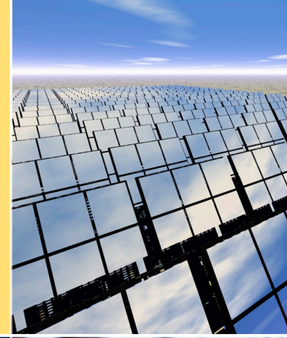

Agency Financial Report
Fiscal Year **2011**

U.S. Department of Housing and Urban Development

An Overview of the Agency Financial Report

The Department of Housing and Urban Development (HUD) has chosen to produce both an Agency Financial Report (AFR) and an Annual Performance Report (APR). HUD will include its Fiscal Year (FY) 2011 APR with its Congressional Budget Justification and will post it on the Department's Web site at www.hud.gov by February 7, 2012.

This AFR provides financial and summary performance information to the President, the Congress, and the American people. The report allows readers to assess HUD's performance relative to its mission, priority goals and objectives, and stewardship of public resources. The AFR is divided into three sections:

Section I – Management's Discussion and Analysis (MD&A). This section provides an overview of HUD's FY 2011 results, and includes the following categories:

- Mission, Organizations and Major Program Activities, and Strategic Plan;
- Priority Goals, including 3rd quarter FY 2011 year-to-date program results;
- Analysis of Financial Condition and Results for FY 2011;
- Management Assurances concerning compliance with laws and regulations; and
- Summary of progress in eliminating and recovering improper payments.

The MD&A is supported and supplemented by detailed information contained in the other two sections of this report. In addition, the detailed performance information will be reported separately in the APR scheduled for release as noted above.

Section II – Financial Information. This section presents HUD's consolidated financial statements and accompanying notes for FY 2011 and the independent auditor's report on those financial statements. This section also contains Required Supplementary Stewardship Information and Required Supplementary Information.

Section III – Other Accompanying Information. This section presents other required or Agency deemed important information such as Improper Payments Elimination and Recovery Act (IPERA) reporting, the Secretary's Audit Resolution Report, and the HUD Office of Inspector General's (OIG) independent assessment of the Department's major management and performance challenges, as well as progress in addressing those challenges.

Appendices – Appendix A contains a list of defined acronyms. Appendix B contains websites for the endnotes referenced within the document (numbered consecutively within each section preceded by an "E").

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Message from the Secretary

November 15, 2011

I am honored to present the U.S. Department of Housing and Urban Development's Agency Financial Report for Fiscal Year (FY) 2011. This report is an alternative to the Performance and Accountability Report, in accordance with OMB Circular A-136, *Financial Reporting Requirements*. It describes HUD's financial results for the fiscal year and performance results as of the 3rd quarter. During FY 2011, we continued the fight to restore financial stability and economic opportunity, focusing on helping families and neighborhoods recover from the economic crisis, while pursuing innovative ways to ensure that every family and community can be a part of winning the future.

In HUD's Strategic Plan for FY 2010 – 2015, our mission to create strong, sustainable, inclusive communities and quality, affordable homes for all is reflected in our five strategic goals, as explained later in this report. Beginning in FY 2010, we identified and designated four Priority Goals that are essential to achieving this mission. These are generally 2-year goals, and our results through June 30, 2011, include:

- **Assisting over 2.4 million homeowners at risk of losing their homes due to foreclosure.** We have already exceeded our goal of assisting 700,000 homeowners through loss mitigation and early delinquency intervention. With our partners at the Department of the Treasury, we assisted more than 1.6 million homeowners through Treasury's Home Affordable Modification Program (HAMP), with a goal of assisting 2.4 million homeowners by December 2012. These efforts have set a standard for the private market, resulting in more than 5.1 million modifications since April 2009, more than twice the number of families who lost their homes during that time;
- **Serving 5.38 million families to meet the growing need for affordable rental homes.** The Department has provided housing opportunities for an additional 133,476 families more than we were assisting in FY 2009, a significant accomplishment. While, in FY 2011, we anticipate that we will fall short of HUD's ambitious Priority Goal to serve a total of 207,000 more families than in FY 2009, the Department is proud of its achievement and endeavors to continue that progress moving forward. There are a number of factors contributing to our falling short of the 2-year goal, including the long delay in passage of the FY 2011 departmental budget. The Department does expect to see an increase in numbers assisted in the 4th quarter;
- **Reducing the number of homeless veterans by almost 20,000 with our partners at the Department of Veterans Affairs.** Together, we are working towards attaining our shared goal of reducing the number of homeless veterans to 59,000 by June 2012; and
- **Completing the cost-effective energy and green retrofits of more than 145,000 public, assisted, and other HUD-supported affordable homes.** We expect to meet and will likely exceed our goal of completing 159,000 retrofits by year end.

Complete FY 2011 results and other details for HUD's Priority Goals will be included in the Annual Performance Report to be published in February 2012 with HUD's budget justifications.

The following accomplishments represent part of a broader set of results that HUD has produced for the American people. They include:

- Assisting more than 750,000 units with one or more energy efficiency or green measures, jointly with the Department of Energy;
- Reducing the time to make competitive funding available to local partners through our Notices of Funding Availability by 82 percent;
- Treating nearly 33,000 properties through the Neighborhood Stabilization Program;
- Surpassing $1.2 trillion in outstanding Mortgage Backed Securities (MBS). Ginnie Mae is on track to be the second largest guarantor of MBS in the world;
- Providing permanent housing to greater than 99 percent of the 40,000 Gulf Coast families who relied on temporary housing at the beginning of 2009;
- Investigating more than 10,000 complaints of discrimination during FY 2011;
- Modernizing more than 500,000 public housing units using Recovery Act dollars; and
- Endorsing almost $12 billion in multifamily loans during FY 2011.

As the loss mitigation and foreclosure assistance results suggest, HUD's work has been critical in helping the housing market begin to recover. Indeed, prior to the economic crisis that began 4 years ago, the Federal Housing Administration (FHA) comprised only a small share of the housing market. But when the economy began to collapse at the end of 2008, it was the FHA that stepped in, becoming the primary insurer of mortgages. With interest rates at historic lows, much of FHA's business is from homeowners refinancing their mortgages to lower payments to make it easier to remain in their homes. Ginnie Mae, which guarantees MBS comprised predominantly of FHA-insured loans, thereby ensuring the availability of capital for new mortgages, has also seen a larger increase of its share of the MBS market.

Meanwhile, to ensure that FHA is operating on sound financial footing, the Obama Administration has continued to announce and implement reforms to FHA credit policy. These reforms have strengthened FHA's financial condition and minimized risk to taxpayers as it continues to fulfill HUD's mission to serve communities nationwide.

As we help our communities recover, we have also made a bedrock commitment to America's most vulnerable families. While the Recovery Act has to date saved more than one million people from homelessness, HUD's innovative partnership with the Department of Veterans Affairs, HUD-VASH, has accelerated the pace of housing homeless veterans many fold since President Obama took office. And with "Opening Doors," the first federal strategic plan to end homelessness, we are expanding HUD's reach across the Federal Government to prevent and end homelessness.

At the same time, the importance of our core programs, including Mainstream and Housing Choice Vouchers and the Public Housing programs of our Office of Public and Indian Housing, is underscored by a HUD-funded Worst Case Housing Needs survey that found the biggest increase in its history in the number of families paying more than 50 percent of their income for housing, living in severely substandard housing, or both. But as important as these programs are, we need to connect those homes and neighborhoods to economic and social opportunity.

Through our Choice Neighborhoods initiative, for which we recently awarded our first grants, we are building on proven public housing redevelopment strategies to transform neighborhoods of concentrated poverty into sustainable, mixed-income communities of opportunity and choice. And with our proposed Rental Assistance Demonstration, an initiative to revitalize public and assisted housing – a key departmental goal – we will preserve America's affordable housing stock by providing the necessary level of capital assistance.

Indeed, the nature of this crisis points to the need for broader reforms that recognize that communities need a federal partner that understands that one size doesn't fit all. To ensure that housing and transportation investments are responsive to the needs of regional economies, central cities, and rural communities, HUD's Partnership for Sustainable Communities with the Department of Transportation and the Environmental Protection Agency is forging a new wave of metropolitan planning, as well as coordinated transportation and housing investments that communities need to support strong regional growth. And through our interagency "Strong Cities, Strong Communities" initiative, we are helping six distressed cities better use existing resources through intensive technical assistance and partnerships with the private and "Third" sector of nonprofits and foundations to support the visions of local leaders as they work to transform their communities.

Through all this, we continue to demonstrate an enhanced commitment to being good stewards of taxpayer dollars – recognizing that through a catalytic approach and a small investment, the Federal Government can partner with communities to create real results. And to hold ourselves accountable for producing these results, I hold monthly meetings on HUD's Priority Goals to track progress and anticipate hurdles. As such, I can provide reasonable assurance that the performance data in this report is reliable and complete. A complete statement of assurances for financial and performance data is contained in the Management's Discussion and Analysis section of this report. Data limitations are documented throughout the report.

The scope and diversity of HUD's programs reflect a core philosophy at HUD. When choosing a home, citizens are not only choosing a physical structure, but also choosing communities and making choices within those communities – about transportation to work, schooling for their children, and public safety. HUD has designed its programs to ensure that every American family has those choices. Ultimately, with the support of Congress, our partner agencies, and stakeholders in communities across the country, HUD is transforming the way it does business – to meet the needs of families at this moment in our recovery, and to create strong, sustainable, inclusive communities.

Shaun Donovan
Secretary

Management's Discussion and Analysis

Mission, Organization, and Major Program Activities

Our Mission

HUD's mission is to create strong, sustainable, inclusive communities and quality affordable homes for all.

