	18	-	19	-
Other	(217)	-	-	-
Total Financing Sources	**$ 1,327**	**$ (30)**	**$ 1,952**	**$ 48**
Net (Cost) Surplus of Operations	**(3,519)**	**-**	**1,548**	**-**
ENDING BALANCES	**$ 4,569**	**$ 850**	**$ 6,761**	**$ 880**

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

FEDERAL HOUSING ADMINISTRATION
(AN AGENCY OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT)
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the Period Ended September 30, 2010
(Dollars in Millions)

	FY 2010 Budgetary	FY 2010 Non-Budgetary	FY 2010 Total
Budgetary Resources:			
Unobligated balance brought forward, October 1	11,401	26,799	38,200
Recoveries of prior year unpaid obligations	58	70	128
Other changes in unobligated balance (+ or -)	(396)	(452)	(848)
Appropriations (discretionary and mandatory)	1,231	7	1,238
Borrowing authority (discretionary and mandatory)	10	790	800
Spending authority from offsetting collections (discretionary and mandatory)	3,970	28,184	32,154
Total budgetary resources	**16,274**	**55,398**	**71,672**
Status of Budgetary Resources:			
Obligations incurred	11,017	20,749	31,766
Unobligated balance, end of year:			
Apportioned	513	4,064	4,577
Unapportioned	4,744	30,585	35,329
Total unobligated balance, end of year	5,257	34,649	39,906
Total budgetary resources	**16,274**	**55,398**	**71,672**
Change in Obligated Balance:			
Unpaid obligations, brought forward, October 1 (gross)	840	1,464	2,304
Uncollected customer payments from Federal sources, brought forward, October 1 (-)	(86)	(3)	(89)
Obligations incurred	11,017	20,749	31,766
Outlays (gross) (-)	(11,027)	(20,252)	(31,279)
Change in uncollected customer payments from Federal sources (+ or -)	62	3	65
Recoveries of prior year unpaid obligations (-)	(58)	(70)	(128)
Unpaid obligations, end of year (gross)	772	1,891	2,663
Uncollected customer payments from Federal sources, end of year	(24)	-	(24)
Obligated balance, end of year (net)	748	1,891	2,639
Budget Authority and Outlays, Net:			
Budget authority, gross (discretionary and mandatory)	5,211	28,981	34,192
Actual offsetting collections (discretionary and mandatory) (-)	3,970	28,184	32,154
Change in uncollected customer payments from Federal sources (discretionary and mandatory) (+ or -)	62	3	65
Outlays, gross (discretionary and mandatory)	11,027	20,252	31,279
Actual offsetting collections (discretionary and mandatory) (-)	(3,970)	(28,185)	(32,155)
Less Distributed offsetting receipts (-)	619	-	619
Agency outlays, net (discretionary and mandatory)	**6,438**	**(7,933)**	**(1,495)**

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2011

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.

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

Basis of Accounting

The principal financial statements are presented in conformity with accounting principles generally accepted in the United States of America (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.

In connection with an Accelerated Claims Disposition Demonstration program (the 601 program), FHA transfers assigned mortgage notes to private sector entities in exchange for cash and equity interest. FHA uses the equity method of accounting to measure the value of its investments in these entities.

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 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" (COTS) software, contractor-developed software, and internally developed software. FHA had several procurement actions in place and had incurred expenses for software development. FHA identified and transferred those expenses to HUD to comply with departmental policy.

Appropriations

FHA receives 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.

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 $18 million for fiscal year 2011 and $19 million for fiscal year 2010, and was included in FHA's financial statements as an imputed cost in the Consolidated Statements of Net Cost, and an imputed financing in the Consolidated Statements of Changes in Net Position.

Distributive Shares

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

Liabilities Covered by Budgetary Resources

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

Statement of Budgetary Resources

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

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

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

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, 2011 and 2010 are as follows:

Note 2: Non-Entity Assets
(Dollars in millions)

	FY 2011	FY 2010
Intragovernmental:		
Fund Balance with Treasury	$ 1,292	$ 668
Investments in U.S. Treasury Securities	3	-
Total Intragovernmental	1,295	668
Other Assets	66	70
Total Non-Entity Assets	1,361	738
Total Entity Assets	50,407	48,859
Total Assets	**$ 51,768**	**$ 49,597**

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, 2011 and 2010:

Note 3: Fund Balance with U.S. Treasury

(Dollars in millions)		FY 2011		FY 2010
Fund Balances:				
Revolving Funds	$	39,386	$	37,404
Appropriated Funds		795		790
Other Funds		1,825		884
Total	**$**	**42,006**	**$**	**39,078**
Status of Fund Balance with U.S. Treasury:				
Unobligated Balance				
Available	$	13,392	$	4,577
Unavailable		25,557		31,838
Obligated Balance Not Yet Disbursed		3,057		2,663
Total	**$**	**42,006**	**$**	**39,078**

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, 2011 were as follows:

(Dollars in millions)

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	4,094	23	4,117	5,109
MMI/CMHI Accrued Interest			18	18
Total	**$ 4,094**	**$ 23**	**$ 4,135**	**$ 5,127**

The cost, net amortized premium/discount, net investment, and market values as of September 30, 2010 were as follows:

FY 2010	Cost	Amortized (Premium) / Discount, Net	Investments, Net	Market Value
MMI/CMHI Investments	$ 4,086	$ 41	$ 4,127	$ 5,117
GI/SRI Investments	-	-	-	-
Subtotal	4,086	41	4,127	5,117
MMI/CMHI Accrued Interest			23	23
Total	**$ 4,086**	**$ 41**	**$ 4,150**	**$ 5,140**

Investments in Private-Sector Entities

Investments in Section 601 and Risk Sharing Debentures as of September 30, 2011 and 2010 were as follows:

(Dollars in millions)	Beginning Balance	New Acquisitions	Share of Earnings or Losses	Returns of Investment	Redeemed	Ending Balance
FY 2011						
601 Program	$ 9	$ -	$ (1)	$ (2)	$ -	$ 6
Risk Sharing Debentures	127	1	-	-	(71)	57
Total	**$ 136**	**$ 1**	**$ (1)**	**$ (2)**	**$ (71)**	**$ 63**
FY 2010						
601 Program	$ 12	$ -	$ -	$ (3)	$ -	$ 9
Risk Sharing Debentures	133	38	-	-	(44)	127
Total	**$ 145**	**$ 38**	**$ -**	**$ (3)**	**$ (44)**	**$ 136**

The joint venture partner reporting period for the Section 601 Program investments was from December 1, 2009 to December 31, 2010. The condensed financial statements reported $41 million in assets, $41 million in liabilities and partner's capital, and $167 thousand in net gain for these investments.