The core focus of HUD's mission is to work towards strengthening the housing market to bolster the economy and protect consumers; meet the need for quality affordable rental homes; utilize housing as a platform for improving quality of life; build inclusive and sustainable communities free from discrimination; and transform the way HUD does business.

HUD is committed in its mission to serve its residents, partners, employees, and the communities of the Nation. For its residents, HUD provides access to the opportunities that result from living in homes and neighborhoods that are safe, healthy, affordable, and inclusive. For its partners, HUD is committed to strengthen partnerships among federal, state, and local entities across the public, nonprofit, and private sectors to meet the housing and community development needs of this country.

HUD's mission has never been more important than it is now, as the United States emerges from an economic crisis linked to the collapse of our nation's housing market. HUD's work is key to America's recovery and its success in delivering to the nation's residents and partners will be dependent on HUD's employees. Therefore, for its employees, HUD's focus will be to invoke a work environment that is mission driven, results oriented, innovative, and collaborative. As such, HUD's achievement will be measured by its ability to build sustainable communities that create value, and investing money responsibly to deliver results that reach past the direct beneficiaries of its programs, from both an economic and health perspective.

HUD accomplishes its mission through component organizations and offices that administer place-based programs (outlined on the following pages), which are carried out through a network of regional offices and smaller field offices, as well as through grantees, contractors, and other business partners. A detailed map of HUD's regional and field offices is located at http://portal.hud.gov/portal/page/portal/HUD/localoffices.[E1]

HUD's major organizations and an overview of their missions are identified below.

- The Office of Housing[E2] provides vital public services through its nationally administered programs. It oversees the Federal Housing Administration (FHA), one of the largest mortgage insurers in the world, as well as regulates housing industry business.

  The mission of the Office of Housing is to:

  - Contribute to building and preserving healthy neighborhoods and communities;
  - Maintain and expand homeownership, rental housing and healthcare opportunities;
  - Stabilize credit markets in times of economic disruption;
  - Operate with a high degree of public and fiscal accountability; and
  - Recognize and value its customers, staff, constituents, and partners.

  Within the Office of Housing are three primary business areas:

  - Single Family Housing[E3]—HUD's Single Family programs provide mortgage insurance on loans to purchase new or existing homes, condominiums, manufactured housing, houses needing rehabilitation, and for reverse equity mortgages to elderly homeowners.
  - Multifamily Housing[E4]—HUD's Multifamily programs provide Project Based Rental Assistance (PBRA) and the FHA provides mortgage insurance to HUD-approved lenders to facilitate the construction, substantial rehabilitation, and purchase and refinancing of multifamily housing projects.
  - Healthcare Programs[E5]—HUD's healthcare programs consist of Section 242, which provides mortgage insurance for hospitals, and Section 232, which provides mortgage insurance for long-term care facilities. The healthcare and hospital portfolio contains 2,722 loans, of which 423 loans were added this year.

- The Government National Mortgage Association[E6] (Ginnie Mae) channels global capital into the nation's housing markets. Its mission is to expand affordable housing in America by linking global capital markets to the nation's housing markets. Specifically, the Ginnie Mae guaranty allows mortgage lenders to obtain attractive and abundant funding for their mortgage loans in the secondary market. The lenders can then use the proceeds from their MBS issuance to make new mortgage loans available, so as to make affordable housing a reality for millions of low- and moderate-income households across America. However, Ginnie Mae guarantees investors the timely payment of principal and interest on MBS backed by federally insured or guaranteed loans. The minimum MBS pool size is $250,000 for multi-lender pools and $1 million for single-lender pools.

  In FY 2011, the Ginnie Mae program provided funding of $350.4 billion for federal housing programs, financing approximately 98 percent of VA and 100 percent of FHA single family eligible government-insured or guaranteed mortgage loans. Ginnie Mae is ending the fiscal year with $1.2 trillion in MBS outstanding, which represents private market capital in use to finance housing for over 1.58 million households.

Ginnie Mae does not buy or sell loans or issue mortgage-backed securities (MBS). Therefore, Ginnie Mae's balance sheet does not use derivatives to hedge or carry long-term debt.

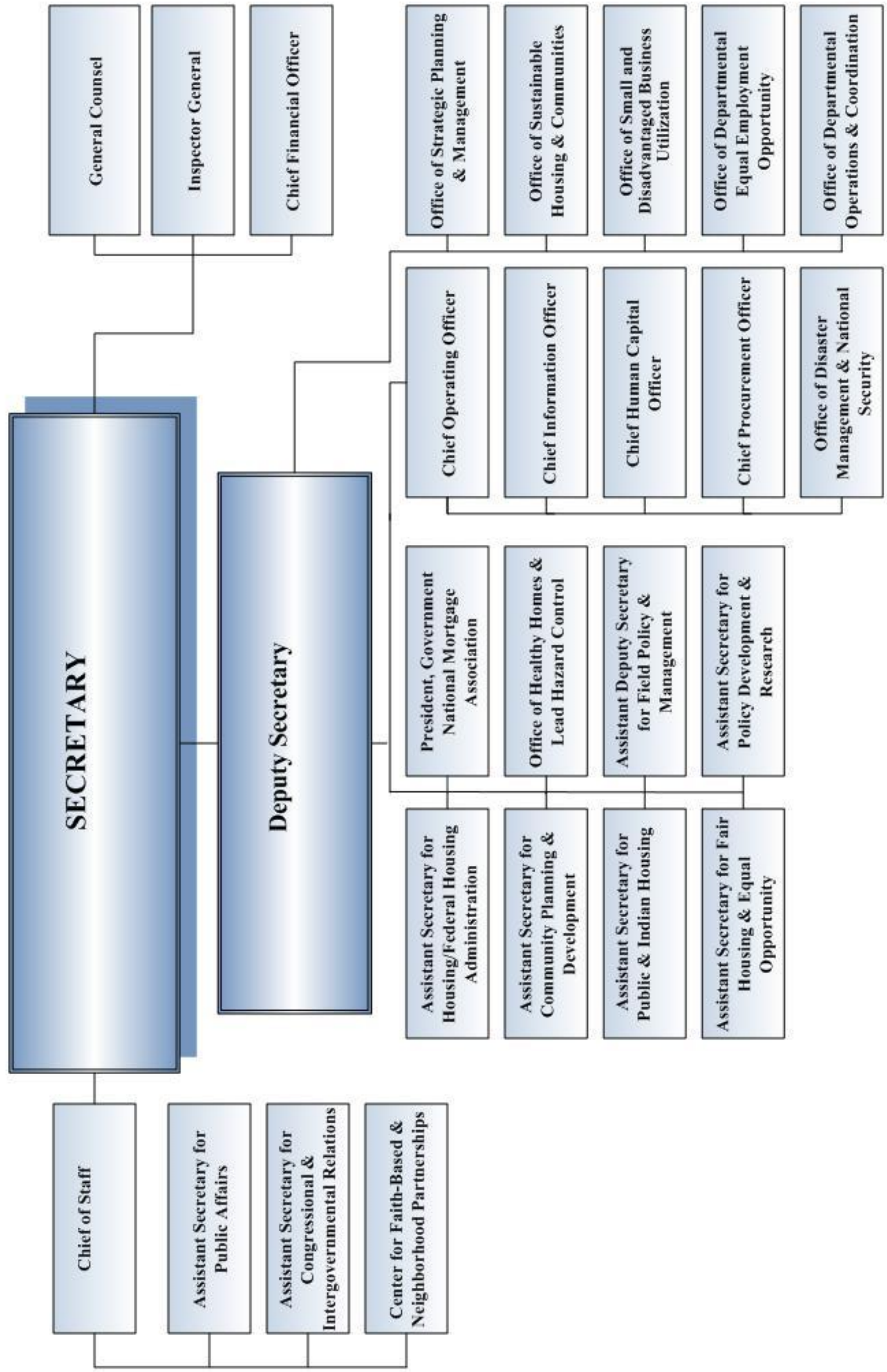
- The Office of Public and Indian Housing[E7] (PIH) is responsible for administering and managing a range of programs for low-income families. The mission of PIH is to ensure safe, decent, and affordable housing for low-income families; create opportunities for residents' self-sufficiency and economic independence; reduce improper payments; and support mixed income developments to replace distressed public housing. There are 4,150 PHAs that provide affordable housing opportunities for 3.3 million low-income families. In order to facilitate this mission, PIH has 10 major offices within Headquarters, 46 field offices, more than 1,500 staff, and six Native American area offices. Collectively, PIH funding represents approximately 57 percent of HUD's budget. Within PIH are two major business areas:
    - PIH provides assistance to 2.2 million households through the Housing Choice Voucher program and 1.1 million households through the Public Housing program.
    - The Office of Native American Programs (ONAP) provides safe, decent, and affordable housing for low-income families through 564 federally recognized tribes that administer its programs. Additionally, ONAP increases homeownership opportunities for American Indians, Alaska Natives, and Native Hawaiians through the Indian Housing Block Grant program, the Indian Housing Loan Guarantee Fund, as well as Native Hawaiian Loan Guarantee and the Native Hawaiian Housing Block Grant program.
- The Office of Community Planning and Development[E8] (CPD) provides funding to a broad array of state and local governments, non-profit and for-profit organizations to administer a wide range of housing, economic development, homeless assistance, infrastructure, disaster recovery, and other community development activities in urban and rural areas across the country. In partnership, CPD and its local funding recipients develop viable communities by providing decent housing, a suitable living environment, and expanded economic opportunities for low- and moderate-income persons.
- The Office of Fair Housing and Equal Opportunity[E9] (FHEO) administers and enforces the Fair Housing Act and other federal laws and establishes policies that ensure all Americans have equal access to the housing of their choice. FHEO and its partners in the Fair Housing Assistance Program (FHAP) investigated 9,570 filed cases in FY 2011 and HUD charged 56 of these, the highest number in any year since 2002. FHEO's partners in the Fair Housing Initiatives Program (FHIP) are significant and cost-effective partners in both education and enforcement. Fully, 55.7 percent of their case referrals to FHEO

resulted in positive outcomes (conciliated, resolved, or charged) that advanced fair housing principles.