Note 5. Accounts Receivable, Net

Accounts receivable, net, as of September 30, 2011 and 2010 are as follows:

	Gross		Allowance		Net	
(Dollars in millions)	FY 2011	FY2010	FY 2011	FY2010	FY 2011	FY2010
With the Public:						
Receivables related to credit program assets	$ 16	$ 11	$ -	$ (3)	$ 16	$ 8
Premiums receivable	4	1	-	-	$ 4	$ 1
Generic Debt Receivables	80	103	(80)	(103)	$ -	$ -
Miscellaneous receivables	12	7	-	-	$ 12	$ 7
Total	**$ 112**	**$ 122**	**$ (80)**	**$ (106)**	**$ 32**	**$ 16**

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 Single Family Partial Claims, Single Family Indemnifications, and Single Family Restitutions.

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

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 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

FHA Direct Loan and Loan Guarantee Programs and the related loans receivable, foreclosed property, and Loan Guarantee Liability as of September 30, 2011 and 2010 are as follows:

Direct Loan Program

(Dollars in Millions)

FY 2011	**Total**
Direct Loans	
Loan Receivables	16
Interest Receivables	10
Allowance	(11)
Total Direct Loans	**15**

(Dollars in Millions)

FY2010	**Total**
Direct Loans	
Loan Receivables	20
Interest Receivables	10
Allowance	(16)
Total Direct Loans	**14**

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

(Dollars in Millions)

FY 2011	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			
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**

(Dollars in Millions)

FY2010	MMI/CMHI	GI/SRI	Total
Guaranteed Loans			
Single Family Forward			
Loan Receivables	16	7	23
Interest Receivables	-	1	1
Allowance for Loan Losses	(9)	(5)	(14)
Foreclosed Property	16	2	18
Subtotal	**23**	**5**	**28**
Multifamily			
Loan Receivables	-	2,571	2,571
Interest Receivables	-	213	213
Allowance for Loan Losses	-	(1,825)	(1,825)
Foreclosed Property	-	-	-
Subtotal	**-**	**959**	**959**
HECM			
Loan Receivables	-	4	4
Interest Receivables	-	1	1
Allowance for Loan Losses	-	(1)	(1)
Foreclosed Property	-	2	2
Subtotal	**-**	**6**	**6**
Total Guaranteed Loans	**23**	**970**	**993**

*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 2011	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			
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**

(Dollars in Millions)

FY2010	MMI/CMHI	GI/SRI	Total
Guaranteed Loans			
Single Family Forward			
Loan Receivables	728	39	767
Interest Receivables	-	2	2
Foreclosed Property	6,833	379	7,212
Allowance	(4,282)	(241)	(4,523)
Subtotal	**3,279**	**179**	**3,458**
Multifamily			
Loan Receivables	-	641	641
Interest Receivables	-	-	-
Foreclosed Property	-	-	-
Allowance	-	(353)	(353)
Subtotal	**-**	**288**	**288**
HECM			
Loan Receivables	-	1,103	1,103
Interest Receivables	-	524	524
Foreclosed Property	-	44	44
Allowance	-	(288)	(288)
Subtotal	**-**	**1,383**	**1,383**
Total Guaranteed Loans	**3,279**	**1,850**	**5,129**

*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 2011):		
MMI/CMHI		
Single Family Forward	1,062,363	1,002,724
Multifamily	407	384
MMI/CMHI Subtotal	**1,062,770**	**1,003,108**
GI/SRI		
Single Family Forward	20,678	17,538
Multifamily	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**
Guaranteed Loans Outstanding (FY 2010):		
MMI/CMHI		
Single Family Forward	925,016	878,209
Multifamily	420	403
MMI/CMHI Subtotal	**925,436**	**878,612**
GI/SRI		
Single Family Forward	22,931	20,028
Multifamily	76,709	69,294
GI/SRI Subtotal	**99,640**	**89,322**
H4H		
Single Family - 257	24	24
H4H Subtotal	**24**	**24**
Total	**1,025,100**	**967,958**

New Guaranteed Loans Disbursed:

(Dollars in Millions)

Loan Guarantee Programs	Outstanding Principal of Guaranteed Loans,	Amount of Outstanding Principal
MMI/CMHI		
Single Family Forward	217,629	215,282
Multifamily	85	85
MMI/CMHI Subtotal	**217,714**	**215,367**
GI/SRI		
Single Family Forward	177	176
Multifamily	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**
New Guaranteed Loans Disbursed (FY 2010):		
MMI/CMHI		
Single Family Forward	296,418	293,710
Multifamily	68	68
MMI/CMHI Subtotal	**296,486**	**293,778**
GI/SRI		
Single Family Forward	230	228
Multifamily	14,760	14,711
GI/SRI Subtotal	**14,990**	**14,939**
H4H		
Single Family - 257	20	20
H4H Subtotal	**20**	**20**
Total	**311,496**	**308,737**

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 706,740 HECM loans with a maximum claim amount of $158 billion. Of these 723,588 HECM loans insured by FHA, 560,843 loans with a maximum claim amount of $132 billion are still active. As of September 30, 2011 the insurance-in-force (the outstanding balance of active loans) was $85 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 2011	MMI/CMHI		$ 18,141	$ 39,686	$ 65,624
	GI/SRI		-	44,949	66,151
		Total	**$ 18,141**	**$ 84,635**	**$ 131,775**
FY 2010	MMI/CMHI		$ 21,023	$ 28,351	$ 49,388
	GI/SRI		-	44,906	69,407
		Total	**$ 21,023**	**$ 73,257**	**$ 118,795**

Loan Guarantee Liability, Net:

(Dollars in Millions)

FY 2011		MMI/CMHI		GI/SRI		H4H		Total
LLR								
Single Family Forward	$	18	$	-	$	-	$	18
Multifamily		-		16		-		16
Subtotal	**$**	**18**	**$**	**16**	**$**	**-**	**$**	**34**
LLG								
Single Family Forward	$	26,305	$	799	$	19	$	27,123
Multifamily		(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**

FY2010		MMI/CMHI		GI/SRI		H4H		Total
LLR								
Single Family Forward		10	$	1	$	-	$	11
Multifamily	$	-	$	42	$	-		42
Subtotal	**$**	**10**	**$**	**43**	**$**	**-**	**$**	**53**
LLG								
Single Family Forward	$	23,362	$	609	$	5	$	23,976
Multifamily	$	(7)	$	(429)	$	-		(436)
HECM	$	2,673	$	8,692	$	-		11,365
Subtotal	**$**	**26,028**	**$**	**8,872**	**$**	**5**	**$**	**34,905**
Loan Guarantee Liability Total	**$**	**26,038**	**$**	**8,915**	**$**	**5**	**$**	**34,958**

Subsidy Expense for Loan Guarantees by Program and Component:

(Dollars in millions)

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				
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)**

FY 2010	MMI/CMHI	GI/SRI	H4H	Total
Single Family Forward				
Defaults	9,601	11	4	9,616
Fees and Other Collections	(15,522)	(12)	(1)	(15,535)
Other	3,376	1	-	3,377
Subtotal	**(2,545)**	**-**	**3**	**(2,542)**
Multifamily				
Defaults	2	428	-	430
Fees and Other Collections	(3)	(856)	-	(859)
Other	1	-	-	1
Subtotal	**-**	**(428)**	**-**	**(428)**
HECM				
Defaults	1,078	-	-	1,078
Fees and Other Collections	(1,184)	-	-	(1,184)
Subtotal	**(106)**	**-**	**-**	**(106)**
Total	**(2,651)**	**(428)**	**3**	**(3,076)**

Subsidy Expense for Modifications and Reestimates:

(Dollars in millions)

FY 2011	Total Modification	Technical Reestimate
MMI/CMHI	-	8,395
GI/SRI	(37)	(574)
Total	(37)	7,821
FY 2010		
MMI/CMHI	-	(2,161)
GI/SRI	(5)	3,195
Total	(5)	1,034

Total Loan Guarantee Subsidy Expense:

(Dollars in millions)

	FY 2011	FY 2010
MMI/CMHI	1,657	(4,812)
GI/SRI	(1,063)	2,762
H4H	11	3
Total	605	(2,047)

Subsidy Rates for Loan Guarantee Endorsements by Program and Component:

(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)
Single Family - Forward (10/1/2010 - 4/17/2011)	2.61	(6.17)	0.98	(2.58)
Single Family - HECM	5.11	(5.12)	-	(0.01)
Single Family - Short Refi	-	-	-	-
Multifamily - Section 213 - (4/18/2011 - 9/30/2011)	2.63	(6.50)	1.02	(2.85)
Multifamily - Section 213 (10/1/2010 - 4/17/2011)	2.61	(6.17)	0.98	(2.58)
GI/SRI				
Multifamily - Section 221(d)(4) (1/1/2011 - 9/30/2011)	3.59	(5.50)	-	(1.91)
Multifamily - Section 221(d)(4) (10/1/2010 - 12/31/2010)	3.71	(5.49)	-	(1.78)
Multifamily - Section 207/223(f) (1/1/2011 - 9/30/2011)	1.95	(5.35)	-	(3.40)
Multifamily - Section 207/223(f) (10/1/2010 - 12/31/2010)	1.97	(5.32)	-	(3.35)
Multifamily - Section 223(a)(7) (1/1/2011 - 9/30/2011)	1.95	(5.35)	-	(3.40)
Multifamily - Section 223(a)(7) (10/1/2010 - 12/31/2010)	1.97	(5.32)	-	(3.35)
Multifamily - Section 232 (11/17/2010 - 9/30/2011)	4.49	(6.00)	-	(1.51)
Multifamily - Section 232 (10/1/2010 - 11/16/2010)	4.62	5.94	-	10.56
Section 242	1.81	(5.48)	-	(3.67)
H4H				
Single Family - Section 257	15.95	(6.14)	1.09	10.90

(Percentage)	Defaults	Fees and Other Collections	Other	Total
Budget Subsidy Rates for FY 2010 Loan Guarantees:				
MMI/CMHI				
Single Family - Forward (10/1/2009 - 4/4/2010)	3.22	(4.97)	1.13	(0.62)
Single Family - Forward (4/5/2010 - present)	3.23	(5.50)	1.14	(1.13)
Single Family - HECM	5.11	(5.61)	-	(0.50)
Multifamily - Section 213 (10/1/2009 - 4/4/2010)	3.22	(4.96)	1.12	(0.62)
Multifamily - Section 213 (4/5/2010 - present)	3.23	(5.50)	1.14	(1.13)
GI/SRI				
Multifamily - Section 221(d)(4)	4.23	(5.86)	-	(1.63)
Multifamily - Section 207/223(f)	1.45	(5.32)	-	(3.87)
Multifamily - Section 223(a)(7)	1.45	(5.32)	-	(3.87)
Multifamily - Section 232	3.67	(5.96)	-	(2.29)
Section 242	1.55	(5.83)	-	(4.28)
H4H				
Single Family - Section 257 (10/1/2009 - 12/31/2009)	24.26	(1.91)	0.37	22.72
Single Family - Section 257 (1/1/2010 - present)	22.26	(5.89)	0.54	16.91

Schedule for Reconciling Loan Guarantee Liability Balances:

(Dollars in Millions)	FY 2011 LLR	FY 2011 LLG	FY2010 LLR	FY2010 LLG
Beginning Balance of the Loan Guarantee Liability	$ 53	$ 34,905	$ 136	$ 33,886
Add: Subsidy Expense for guaranteed loans disbursed during the reporting fiscal years by component:				
Default Costs (Net of Recoveries)	-	6,578	-	11,124
Fees and Other Collections	-	(15,929)	-	(17,578)
Other Subsidy Costs	-	2,172	-	3,378
Total of the above subsidy expense components	**-**	**(7,179)**	**-**	**(3,076)**
Adjustments:				
Fees Received		8,582		10,082
Foreclosed Property and Loans Acquired		5,082		6,814
Claim Payments to Lenders		(17,200)		(16,478)
Interest Accumulation on the Liability Balance		1,388		1,344
Other		11		16
Ending Balance before Reestimates	**53**	**25,589**	**136**	**32,588**
Add or Subtract Subsidy Reestimates by Component:				
Technical/Default Reestimate				
Subsidy Expense Component	(19)	(1,647)	(83)	(2,607)
Interest Expense Component	-	1,397	-	1,113
Adjustment of prior years' credit subsidy reestimates	-	10,730	-	3,811
Total Technical/Default Reestimate	**(19)**	**10,480**	**(83)**	**2,317**
Ending Balance of the Loan Guarantee Liability	**$ 34**	**$ 36,069**	**$ 53**	**$ 34,905**