- The Office of Healthy Homes and Lead Hazard Control[E10] (OHHLHC) seeks to eliminate lead-based paint hazards in America's privately-owned and low-income housing and to lead the nation in addressing other housing-related health hazards that threaten vulnerable residents. In FY 2011, as a result of grants executed in prior years, the OHHLHC's lead hazard control and healthy homes grant programs anticipates eliminating lead-based paint and other housing-related environmental health hazards in nearly 15,000 low-income housing units. In addition, the OHHLHC awarded 58 new grants in FY 2011 funds totaling over $114.3 million to help communities address these hazards.
- The Office of Sustainable Housing and Communities[E11] helps HUD manage its relationships with other Cabinet agencies and provide communities with the support they need to ensure housing, transportation, energy, and green building investments are working together to build strong neighborhoods. In addition to managing relationships externally, the Office is also charged with the much needed integration of these principles within and across HUD programs. Its mission is to create strong, sustainable communities by connecting housing to jobs, fostering local innovation, and helping to build a clean energy economy. The Office also supports the Partnership for Sustainable Communities, an unprecedented collaboration between HUD, the Department of Transportation (DOT), and the U.S. Environmental Protection Agency (EPA), to coordinate federal resources in support of sustainable development and livable communities in the U.S.
- The Office of Strategic Planning and Management facilitates and manages HUD's strategic planning and performance measurement process and oversees HUD's ongoing Recovery Act programs totaling $13.6 billion in funding.

The scope and diversity of HUD's programs reflect a core philosophy at HUD. When choosing a home, citizens are not only choosing a physical structure, but they also are choosing communities and the choices available in those communities, transportation to work, schools for their children, and public safety. Ensuring that every American family has those choices is what HUD has designed its programs[E12] to do.

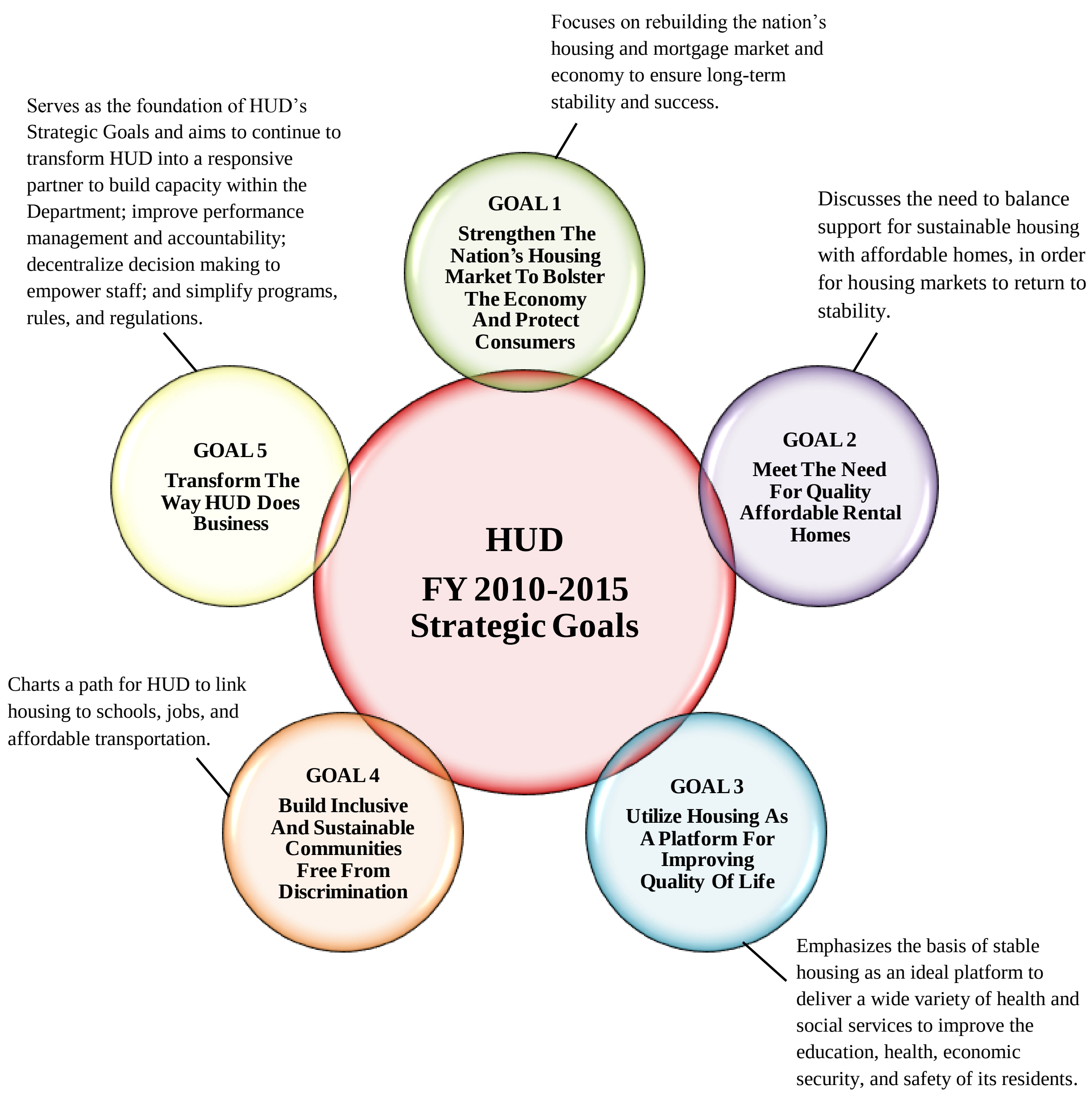
HUD's Organization and Reporting Structure (FY 2011)



HUD's Strategic Plan

During FY 2010, HUD updated its Strategic Plan[E1] to address the economic, financial, and community development issues the nation was enduring. As a result, the Department created five overarching Strategic Goals that are guiding the transformation of HUD into a 21st century organization capable of implementing place-based policies; overseeing a balanced, comprehensive national housing policy that supports sustainable homeownership and affordable rental homes alike; and building the strong, inclusive communities necessary to make the home the foundation of stability and opportunity.

An introduction to these Strategic Goals is provided below.



HUD's FY 2010-2015 Strategic Framework




GOAL 1 Strengthen the Nation's housing market to bolster the economy and protect consumers.	GOAL 2 Meet the need for quality affordable rental homes.	GOAL 3 Utilize housing as a platform for improving quality of life.	GOAL 4 Build inclusive and sustainable communities free from discrimination.	GOAL 5 Transform the way HUD does business.
Sub-Goals				
1A. Stem the foreclosure crisis.	2A. End homelessness and substantially reduce the number of families and individuals with severe housing needs.	3A. Utilize HUD assistance to improve educational outcomes and early learning development.	4A. Catalyze economic development and job creation, while enhancing and preserving community assets.	5A. Build capacity — Create a flexible and high performing learning organization with a motivated, skilled workforce.
1B. Protect and educate consumers when they buy, refinance, or rent a home.	2B. Expand the supply of affordable rental homes where most needed.	3B. Utilize HUD assistance to improve health outcomes.	4B. Promote energy-efficient buildings and location-efficient communities that are healthy, affordable, and diverse.	5B. Focus on results — Create an empowered organization that is customer centered, place-based, collaborative, and responsive to employee and stakeholder feedback.
1C. Create financially sustainable homeownership opportunities.	2C. Preserve the affordability and improve the quality of federally assisted and private unassisted affordable rental homes.	3C. Utilize HUD assistance to increase economic security and self-sufficiency.	4C. Ensure open, diverse, and equitable communities.	5C. Bureaucracy busting — Create flexible, modern rules and systems that promote responsiveness, openness, and transparency.
1D. Establish an accountable and sustainable housing finance system.	2D. Expand families' choices of affordable rental homes located in a broad range of communities.	3D. Utilize HUD assistance to improve housing stability through supportive services for vulnerable populations, including the elderly, people with disabilities, homeless people, and those individuals and families at risk of becoming homeless.	4D. Facilitate disaster preparedness, recovery, and resiliency.	5D. Culture change — Create a healthy, open, flexible work environment that reflects the values of HUD's mission.
		3E. Utilize HUD assistance to improve public safety.	4E. Build the capacity of local, state, and regional public and private organizations.	

With the exception of Strategic Goal 5, the Strategic Goals are supported by the Priority Goals (PGs), which serve as key measures of success in HUD's mission to provide comprehendible trends of performance and the related funding aspects of achieving the Strategic Goals. For three of the four PGs, there is a direct relationship between the PG and a Strategic Goal. However, PG number 3 is cross-cutting with Strategic Goals 2 and 3, respectively.

These PGs serve as management improvement strategies, which represent challenging, generally two-year performance improvements under existing legislative and budgetary authority. HUD's FY 2011 represents the second of the two years and it [FY 2011] includes strategies and resources used to contribute to the Strategic Goals and objectives, which is a new requirement under the Government Performance Results Act Modernization Act of 2010[E1] (GPRAMA). The GPRAMA, which amends the GPRA of 1993, created a more defined performance framework by prescribing a governance structure and by better connecting plans, programs, and performance information, to include updated two-year PGs to commence in FY 2012.

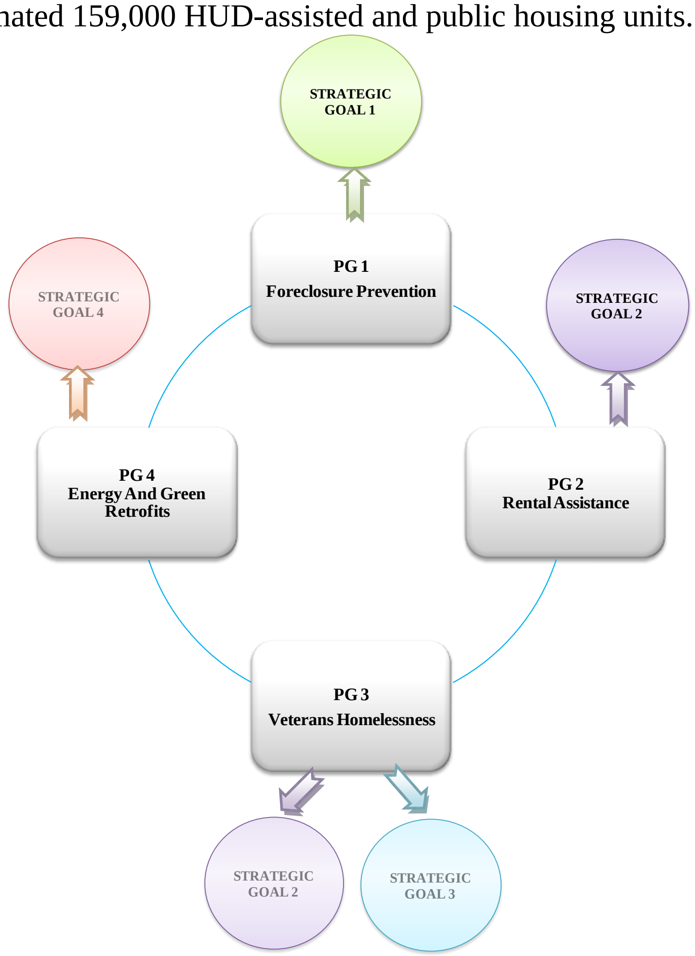
The PGs, outlined and illustrated below, directly support HUD's Strategic Goals to focus on ongoing responsibilities and priorities to address foreclosure prevention, rental assistance, Veterans homelessness, and promote energy and green retrofits.

(1) **Foreclosure Prevention**: Assist 3.1 million homeowners who are at risk of losing their homes to foreclosure;

(2) **Rental Assistance**: Serve 207,000 more families with its rental assistance programs;

(3) **Veterans Homelessness**: Reduce the number of homeless Veterans to 59,000 by helping them move into permanent housing, jointly with the Department of Veterans Affairs; and

(4) **Energy and Green Retrofits**: Enable the cost-effective green and energy retrofits of an estimated 159,000 HUD-assisted and public housing units.

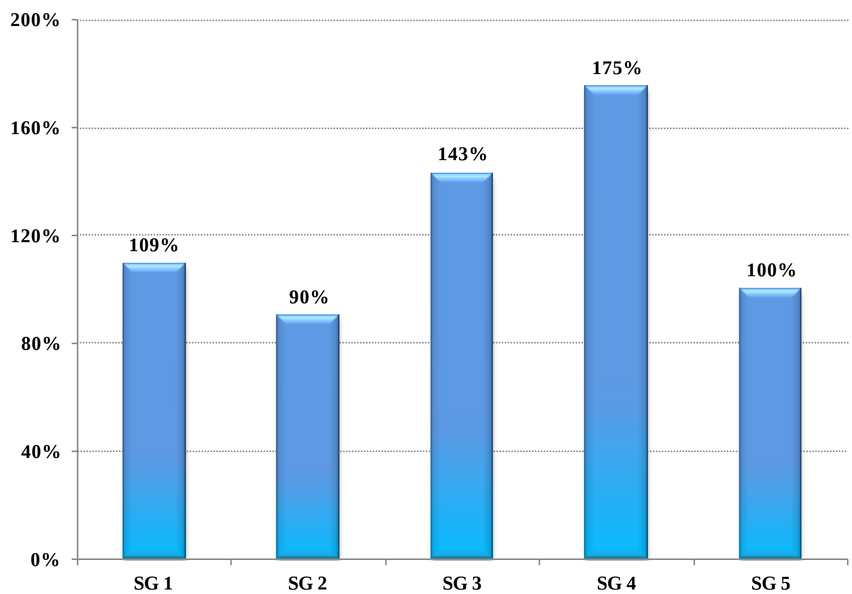


FY 2011 Performance Overview

The results reported in this FY 2011 Agency Financial Report are through the end of the third quarter (Q3), June 30, 2011, since full year results are not yet available. Complete FY 2011 performance results and trend information will be reported in HUD's Annual Performance Report,[E2] which will be published in February 2012.

OMB Circular A-136 requires agencies to include five-year trend information. However, because the results reported are only through Q3, and for some measures results information from prior years (earlier than FY 2010) are not readily available by quarter, HUD does not include 5-year trend information for all the PGs in the AFR in accordance with the OMB guidance. Additionally, some measures did not exist prior to the establishment of the PGs, or the unit measure differed, making an invalid comparison. Hence, the first chart shown below represents two-year data through FY 2011, with results through June 30, 2011, at a Strategic Goal level and the next chart reflects at a key measure level by Strategic Goal.

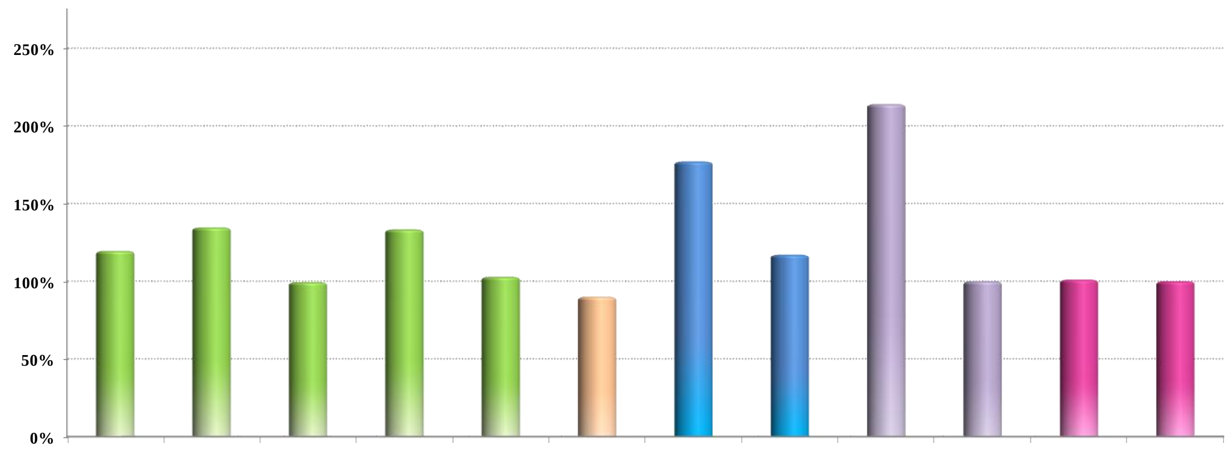
Percent Of Strategic Goals Achieved
Cumulative Q1 FY 2010 -Q3 FY 2011



	Target FY 2011	Actual FY 2011	Percent of Target
SG 1	2,211,516	2,416,755	109%
SG 2	148,995	133,476	90%
SG 3	28,849	41,244	143%
SG 4	83,879	146,563	175%
SG 5	14	14	100%

1. Strategic Goal 1 reflects homeowners assisted only.
2. Strategic Goal 3 includes the target and actual results for FY 2010 for the Continuum of Care portion of the goal. This goal is an annual goal with results not yet available.

Percent Of Strategic Goals Achieved By Measure
FY 2011

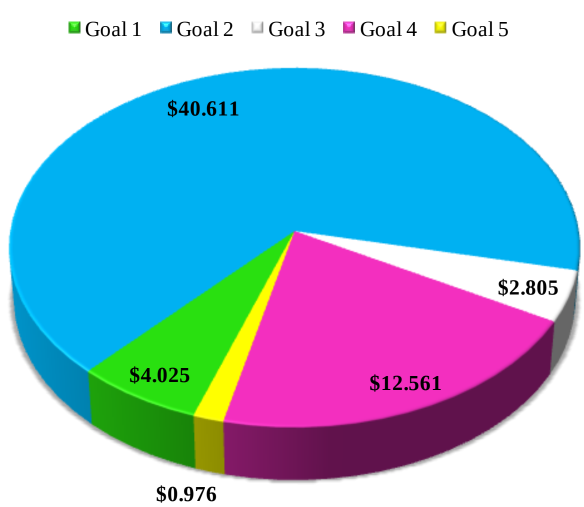


	SG 1					SG 2	SG 3		SG 4		SG 5	
	Early Delinquency Intervention	Loss Mitigation	Consolidated Claim Workout Ratio	Re-Default Ratio	HAMP Modifications	Rental Assistance	HUD-VASH	HPRP & CoC	Energy Retrofits	Green & Healthy Retrofits	Increase Percentage Of Employees Who "Agree" Or "Strongly Agree"	Increase Number Of Decisions Delegated To Field Offices
FY 2011	120%	135%	99%	133%	103%	90%	177%	117%	214%	100%	101%	100%

1. HAMP Modifications for Strategic Goal 1 did not have a goal for FY 2010.
2. Strategic Goal 3 includes the target and actual results for FY 2010 for the Homelessness Prevention and Rapid Re-housing and Continuum of Care portion of the goal. This goal is an annual goal with results not yet available for FY 2011.