Administrative Expense:

(Dollars in Millions)	FY 2011	FY2010
MMI/CMHI	663	543
GI/SRI	6	30
H4H	4	9
Total	**673**	**582**

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 Health Care cohorts are defined based on the year in which loan guarantee commitments are made. Single Family mortgages are grouped into cohorts based on loan endorsement dates for the GI/SRI and MMI fund. Within each cohort year, loans are subdivided by risk categories. Each risk category has characteristics that distinguish it from others, including risk profile, premium structure, and the type and quality of collateral underlying the loan. For activity related to fiscal years 1992-2008, the MMI fund has one risk category, and for activity related to fiscal years 2009 and onward, the MMI fund has two risk categories, with HECM loans considered a separate category from standard forward loans. The single family GI/SRI loans are grouped into four risk categories. There are thirteen different multifamily risk categories and six health care categories. Health Care programs are subsumed in the single, aggregate, multifamily category reported in this note.

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 models rely heavily on the following loan performance assumptions:

- Conditional Termination Rates: The estimated probability of an insurance policy claim or non-claim termination in each year of the loan guarantee's term given that a loan survives until that year.
- Claim Amount: The estimated amount of the claim payment relative to the unpaid principal balance at the time the claim occurs.
- Recovery Rates: The estimated percentage of a claim payment or defaulted loan balance that is recovered through disposition of a mortgage note or underlying property.

Additional information about loan performance assumptions is provided below:

Sources of data: FHA developed assumptions for claim rates, prepayment rates, claim amounts, and recoveries based on historical data obtained from its internal business systems.

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

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

Reliance on historical performance: FHA relies on the historical performance of its insured portfolio to generate behavioral response functions that are applied to economic forecasts to generate future performance patterns for the outstanding portfolio. Changes in legislation, program requirements, tax treatment, and economic factors all influence loan performance. FHA assumes that its portfolio will continue to perform consistently with its historical experience, respecting differences due to current loan characteristics and forecasted economic conditions.

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

Discount rates: The disbursement-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, “Instructions on Budget Execution.” The basket-of-zeros discount factors are also disbursement weighted.

Analysis of Change in the Liability for Loan Guarantees

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

Described below are the programs that comprise the majority of FHA’s loan guarantee business. These descriptions highlight the factors that contributed to changing LLG estimates for FY 2011. Overall, FHA’s liability decreased slightly from the fiscal year 2010 estimates.

Mutual Mortgage Insurance (MMI) – During fiscal year 2011, FHA experienced better than anticipated credit quality of borrowers, but worse than expected declines in home prices. Updated house-price forecasts call for continued weakness in the near term, but better long-term appreciation rates than were predicted last year. At the start of 2011, FHA raised insurance premiums for both forward and reverse (HECM) loans, and then raised premium rates for forward loans a second time at mid-year. Some forward loan claims that would normally have been paid in 2011 have been delayed because of problems major loan servicers are facing with verification that foreclosure processes have been properly documented and that agents initiating foreclosure had legal standing to do so. On net, the MMI LLG increased from $26,035 million at the end of fiscal year 2010 to $28,454 million at the end of fiscal year 2011.

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 decreased from $8,692 million at the end of FY 2010 to $7,865 million at the end of FY 2011. This liability is driven more by long term house price appreciation forecasts than short term forecasts, and the long-term forecast used (Moody’s Analytics, July 2011) is slightly more favorable this year in the major states where HECM loans are most concentrated, namely, California, Texas, and Florida. The HECM loans remaining in the GI/SRI fund also benefited from slower UPB (Unpaid Principal Balance) growth due to lower current and future (projected) interest rates for adjustable-rate mortgages. Over 99 percent of the remaining GI/SRI HECM loans have adjustable interest rates.

GI/SRI Section 223(f) - Section 223(f) of the National Housing Act permits FHA mortgage insurance for the refinance or acquisition of existing multifamily rental properties consisting of five or more units. Under this program, FHA may insure up to 85 percent of the lesser of the project’s appraised value or its replacement cost. Projects insured under the program must be at least three years old. The Section 223(f) program is the largest multifamily program in the GI/SRI fund with an insurance-in-force of $14 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 $174 million, from ($106) million to ($280) million, and principally due to lower claim expectations.

GI/SRI Section 221(d)(4) - Section 221(d)(4) of the National Housing Act authorizes FHA mortgage insurance for the construction or substantial rehabilitation of multifamily rental properties with five or more units. Under this program, FHA may insure up to 90 percent of the total project cost. This is the second largest multifamily program in the GI/SRI fund with an insurance-in-force of $12 billion. The Section 221(d)(4) liability increased by $61 million this year, from ($71) million to ($10) million. This was principally due to lower premium revenue expectations resulting from increased projected prepayment speeds.

GI/SRI Section 232 Health Care New Construction - The Section 232 NC program provides mortgage insurance for construction or substantial rehabilitation of nursing homes and assisted-living facilities. FHA insures a maximum of 90 percent of the estimated value of the physical improvements and major movable equipment. The Section 232 NC program has an insurance-in-force of $4.6 billion. The Section 232 NC liability increased by $6 million from ($22) million in FY 2010 to ($16) million in FY 2011 due to slightly diminished insurance-in-force and recovery rate expectations.

GI/SRI Section 232 Health Care Purchasing or Refinancing - The Section 232 Refinance program provides mortgage insurance for two purposes: purchasing or refinancing of projects that do not need substantial rehabilitation, and installation of fire safety equipment for either private, for-profit businesses or non-profit associations. For existing projects, FHA insures a maximum of 85 percent of the estimated value of the physical improvements and major movable equipment. The Section 232 Refinance program has an insurance-in-force of $13 billion. The Section 232 Refinance liability decreased by $98 million from ($45) million in FY 2010 to ($143) million in FY 2011 due to lower claim expectations and significantly increased insurance-in-force as a result of roughly $2.6 billion in FY 2011 endorsements.

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 $8.3 billion. The Section 242 liability decreased by $82 million from ($111) million in FY 2010 to ($193) million in FY 2011 due to higher premium revenue caused by decreased prepayment expectations.

Risks to LLG Calculations

LLG calculations for MMI loans use loan-performance projections based upon a single, base-case economic forecast. That forecast can be considered a median expectation, meaning there are equal probabilities of economic conditions being more or less favorable than what is used in the LLG calculation.

The current MMI Fund LLG calculation includes a provision for what could be a substantial influx of claims in FY 2012 resulting from large numbers of loans currently in the foreclosure process, and more loans that have gone through foreclosure auction but for which lenders have been reluctant to transfer properties to FHA so that they can file insurance claims. These issues are a result of foreclosure documentation problems in the mortgage servicing industry that surfaced in 2010 and that are still, in many cases, unresolved. The FY 2011 MMI Fund LLG assumes that nearly all of the post-foreclosure cases will result in claims during FY 2012. Thus, FHA does not believe that there is any negative risk to the LLG calculation from this situation.

Continued bottlenecks in processing foreclosure actions in judicial states, as a result simply of large volumes of cases, do not affect FHA's estimates of the number of future claims, but they can affect timing and cost of those claims. Thus, to the extent that court backlogs persist for long periods of time there can be a risk of upward revisions to the LLG. Issues for FHA appear to be in a small number of States, with the most problematic being Florida. As of August 31, 2011, there were close to 22,000 open foreclosure actions on FHA loans in Florida, which is nearly twice that of the next State (Illinois). The share of cases in Florida that have been in-process for more than 18 months is now 44 percent. The only State with a worse backlog is New Jersey, where 53 percent of active foreclosures have been open for over 18 months. Nationwide, the share of in-foreclosure actions that have been open for more than 18 months has increased over the past year from under 8 percent to nearly 23 percent. FHA cannot foresee when this situation will improve, but foreclosure actions are being processed on a more normal schedule in most States. The actual number of FHA loans in foreclosure processing peaked in the second quarter of FY 2011 and has been on a gradual decline since then.

Risks to the multifamily LLG calculation 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 2008 – 2009 are just coming on-line and facing rent-up risk, while 2010 and 2011 commitments have not yet resulted in new units being available for rent.

For health care programs (Sections 232 and 242), LLG risk comes principally from health-care reimbursement rates from Medicare and Medicaid. It also emanates from 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.

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 $4.5 billion. The aggregate liability for the remaining pre-credit reform loans in FY 2011 is $18 million, which is an $8 million increase from the $10 million estimate in FY 2010.

GI/SRI Multifamily & Healthcare LLR - For the multifamily and healthcare portfolio, the remaining insurance-in-force for pre-credit reform loans is $1.7 billion. The aggregate liability for the remaining pre-credit reform loans in FY 2011 is $5 million, which is a $25 million decrease from the $30 million estimate in FY 2010. The year-over-year decrease in aggregate liability is due to an $800 million decline in insurance-in-force.

GI/SRI Section 223(a)(7) - Section 223(a)(7) gives FHA authority to refinance FHA-insured loans. Under this program, the refinanced principal amount of the mortgage may be the lesser of the original amount of the existing mortgage or the remaining unpaid principal balance of the loan. Loans insured under any sections of the National Housing Act may be refinanced under 223(a)(7), including those already under 223(a)(7). The Section 223(a)(7) program has an insurance-in-force of $11.5 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 $184 million, from ($89) million to ($273) million, principally due to lower claim expectations.

Note 7. Other Assets

The following table presents the composition of Other Assets held by FHA as of September 30, 2011 and 2010:

(Dollars in millions)

	FY 2011	FY2010
Intragovernmental:		
Advances to HUD for Working Capital Fund Expenses	$ 3	$ 5
Total	**$ 3**	**$ 5**
With the Public:		
Escrow Monies Deposited at Minority-Owned Banks	$ 66	$ 70
Deposits in Transit	3	6
Total	**$ 69**	**$ 76**

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, 2011 and 2010 are as follows:

(Dollars in millions)		FY 2011		FY2010
With the Public:				
Claims Payable	$	474	$	351
Premium Refunds Payable		142	$	143
Single Family Property Disposition Payable		79	$	128
Miscellaneous Payables		28	$	25
Total	**$**	**723**	**$**	**647**

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, 2011 and 2010:

(Dollars in millions)	FY2010			FY 2011	
	Beginning Balance	Net Borrowing	Ending Balance	Net Borrowing	Ending Balance
Agency Debt:					
Debentures Issued to Claimants	14	(4)	10	$ -	$ 10
Other Debt:					
Borrowings from U.S. Treasury	4,420	329	4,749	1,283	6,032
Total	**$ 4,434**	**$ 325**	**$ 4,759**	**$ 1,283**	**$ 6,042**

	FY 2011	FY2010
Classification of Debt:		
Intragovernmental Debt	$ 6,032	$ 4,749
Debt Held by the Public	10	10
Total	**$ 6,042**	**$ 4,759**

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. Interest rates related to the outstanding debentures ranged from 4.00 percent to 13.375 percent in fiscal year 2011 and from 4.00 percent to 13.375 percent in fiscal year 2010. 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 30th was $10 million and $10 million in fiscal year 2010. The fair value for both fiscal years 2011 and 2010 is $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 disbursements and existing loan modifications from the financing accounts to the general fund receipt account (for cases in GI/SRI funds) or to the capital reserve account (for cases in MMI/CMHI funds). In some instances, borrowings are also needed to transfer the credit subsidy related to downward reestimates from the GI/SRI financing account to the GI/SRI receipt account or when available cash is less than claim payments due.

During fiscal year 2011, FHA's U.S. Treasury borrowings carried interest rates ranging from 1.68 percent to 7.59 percent. In fiscal year 2010, they carried interest rates ranged from 1.68 percent to 7.59 percent. The maturity dates for these borrowings occur from September 2017 – September 2030. Loans may be repaid in whole or in part without penalty at any time prior to maturity.