The expenditures for FY 2011 are allocated to HUD's Strategic Goals as reflected in the chart below:

Expenditures By Strategic Goal
FY 2011
(Dollars in billions)



The expenditures reflected in the above chart represent prorated gross costs, less unassigned costs of $170 million, as reported on the Consolidated Statement of Net Cost found in Section 2 of this report.

Priority Goal 1: Foreclosure Prevention

Goal Statement

Assist 3.1 million homeowners who are at risk of losing their homes due to foreclosure.

Overview

Millions of homeowners are in danger of losing their homes to foreclosure after experiencing a decline in income due to the economic recession.[E1] In September 2011, 4.8 million homeowners had missed at least one mortgage payment. Of these homeowners, 1.7 million are in the process of foreclosure, with more than 2.1 million others seriously delinquent and at high risk of foreclosure. Furthermore, as of June 2011, roughly 10.9 million homeowners owe more on their homes than their properties are worth, including some who are current on their mortgage payments and some who have missed at least one payment.

In May 2010, HUD issued its FY 2010 – 2015 Strategic Plan that included a goal to Strengthen the Nation's Housing Market to Bolster the Economy and Protect Consumers.[E2] HUD also established a two-year Priority Goal (PG) to Stem the Foreclosure Crisis. With the aim of preventing foreclosures, this PG is intended to support other efforts of the Administration to address the economic crisis by assisting 3.1 million homeowners who are at risk of losing their homes due to foreclosure.

In order to fight unprecedented numbers of "loan scams" occurring in Bakersfield, California, and the surrounding area of Kern County, Fresno Field Policy and Management staff worked with the Santa Ana Homeownership Center to use Single Family Marketing and Outreach funds for a billboard along Highway 99 going into Kern County. The billboard will run for three months in a very high visibility location.

HUD's key measures of success for this goal include:

- 400,000 homeowners will be assisted through FHA early delinquency intervention.
- 300,000 homeowners will be assisted through FHA loss mitigation programs.
- For all FHA borrowers who receive loss mitigation assistance, achieve a Consolidated Claim Workout Ratio of 75 percent, and for those receiving a Consolidated Claim Workout achieve a 6-month re-default rate of 20 percent or less.
- 2.4 million homeowners will be assisted through the joint HUD-Treasury Home Affordable Modification Program (HAMP).

Contributing Programs

FHA

Since its inception in 1934, FHA has been assisting underserved, low- and moderate-income, and often first-time or minority homebuyers by insuring mortgages for single family homes. Not only does FHA provide opportunities to buy a home, it also has tools (such as early delinquency intervention and loss mitigation) that assist homeowners to stay in their home. FHA programs and tools that help to accomplish this PG are discussed below.

Early Delinquency Intervention

Servicers of FHA insured loans most frequently offer early delinquency intervention assistance to homeowners who are less than 90 days in default. Providing assistance to homeowners who are in the early stages of mortgage payment distress reduces the potential for more serious delinquencies, defaults, and foreclosures at a later date. These interventions include[E3]—special forbearance, repayment, and military indulgence.

Loss Mitigation Programs

Early delinquency interventions have been effective over the years, but as the housing crisis grew, FHA implemented both new and improved loss mitigation programs to better assist homeowners most in danger of losing their homes. These loss mitigation products[E4] include — the FHA Home Affordable Modification Program (HAMP), special forbearance, mortgage modifications, partial claims, pre-foreclosure (short) sales, and deeds in lieu of foreclosure.

Consolidated Claim Workout (CCW) Ratio

The CCW is a ratio that indicates the effectiveness of HUD's programs at reducing foreclosures. The CCW aggregates FHA's incentive claims for loss mitigation actions (e.g., partial claims, special forbearances, loan modifications, FHA HAMP modifications, pre-foreclosure sales, and deeds in lieu of foreclosure) as a share of total paid claims for FHA insurance benefits. The higher the CCW ratio, the more effective HUD has been at preventing foreclosure.

Re-default Rate

FHA works with borrowers to provide realistic and sustainable options for homeowners to retain their homes and satisfy the terms of their

An FHA borrower in Michigan had fallen behind in mortgage payments due to medical expenses for their son injured in a little league baseball game. Both borrowers' incomes at work had also decreased due to overtime being cut off. The lender had placed them on a trial repayment plan to ensure they had overcome their reason for default before completing a permanent loss mitigation option. The borrowers then incurred additional medical expenses and were unable to complete the trial plan. The borrower had subsequently been able to obtain reimbursement for some of their medical expenses. The Housing Specialist at the National Servicing Center contacted the servicer and had them place the pending foreclosure sale on hold and review the case again with the updated information. The borrower provided additional documentation to show they had overcome the medical issues, and they were approved for a trial plan with a loan modification. The borrower completed the three month trial plan successfully, and the lender brought the loan current with a loan modification providing payment relief of around $200 per month.

mortgages. HUD's success at providing such sustainable options can be assessed by looking at borrower re-default rates.

Housing Counseling Assistance

HUD's housing counseling program helps consumers make well-informed decisions concerning home buying and mortgage finance, as well as foreclosure prevention. During FY 2011, Congress eliminated funding for this program; however, prior year obligated funds continued to flow to housing counseling agencies with which these organizations provide comprehensive advice and assistance to households in making appropriate housing choices. These foreclosure prevention services are provided free of charge.

Joint HUD-Treasury Programs

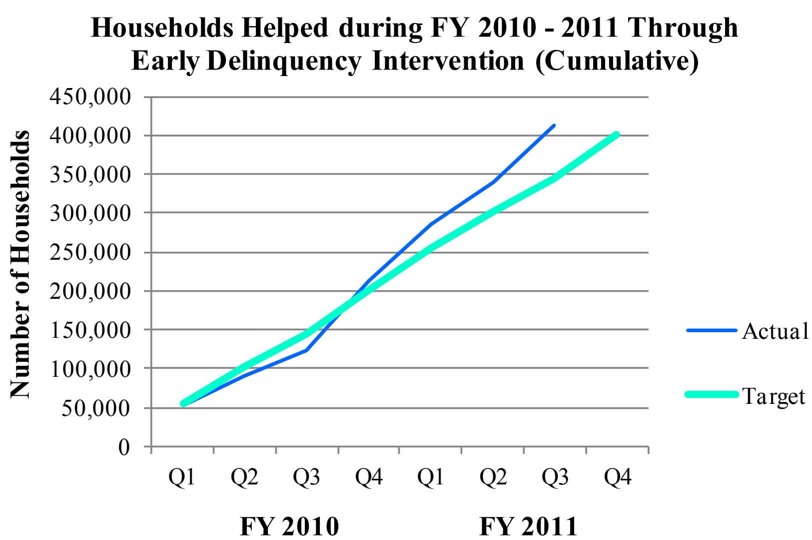
HAMP,[E5] launched in May 2009 (expiring in December 31, 2012), reduces housing payments for eligible households to 31 percent of their gross monthly income for five years. This program applies to homeowners who have conventional mortgages and receive a conventional workout.

When initially introduced to the public, HAMP excluded FHA-insured mortgages, stating that FHA would develop its own standalone program. In July 2009, FHA announced its new Loss Mitigation option, the FHA-HAMP. This program provides homeowners in default a greater opportunity to reduce their mortgage payments to sustainable levels. The HAMP goal to assist 2.4 million homeowners is measured from the program inception until it expires in December of 2012.

Accomplishments

Early Delinquency Intervention

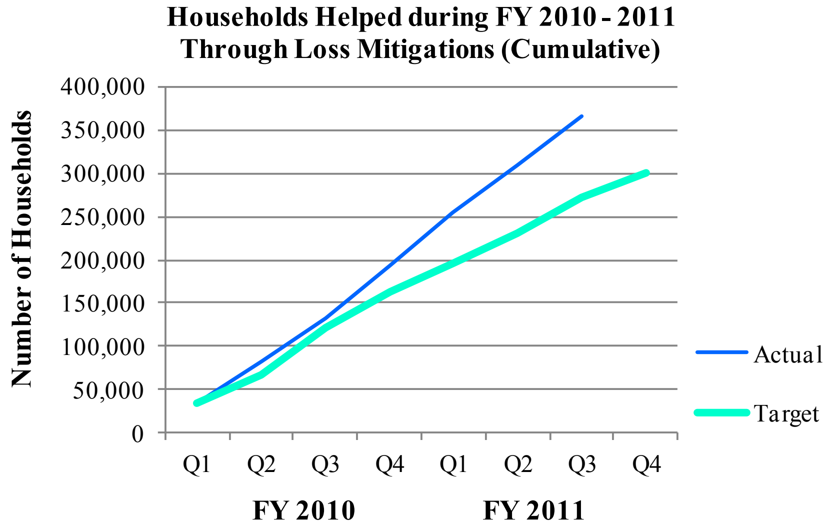
As of the third quarter of FY 2011, HUD had assisted a cumulative total of 411,441 homeowners (since the beginning of FY 2010) to avoid foreclosure through early delinquency intervention, which exceeds the goal of assisting 400,000 homeowners by the end of FY 2011. The number of homeowners assisted during FY 2011 through the third quarter was 198,038.



Note: Data for this goal has only been kept by household since the beginning of FY 2010.