Note 10. Other Liabilities

The following table describes the composition of Other Liabilities as of September 30, 2011 and 2010:

(Dollars in millions)

FY 2011		**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**

FY2010		**Current**
Intragovernmental:		
Receipt Account Liability	$	1,165
Total	**$**	**1,165**
With the Public:		
Trust and Deposit Liabilities	$	120
Multifamily Notes Unearned Revenue	$	227
Disbursements in Transit	$	74
Miscellaneous Liabilities	$	6
Total	**$**	**427**

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.

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 an effect on FHA's consolidated financial statements as of September 30, 2011. As a result, no contingent liability has been recorded.

Note 12. Gross Costs

Gross costs incurred by FHA for the period ended September 30, 2011 and 2010 are as follows:

(Dollars in millions)	FY 2011			FY 2010		
	MMI/CMHI	GI/SRI	H4H	MMI/CMHI	GI/SRI	H4H
Intragovernmental:						
Interest Expense	$ 236	$ 176	$ -	$ 140	$ 144	$ -
Imputed Cost	18	-	-	$ 19	$ -	$ -
Other Expenses	4	-	1	$ 1	$ -	$ 2
Total	**$ 258**	**$ 176**	**$ 1**	**$ 160**	**$ 144**	**$ 2**
With the Public:						
Salary and Administrative Expense	$ 659	$ 6	$ 3	$ 542	$ 30	$ 7
Subsidy Expense	1,657	(1,063)	11	$ (4,812)	$ 2,762	$ 3
Interest Expense	2,690	(32)	-	$ 595	$ 695	$ -
Interest Accumulation Expense	1,023	365	-	$ 1,076	$ 268	$ -
Bad Debt Expense	13	(173)	-	(7)	$ (342)	$ -
Loan Loss Reserve	7	(27)	-	$ (4)	$ (79)	$ -
Other Expenses	61	62	-	$ 67	$ 25	$ -
Total	**$ 6,110**	**$ (862)**	**$ 14**	**$ (2,543)**	**$ 3,359**	**$ 10**

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, 2011 and 2010 are as follows:

(Dollars in millions)	FY 2011		FY2010	
	MMI/CMHI	GI/SRI	MMI/CMHI	GI/SRI
Intragovernmental:				
Interest Revenue from Deposits at U.S. Treasury	$ 1,259	$ 540	$ 1,215	$ 412
Interest Revenue from MMI/CMHI Investments	173	-	$ 366	$ -
Gain on Sale of MMI/CMHI Investments	133	-	$ 554	$ -
Total Intragovernmental	**$ 1,565**	**$ 540**	**$ 2,135**	**$ 412**
With the Public:				
Insurance Premium Revenue	$ 1	$ 12	$ 28	$ 16
Income from Notes and Properties	21	34	35	54
Other Revenue	-	5	-	-
Total With the Public	**$ 22**	**$ 51**	**$ 63**	**$ 70**

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 2011 were:

Upfront Premium Rates

Single Family	1.00%
Multifamily	0.25%, 0.45 %, 0.50%, 0.57% , 0.80% or 1.00%
HECM Standard	2.00% (Based on Maximum Claim Amount)
HECM Saver	.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 2011 were:

Annual Periodic Premium Rates

Single Family	0.85% or 0.90%
Single Family	1.10% or 1.15% (as of April 18th)
Multifamily	0.45 %, 0.50%, 0.57% or 0.80%
HECM (Standard & 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 2011, 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, 2011 and 2010 are as follows:

(Dollars in millions)

Budgetary Financing Sources		Cumulative Results of Operations		Unexpended Appropriations		Total
Treasury	$	(492)	$	-	$	(492)
HUD		-		(72)		(72)
FY 2011 Total	**$**	**(492)**	**$**	**(72)**	**$**	**(564)**

Other Financing Sources		Cumulative Results of Operations		Unexpended Appropriations		Total
Treasury	$	(1,796)	$	-	$	(1,796)
HUD		567		-		567
FY 2011 Total	**$**	**(1,229)**	**$**	**-**	**$**	**(1,229)**

(Dollars in millions)

Budgetary Financing Sources		Cumulative Results of Operations		Unexpended Appropriations		Total
Treasury	$	(559)	$	(83)	$	(642)
HUD	$	-		(72)	$	(72)
FY2010 Total	**$**	**(559)**	**$**	**(155)**	**$**	**(714)**

Other Financing Sources		Cumulative Results of Operations		Unexpended Appropriations		Total
Treasury	$	1,020	$	-	$	1,020
HUD		484		-		484
FY2010 Total	**$**	**1,504**	**$**	**-**	**$**	**1,504**

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, 2011 and 2010 are as follows:

(Dollars in millions)

FY 2011	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**

FY2010	Beginning Balance	Appropriations Received	Other Adjustments	Appropriations Used	Transfers-Out	Ending Balance
Positive Subsidy	$ 478	$ 9	$ -	$ (19)	$ -	$ 468
Working Capital and Contract Expenses	272	259	(47)	(96)	(72)	316
Reestimates	-	863	-	(863)	-	-
GI/SRI Liquidating	82	100	-	(3)	(83)	96
Total	**$ 832**	**$ 1,231**	**$ (47)**	**$ (981)**	**$ (155)**	**$ 880**

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 2010 have been reconciled to the fiscal year 2010 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 2011 Statement of Budgetary Resources will be presented in the fiscal year 2013 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, 2011 and 2010 are as follows:

Unpaid Obligations

(Dollars in Millions)

Undelivered Orders		**FY 2011**		**FY2010**
MMI/CMHI	$	1,495	$	1,139
GI/SRI		403		454
H4H		1		1
EI		12		
TI		12		
Undelivered Orders Subtotal	**$**	**1,923**	**$**	**1,594**
Accounts Payable				
MMI/CMHI	$	813	$	719
GI/SRI		321		350
H4H		-		-
EI		-		
TI		-		
Accounts Payable Subtotal	**$**	**1,134**	**$**	**1,069**
Total	**$**	**3,057**	**$**	**2,663**

Note 18. Budgetary Resources - Collections

The following table presents the composition of FHA's collections for the period ended September 30, 2011 and 2010:

(Dollars in Millions)

FY 2011	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**

FY2010	MMI/CMHI	GI/SRI	H4H	Total
Collections:				
Premiums	$ 9,282	$ 768	$ 1	$ 10,051
Notes	9	490	-	499
Property	5,038	269	-	5,307
Interest Earned from U.S. Treasury	2,238	412	-	2,650
Subsidy	2,651	15	3	2,669
Reestimates	9,894	863	-	10,757
Other	48	165	9	222
Total	**$ 29,160**	**$ 2,982**	**$ 13**	**$ 32,155**

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, 2011 and 2010:

(Dollars in Millions)

FY 2011	MMI/CMHI	EI	Total
Transfers:			
Working Capital and Contract Expenses	$ (72)	$ -	$ (72)

(Dollars in Millions)

FY2010	MMI/CMHI	EI	Total
Transfers			
Working Capital and Contract Expenses	$ (71)	$ (1)	$ (72)

Note 20. Budgetary Resources – Obligations

The following table presents the composition of FHA's obligations for the period ended September 30, 2011 and 2010:

(Dollars in Millions)

FY 2011	MMI/CMHI	GI/SRI	H4H	EI/TI	Total
Obligations					
Claims	$ 15,130	$ 1,840	$ -	$ -	$ 16,970
Property Disposition	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**

FY2010	MMI/CMHI	GI/SRI	H4H	EI/TI	Total
Obligations					
Claims	$ 14,017	$ 2,007	$ -	$ -	$ 16,024
Property Disposition	808	21	-	-	829
Interest on Borrowings	112	6	-	-	118
Subsidy	2,651	521	3	-	3,175
Downward Reestimates	26	164	-	-	190
Upward Reestimates	9,868	863	-	-	10,731
Admin, Contract and Working Capital	139	151	-	-	290
Other	257	150	2	-	409
Total	**$ 27,878**	**$ 3,883**	**$ 5**	**$ -**	**$ 31,766**

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, 2011 and 2010:

(Dollars in Millions)	FY 2011	FY 2010
RESOURCES USED TO FINANCE ACTIVITIES		
Obligations Incurred	$ 38,521	$ 31,766
Spending Authority from Offsetting Collections and Recoveries	(33,481)	(32,217)
Offsetting Receipts	(1,033)	(619)
Transfers In / Out	(1,229)	1,504
Imputed Financing from Costs Absorbed by Others	18	19
TOTAL RESOURCES USED TO FINANCE ACTIVITIES	**$ 2,796**	**$ 453**
RESOURCES THAT DO NOT FUND THE NET COST OF OPERATIONS		
Undelivered Orders and Adjustments	$ (327)	$ (468)
Revenue and Other Resources	34,926	30,073
Purchase of Assets	(11,781)	(21,497)
Appropriation for prior year Re-estimate	(10,625)	(10,731)
TOTAL RESOURCES NOT PART OF NET COST OF OPERATIONS	**$ 12,193**	**$ (2,623)**
TOTAL RESOURCES USED TO FINANCE THE NET COST (SURPLUS) OF OPERATIONS	**$ 14,989**	**$ (2,170)**
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	$ 14,973	$ 8,183
Downward Re-estimate of Credit Subsidy Expense	(4,494)	(5,865)
Changes in Loan Loss Reserve Expense	(28)	(83)
Changes in Bad Debt Expenses Related to Uncollectible Pre-Credit Reform Receivables	(159)	(349)
Reduction of Credit Subsidy Expense from Endorsements and Modifications of Loan Guarantees	(7,228)	(3,100)
Gains or Losses on Sales of Credit Program Assets	85	46
Other	(14,619)	1,790
TOTAL COMPONENTS OF THE NET COST (SURPLUS) OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD	**$ (11,470)**	**$ 622**
NET COST (SURPLUS) OF OPERATIONS	**$ 3,519**	**$ (1,548)**

Required Supplementary Information

Schedule A: Intragovernmental Assets

FHA's Intragovernmental assets, by federal entity, are as follows on September 30, 2011 and 2010:

(Dollars in Millions)

FY 2011	Fund Balance with U.S. Treasury	Investments in U.S. Treasury Securities	Other Assets	Total
U.S. Treasury	$ 42,006	$ 4,135	$ -	$ 46,141
HUD	-	-	3	3
Total	**$ 42,006**	**$ 4,135**	**$ 3**	**$ 46,144**

FY2010	Fund Balance with U.S. Treasury	Investments in U.S. Treasury Securities	Other Assets	Total
U.S. Treasury	$ 39,078	$ 4,150	$ -	$ 43,228
HUD	-	-	5	5
Total	**$ 39,078**	**$ 4,150**	**$ 5**	**$ 43,233**

Schedule B: Intragovernmental Liabilities

FHA's Intragovernmental liabilities, by federal entity, are as follows on September 30, 2011 and 2010:

(Dollars in Millions)

FY 2011	Accounts Payable	Borrowings from U.S. Treasury	Other Liabilities	Total
U.S. Treasury	$ -	$ 6,032	$ 3,051	$ 9,083
Total	**$ -**	**$ 6,032**	**$ 3,051**	**$ 9,083**

FY2010	Accounts Payable	Borrowings from U.S. Treasury	Other Liabilities	Total
U.S. Treasury	$ -	$ 4,749	$ 1,165	$ 5,914
Total	**$ -**	**$ 4,749**	**$ 1,165**	**$ 5,914**

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
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
Adjustment to obligated balance, start of year (net) (+ or -)	-	-	-	-	-
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 C: Comparative Combining Statement of Budgetary Resources by FHA Program for Budgetary September 30, 2010:

	MMI/CMHI Capital Reserve	MMI/CMHI Program	GI/SRI Program	Other	Budgetary Total
Budgetary Resources:					
Unobligated balance brought forward, October 1	10,604.00	28	$ 51	$ 681	$ 11,364
Adjustment to unobligated balance brought forward, October 1 (+ or -)	-	-	-	$ -	$ -
Unobligated balance brought forward, October 1, as adjusted	10,604	28	51	$ 681	$ 11,364
Recoveries of prior year unpaid obligations	-	2	12	$ 33	$ 47
Other changes in unobligated balance (+ or -)	(9,868)	9,868	-	$ (213)	$ (187)
Unobligated balance from prior year budget authority, net	737	9,898	63	501	$ 11,198
Appropriations (discretionary and mandatory)	-	117	871	171	$ 1,159
Borrowing authority (discretionary and mandatory)	-	-	-	$ 9	$ 10
Spending authority from offsetting collections (discretionary and mandatory)	3,638	-	-	$ 269	$ 3,907
Total budgetary resources	**$ 4,375**	**$ 10,015**	**$ 934**	**$ 950**	**$ 16,274**
Status of Budgetary Resources:					
Obligations incurred	-	9,980	877	160	$ 11,017
Unobligated balance, end of year:	-				
Apportioned	-	5	9	499	$ 513
Unapportioned	4,375	30	48	291	$ 4,744
Total unobligated balance, end of year	4,375	35	57	790	$ 5,257
Total budgetary resources	**$ 4,375**	**$ 10,015**	**$ 934**	**$ 950**	**$ 16,274**
Change in Obligated Balance:					
Unpaid obligations, brought forward, October 1 (gross)	-	81	76	672	$ 829
Uncollected customer payments from Federal sources, brought forward, October 1 (-)	(84)	-	-	(1)	$ (85)
Obligated balance, start of year (net), before adjustments (+ or -)	(84)	81	68	679	$ 744
Obligated balance, start of year (net), as adjusted	(84)	81	76	671	$ 744
Obligations incurred	-	9,980	877	160	$ 11,017
Outlays (gross) (-)		(9,928)	(914)	(185)	(11,027.00)
Change in uncollected customer payments from Federal sources (+ or -)	61	-	-	-	$ 61
Recoveries of prior year unpaid obligations (-)	-	(2)	(12)	(33)	$ (47)
Unpaid obligations, end of year (gross)	-	132	27	613	$ 772
Uncollected customer payments from Federal sources, end of year	(23)	-	-	(1)	$ (24)
Obligated balance, end of year (net)	**$ (23)**	**$ 132**	**$ 27**	**$ 612**	**$ 748**
Budget Authority and Outlays, Net:					
Budget authority, gross (discretionary and mandatory)	3,639	117	871	450	$ 5,077
Actual offsetting collections (discretionary and mandatory) (-)	(3,700)	-	-	(270)	$ (3,970)
Change in uncollected customer payments from Federal sources (discretionary and mandatory) (+ or -)	61	-	-	-	$ 61
Budget authority, net (discretionary and mandatory)	-	117	871	180	$ 1,168
Outlays, gross (discretionary and mandatory)	-	9,928	914	185	$ 11,027
Actual offsetting collections (discretionary and mandatory) (-)	(3,700)	-	-	(270)	$ (3,970)
Outlays, net (discretionary and mandatory)	(3,700)	9,928	914	(85)	$ 7,057
Distributed offsetting receipts (-)	-	-	-	619	$ 619
Agency outlays, net (discretionary and mandatory)	**$ (3,700)**	**$ 9,928**	**$ 914**	**$ (704)**	**$ 6,438**

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	Non 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)
Agency outlays, net (discretionary and mandatory)	**$ 1,022**	**$ (1,763)**	**$ (15)**	**$ (756)**

Required Supplementary Information

Schedule D: Comparative Combining Budgetary Resources by FHA Program for Non-Budgetary September 30, 2010:

	MMI/CMHI Financing	GI/SRI Financing	Other	Budgetary Total Total
Budgetary Resources:				
Unobligated balance brought forward, October 1	$ 19,936	$ 6,859	$ 4	26,799
Unobligated balance brought forward, October 1, as adjusted	11,147	6,859	$ 11,152	29,158
Recoveries of prior year unpaid obligations	62	8	$ -	70
Other changes in unobligated balance (+ or -)	8,788		$ (11,154)	(2,359)
Unobligated balance from prior year budget authority, net	19,998	$ 6,867	$ 4	26,869
Appropriations (discretionary and mandatory)	-	7	$ -	7
Borrowing authority (discretionary and mandatory)	-	790	$ 1	791
Spending authority from offsetting collections (discretionary and mandatory)	25,177	2,548	$ 5	27,731
Total budgetary resources	**$ 45,175**	**$ 10,212**	**$ 11**	**$ 55,398**
Status of Budgetary Resources:				
Obligations incurred	$ 17,854	$ 2,893	$ 2	20,749
Apportioned	3,998	57	$ 9	4,064
Unapportioned	23,323	7,262	$ -	30,585
Total unobligated balance, end of year	27,321	7,319	$ 9	34,649
Total budgetary resources	**$ 45,175**	**$ 10,212**	**$ 11**	**$ 55,398**
Change in Obligated Balance:				
Unpaid obligations, brought forward, October 1 (gross)	$ 1,209	$ 255	$ -	1,464
Uncollected customer payments from Federal sources, brought forward, October 1 (-)	-	(2)	$ -	(2)
Obligated balance, start of year (net), before adjustments (+ or -)	$ 1,209	253	$ -	1,462
Obligated balance, start of year (net), as adjusted	1,209	253	$ -	1,462
Obligations incurred	17,854	2,893	$ 2	20,749
Outlays (gross) (-)	(17,444)	(2,807)	$ (1)	(20,252)
Change in uncollected customer payments from Federal sources (+ or -)	2	2	$ -	4
Recoveries of prior year unpaid obligations (-)	(62)	(8)	$ -	(70)
Unpaid obligations, end of year (gross)	1,558	333	$ (2)	1,889
Uncollected customer payments from Federal sources, end of year	-	-	$ 2	2
Obligated balance, end of year (net)	**$ 1,558**	**$ 333**	**$ -**	**$ 1,891**
Budget Authority and Outlays, Net:				
Budget authority, gross (discretionary and mandatory)	25,178	3,345		28,529
Actual offsetting collections (discretionary and mandatory) (-)	(25,440)	(2,740)	$ (5)	(28,185)
Change in uncollected customer payments from Federal sources (discretionary and mandatory) (+ or -)	2	2	$ -	4
Budget authority, net (discretionary and mandatory)	(260)	608	$ -	348
Outlays, gross (discretionary and mandatory)	17,444	$ 2,807	$ 1	20,252
Actual offsetting collections (discretionary and mandatory) (-)	(25,440)	(2,740)	$ (5)	(28,185)
Outlays, net (discretionary and mandatory)	(7,995)	66	$ (4)	(7,933)
Distributed offsetting receipts (-)	-	-	$ -	-
Agency outlays, net (discretionary and mandatory)	**$ (7,995)**	**$ 66**	**$ (4)**	**$ (7,933)**