Loss Mitigation Programs

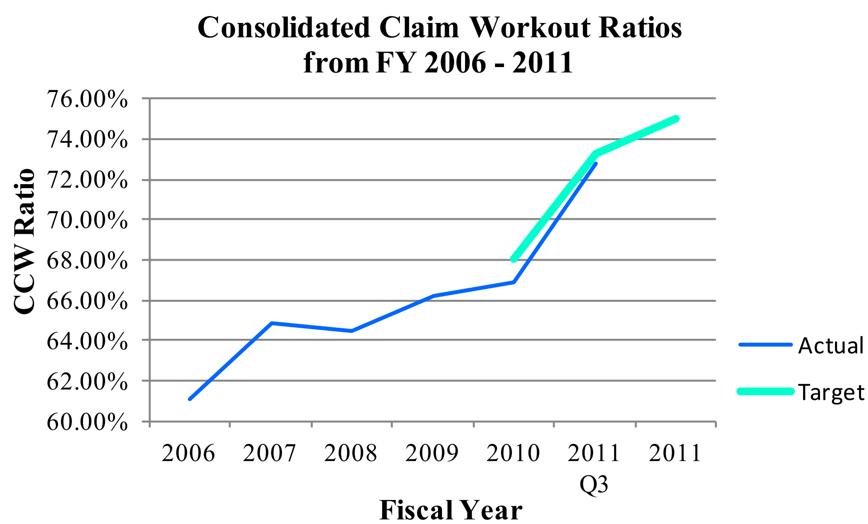
By the end of the second quarter, HUD had achieved its FY 2011 goal of assisting 300,000 homeowners to avoid foreclosure through loss mitigation programs. As of the third quarter of FY 2011 the cumulative total was 365,932 homeowners assisted, with 172,588 homeowners assisted during FY 2011 so far.



Note: Data for this goal has only been kept by household since the beginning of FY 2010.

Consolidated Claim Workout (CCW) Ratio

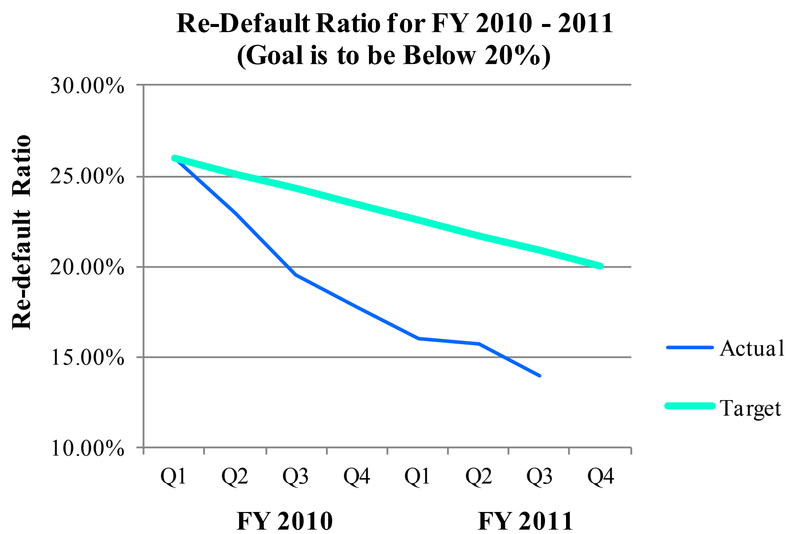
The CCW ratio as of the end of the third quarter of FY 2011 was 72.80 percent, which is slightly below the third quarter target of 73.25 percent. However, over the course of this past year it has become difficult to use the CCW ratio as a meaningful indicator of progress in stemming the foreclosure crisis.



Note: This data is based on claims data submitted to HUD through lender claim payments. Annual targets were not set for this goal prior to FY 2010.

This is because many foreclosure actions have been put on hold due to questions raised about the sufficiency of documentation used by many major lenders to certify legal standing to process foreclosure actions. As a result, some lenders put in place self-imposed delays in completing foreclosure actions, and many state governments have issued moratoria, required additional steps in the foreclosure process, or else questioned lender practices in court. Because of these actions, the Department is now considering alternative measures for assessing progress of FHA in stemming the foreclosure crisis.

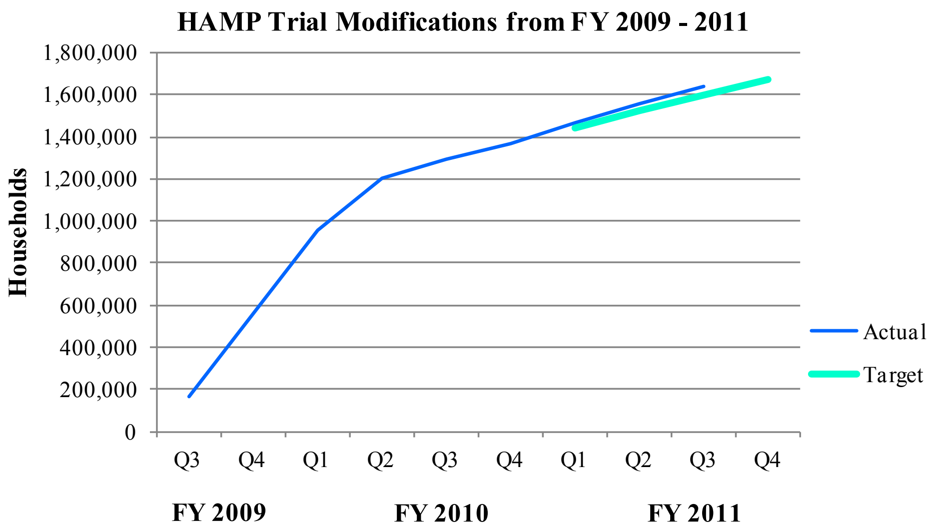
Re-default Rate



Note: Data for this goal has only been kept by household since the beginning of FY 2010.

HUD is on target to meet this goal, having maintained a re-default ratio below the 20 percent target since the third quarter of FY 2010. As of the third quarter of FY 2011, the ratio was 13.91 percent, which is significantly better than the third quarter target of 20.85 percent.

Joint HUD-Treasury Programs



HAMP has helped over 1.6 million homeowners through June of 2011. The program has been criticized for not meeting the high expectations originally held for it. However, the number of households helped through this program has been significant. Initially, the requirements for participation in the program were too restrictive and too dependent on the cooperation of servicers. The program has been modified on a number of occasions to require more accountability from servicers as well as to provide additional incentives to improve servicer performance. Program results have improved since then.

Data Sources and Relevance

The data for Goal 1 come from FHA's internal business systems, which contain highly accurate records on claim transactions with insured lenders. The data lag by one quarter to accomodate any processing delays and assure completeness. However, decisions by loan servicers to file or not to file (full) claims or loss mitigation claims reflect corporate policies and decisions that can significantly affect the results reported in this report. For example, foreclosure moratoriums have been established by several FHA loan servicers as a result of alleged irregularities in the foreclosure process. That has not only affected the rate of foreclosure completion, but has also decreased the rate of claim filing for cases that have already gone through a foreclosure auction. A reversal of such a moratorium would negatively impact the results for this measure.

While data on foreclosure prevention is based on the number of households, data for calculating the Consolidated Claims Workout Ratio is based on the number of claims rather than on the number of households. Making Home Affordable data are maintained by the Department of the Treasury, except for a small portion that is in the FHA data systems. All data are current and are directly related to the goals.

Challenges

FHA continues to be a major player in stabilizing the mortgage market. A high rate of foreclosures could continue if high unemployment, low housing prices, and an unstable financial market persist. FHA and its private sector partners will continue to play an important role in combating the housing crisis and addressing homeownership issues. The Department's signature initiative as identified in the Strategic Plan for this area seeks to promote sustainable homeownership, implement new mortgage insurance premiums and underwriting policies, and restore FHA's capital reserve ratio to the Congressionally mandated 2 percent level by 2014.

HUD's major challenge is to find ways to assure full cooperation from lenders in utilizing available programs for preventing foreclosures while maintaining high loan standards that minimize risk to the FHA mortgage insurance program. FHA also works with other federal programs to help assure neighborhood integrity in areas where foreclosures are high and to prevent and enforce laws against mortgage scams that target vulnerable homeowners.

External Factors Affecting this Goal

The external factors affecting HUD's ability to influence foreclosure rates and improve outcomes are those related to economics, state and local conditions, federal partnerships, and FHA program partners.

- The foreclosure crisis is rooted in several interacting economic crises: shrinkage of inflated home valuations, a decline in mortgage credit because of financial stresses and retrenchment in capital markets, and declining household incomes and unemployment resulting from the sluggish national recovery from the recession of 2007-2009. History shows that economic recessions following financial crises typically have slower recoveries than those that are cyclical downturns. Additionally, households are sharply reducing debt loads and spending that flowed from home equity loans based on unsustainable home values. As of December 2010, mortgage debt exceeded home values for about 11 million "underwater" homeowners.
- State laws that favor creditors have been shown to increase the frequency and rapidity of foreclosures, and thus depress housing prices more sharply. Additionally, local housing

markets and economies may have more severe challenges resulting from concentrations of earlier subprime mortgage activity or particularly stressed economies that reduce housing demand. Local markets also may have differing capacities for conversion of surplus owner-occupied units to rental housing.

- The federal response to the foreclosure crisis involves a partnership of HUD with the Treasury Department and Federal Housing Finance Agency, which have responsibilities for regulating mortgage lenders and the housing Government Sponsored Enterprises. Economic policies of the Federal Reserve affect the ability of homeowners to refinance through policies that reduce interest rates.
- FHA, together with approved lenders, provides some of the best options for troubled borrowers. Efforts that depend on these private sector partners include early delinquency intervention, loss mitigation, the FHA Refinance Option, and the FHA Home Affordable Modification Program (FHA-HAMP).

Looking to the Future

In FY 2012-2013, HUD will continue the important work of foreclosure prevention through the work of FHA and housing counseling programs to provide assistance to troubled homeowners. Through the Loss Mitigation and Early Delinquency programs, FHA will aim to prevent or resolve mortgage delinquency, default, and foreclosure with the primary objective to preserve homeownership. In FY 2011, HUD implemented the Emergency Home Loan Program to help homeowners who are at risk of foreclosure in 27 states across the country and Puerto Rico. The program assists homeowners who have experienced a reduction in income and are at risk of foreclosure due to involuntary unemployment or underemployment as a result of economic or medical conditions.

HUD will also work to reduce vacancy rates in neighborhoods hardest hit by the foreclosure crisis though the Neighborhood Stabilization Program (NSP) in partnership with FHA and the National Community Stabilization Trust. The NSP provides grants to states, local governments, nonprofits, or a consortium of public and private nonprofit entities on a competitive basis to acquire and rehabilitate foreclosed and abandoned properties. FHA will also make 100 percent of its Real Estate Owned properties available to grantees in neighborhoods identified as having the highest foreclosure and vacancy rates in order to help speed recovery of the markets in these communities.

Priority Goal 2: Rental Assistance

Goal Statement

Serve 5.38 million families by the end of FY 2011, which is 207,000 more than in 2009.

Overview

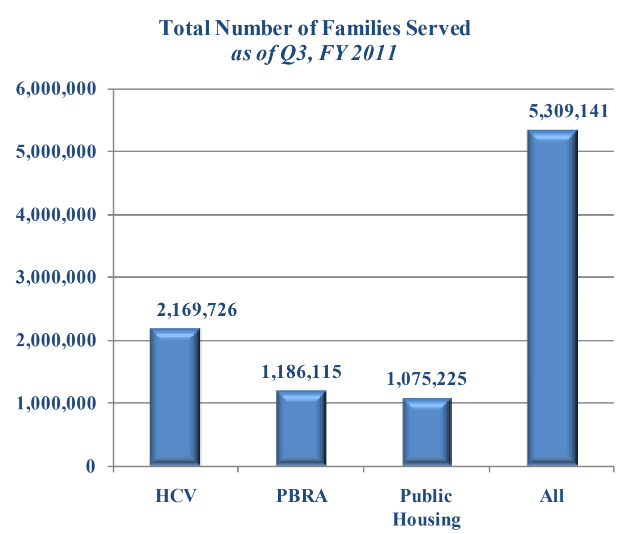
While the median income of American families today is over $60,000, families who live in HUD-assisted housing have a median income of $10,200 per year – and more than half are elderly or disabled. The number of families struggling to make ends meet in the face of severe rent burdens has increased substantially during this decade from 5.9 million in 2007 to approximately 7.1 million households in 2009. HUD's rental assistance programs provide housing security to families who would otherwise face risk of instability or homelessness. With more than one-third of all American families renting their homes, it remains more important than ever to provide a sufficient supply of affordable rental homes for low-income families.

HUD's Worst Case Housing Needs 2009: Report to Congress,[E1] published in February 2011, stated that extremely low-income renters (those whose household incomes are below 30 percent of median) face the most severe housing shortage and cost burden of any Americans. In addition, the report shows that for renters with income below 30 percent of area median income, the shortage of affordable and available units increased from 5.3 million to 6.6 million from 2007 to 2009, with just 36 affordable and available units per 100 extremely low-income renters in 2009, down from 44 units just two years prior. Extremely low-income families make up 72 percent of HUD-assisted households.

This PG is the heart of Strategic Goal 2: *Meet the Need for Quality Affordable Rental Homes*. It focuses on closing the long-term structural gap between the cost of building and operating a standard-quality housing unit, addressing capital needs of the public housing stock, and the ability of lower-income households to afford such units. The Department's budget for rental assistance in FY 2011 was approximately $35 billion or 77 percent of HUD's total budget.

Contributing Programs

This chart displays the total number of families assisted at June 30, 2011, for key measures. The major programs supporting this goal are described on the following pages.



Section 8 Housing Choice Voucher (HCV)

PIH's HCV program is the Federal government's largest rental housing program and is generally recognized as a cost-effective means for assisting mostly families, the elderly, and the disabled to afford decent, safe, and sanitary housing in the private rental market. This program, administered through nearly 2,450 public housing agencies, provides participants with the ability to seek rental housing of their choice, within certain rent parameters. The portability feature of the HCV program enables families to move from one jurisdiction to another for reasons such as pursuit of a job or other economic opportunity or to care for an aging or sick family member.

Public Housing

PIH also administers the Public Housing program. Public housing units are owned and operated by local Public Housing Authorities (PHAs). In order to support the management and operations of public housing, Operating and Capital funds are provided to approximately 3,150 PHAs. The Public Housing Operating Fund assists PHAs in meeting public housing operating and management expenses for their public housing properties. The Public Housing Capital Fund provides funds annually to PHAs for the development, financing, and modernization of the public housing stock (including energy and green retrofits) and for management improvements.

Metro Lofts in Des Moines
Metro Lofts is a HUD financed mixed income multifamily apartment building in Des Moines, Iowa that is under construction. When completed, it will provide 111 units of needed affordable housing for the city.

Project-Based Rental Assistance (PBRA)

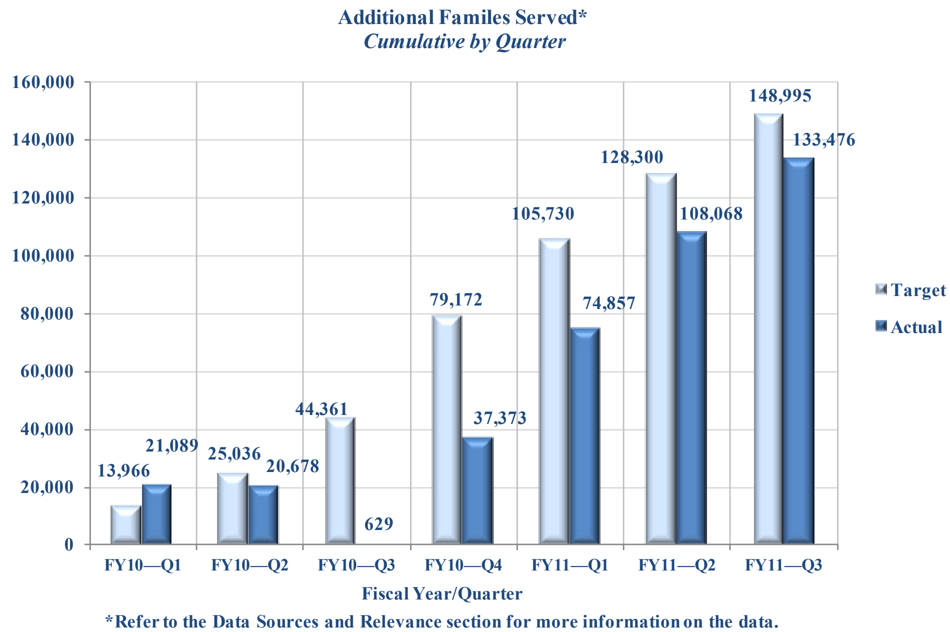
The Office of Housing's PBRA program assists families to obtain decent, safe, and sanitary housing in privately owned rental housing that is made affordable through a subsidy payment to the project owner that makes up the difference between the HUD-approved rent for the unit and the family's income-based contribution toward rent.

Other Programs

Other HUD programs also contribute to this goal by increasing the overall supply of affordable housing units, including Community Development Block Grants (CDBG),[E2] HOME Investment Partnerships,[E3] Housing Opportunities for Persons with AIDS (HOPWA),[E4] Homeless Assistance Grants,[E5] Section 202 Supportive Housing for the Elderly,[E6] Section 811 Supportive Housing for Persons with Disabilities,[E7] Multifamily Guaranteed Loans,[E8] and Indian Housing Block Grants.[E9]

Accomplishments

The chart below displays interim performance on a cumulative basis for this two-year goal. Results for programs previously discussed in the Contributing Programs area of this PG are detailed in this section. Refer to the Data Sources and Relevance section for additional information.



All Rental Assistance Programs

As of June 30, 2011, the Department provided housing opportunities for an additional 133,476 families, only 15,519 families short of the two-year cumulative Q3 target of serving an additional 148,995 families. Through collaborative efforts between the Department and PHAs, PIH was able to preserve housing for those families that were already receiving HUD assistance, as well as provide housing opportunities for a significant number of additional families.

A number of factors contributed to missing the two-year cumulative Q3 goal, including the delay in passage of the final FY 2011 Departmental budget. The Department does expect to see an increase in numbers assisted in the fourth quarter of FY 2011. Final results will be reported in the Annual Performance Report in February 2012.

HCV

The Department assisted 72,184 additional families through the HCV program through Q3 of the cumulative two-year goal, which was a major accomplishment. While the goal was missed by 27,041 families, this was principally due to the uncertainty and the delay of the final FY 2011 Departmental budget, as PHAs are reluctant to lease additional vouchers until they receive their final funding allocation. In addition, the Appropriations Act did not include legislative authority requested by HUD to enable the Department to offset and reallocate HCV funds to PHAs that could serve additional families.

For FY 2011 (Q1 - Q3), HUD has increased the number of families served in the HCV program by 41,337. While this was still short of the goal of serving 99,225 additional families, the Department feels that the progress made in FY 2011 was significant. Specifically, over the past two years, HUD has worked to improve the reliability of data through the Utilization Tool enabling us to work with our PHAs more effectively and to increase leasing when viable, as well as to ensure fiscal solvency and continued assistance of families through budgetary constraints. The reasons mentioned above as to why the cumulative two-year goal was missed are the same reasons for falling short of the goal through FY 2011.

Public Housing

The Department assisted 16,036 additional families through the Public Housing program, which was a significant accomplishment, only missing the two-year cumulative Q3 target by 1,112 families. Once again through collaboration between the Department and PHAs on both data clean up and occupying public housing units, the Department is pleased with the significant number of additional families served.

For FY 2011, the Department has increased public housing occupancy by 34,914; however, this number does not reflect HUD's starting baseline for the year of -18,878, due to data clean-up efforts. A more accurate reflection of HUD's performance toward this target is reflected in the overall two-year goal performance of increasing occupancy by 16,036 through Q3 of FY 2011. The Department's progress toward these goals is a reflection of the consistent efforts made over the past two years to improve the quality and consistency of data collection, allowing HUD to gather more targeted information on the performance of PHAs and enabling better decision-making for future target setting. HUD is better able to assess potential areas of increased leasing through more reliable vacancy information

PBRA

For the two-year goal, the Department anticipated serving 12,647 fewer families through Q3 of FY 2011 (due to the large number of 30 and 40 year project-based rental assistance contracts that are about to expire). End results for the two year goal showed an outcome of 4,590 additional families being assisted rather than a reduction. In addition, HUD projected that it would serve 4,600 fewer families from Q1 to Q3 of FY 2011; however, the Department assisted 419 fewer families than anticipated through PBRA. Several factors contributed to the higher than expected number of families assisted under PBRA. The most significant was a higher utilization rate for contracts in force. Utilization rates increase in difficult economic times, because there is greater demand for assistance. Thus, while the number of active contracts actually declined over the period, more families were assisted on average per contract.

Data Sources and Relevance

For HCV, HUD staff reviews the status data for consistency prior to quarterly reporting. This allows an opportunity for PHAs to correct any deficiencies. Status data for PBRA is updated by Housing field staff and contractors and is generally considered as reliable. For the Public Housing measure, quarterly data is obtained from PIH's Inventory Management System with known data anomalies filtered from the count provided. Capacity building and training is being provided to both HUD and PHA staff, as well as technical assistance to PHAs, in order to continue to improve the data quality. A significant drop in reported units in the third quarter of FY 2010 resulted from a major data clean-up effort in the Public Housing program. Some programs have negative target and actual unit results as those programs experience natural attrition. For these programs, the targets indicate a goal of preserving as many units as possible.

Challenges

HUD released the *Capital Needs in the Public Housing Program*[E10] study on June 24, 2011, that states the nation's 1.2 million public housing units need an estimated $22 - $26 billion for large-scale repairs. This study updates a 1998 analysis and includes costs to address overdue repairs, accessibility improvements for disabled residents, lead abatement, and water and energy conservation that would make the homes more cost effective and energy efficient. Even though housing authorities have renovated and developed nearly 380,000 publicly owned affordable homes using the $4 billion they received through the Recovery Act, the need for a solution to preserve the housing stock remains great.

External Factors Affecting This Goal

Although the supply of affordable rental units is relatively fixed in the short run, the demand for affordable units is greatly influenced by economic conditions and other external factors, including household incomes, changes in the owner-occupied housing market, and program partners. Additional factors include increases in market rents, and free choices made by HUD's program partners, as follows.

- Increases in market rents affect HUD's Housing Choice Voucher program by reducing the number of families that housing agencies can serve with a given amount of funding. HUD projects that increases in per unit costs will average about 1.5 percent annually during FY 2012 and 2013.
- Choices made by HUD's program partners also affect this goal. For the HOME and CDBG block grant programs in particular, local grantees have discretion in how they use the funds, so that the same funding levels may produce more or less affordable rental units in various years. Additionally, private owners of multifamily properties with expiring contracts may choose not to take advantage of HUD's incentive offerings to preserve affordable units.

Looking to the Future

Providing families with affordable rental housing is at the core of HUD's mission, reflecting the work of over 20 programs across the agency. In the next two years, HUD will focus on preserving the affordable housing that the Department currently provides for over 5.3 million households while continuing to take advantage of opportunities to extend rental assistance to additional families. This effort is the central focus of HUD's Strategic Plan Goal 2, "Meet the Need for Quality Affordable Rental Homes."

Going forward, the Department has several additional initiatives described in this section to address the critical need for quality affordable rental homes.

Targeted Rental Assistance Program Reforms

HUD proposed changes to its three largest rental assistance programs in its FY 2012 Budget Request. These revisions include changes to the U.S. Housing Act of 1937 and authority for a rent policy demonstration, and are consistent with the Administration's proposals to make HUD's rental assistance programs more efficient. These provisions would increase access to rental assistance for working poor families while reducing administrative burdens on public housing agencies, private owners, and elderly and disabled households. These changes would also result in an overall reduction in the cost of the programs. These provisions broaden the statutory definition for "extremely low income families," revise and simplify the deductions for elderly or disabled families, revise the recertification of income requirement to every three years (rather than annually) for fixed income families, allow PHAs greater flexibility in establishing exception payment standards as a reasonable accommodation for persons with disabilities, and make changes that would enable HUD to use more recent data to make Fair Market Rents more accurate. The proposed Rent Policy Demonstration would enable HUD to conduct research on changes in rent policy that would meet the goals of encouraging families to obtain employment, increase their incomes, and achieve economic self-sufficiency while reducing administrative burdens and maintaining housing stability.

Information Technology Transformation

The Next Generation Voucher Management System (NGVMS) is a Department-wide reengineering of HUD's rental assistance programs' systems and processes and is one of eight key Secretarial Initiatives for FY 2012. The system will address four top priorities: budget formulation and development of forecasting scenarios, cash management and disbursements, business intelligence and reporting, and performance management. NGVMS will replace legacy systems and Excel-based budget spreadsheets with a solution that supports all of HUD's rental assistance programs.

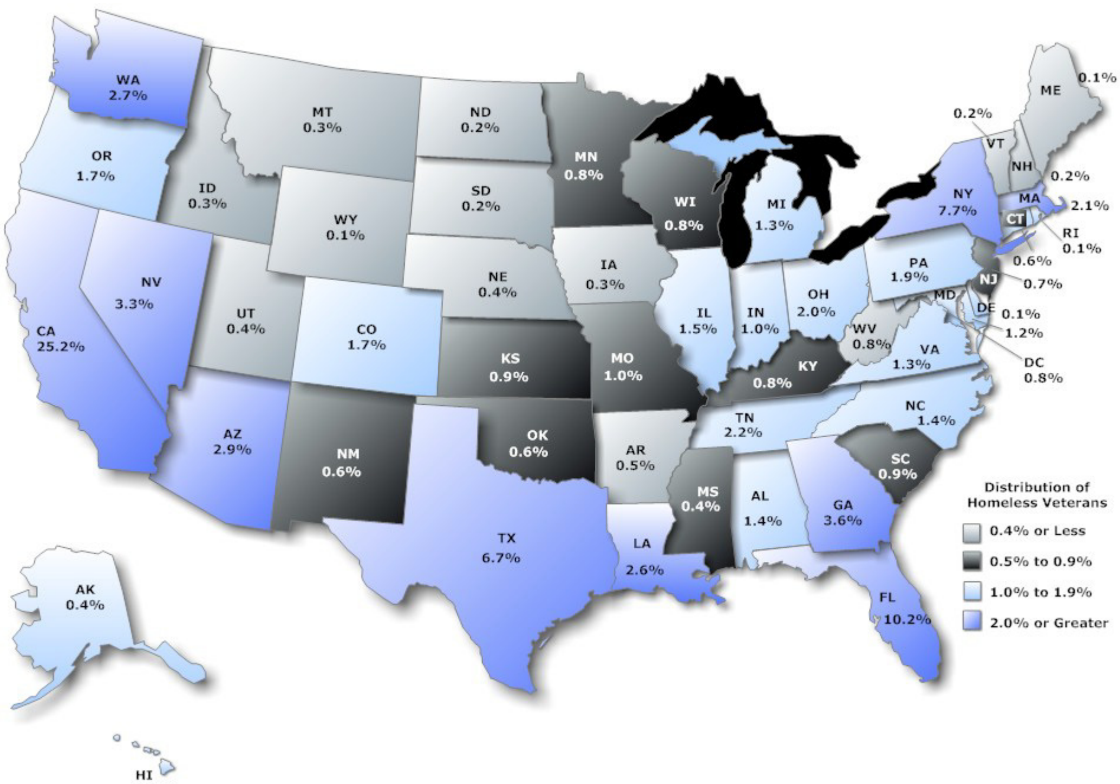
Priority Goal 3: Veterans Homelessness

Goal Statement

HUD and the Department of Veterans Affairs (VA) will jointly reduce the number of homeless veterans to 59,000 in June 2012.

Overview

On a single night in January 2010,[E1] 76,329 Veterans were homeless (defined as staying in an emergency shelter or transitional housing program or living on the street, in an abandoned building, or another place not meant for human habitation). Moreover, Veterans are overrepresented among the homeless population. At a point in time in 2009,[E2] approximately 12 percent of all people (and 16 percent of adults) experiencing homelessness identified themselves as a Veteran, as did 10 percent of those homeless over the course of a year (see map below for a distribution of homeless Veterans across states). Less than eight percent of the total U.S. population has veteran status.



Eliminating Veterans homelessness in five years is one of the key tenets of the Administration's Federal Strategy to Prevent and End Homelessness. To help implement this strategy, HUD will increase its stock of affordable housing for Veterans and provide the support necessary to obtain and/or maintain permanent housing in the community by partnering with VA through the HUD-Veterans Affairs Supportive Housing (HUD-VASH) and Continuum of Care (COC) Homeless Assistance programs, respectively. In addition, this priority goal aligns with Strategic Goal 2[E3] to create and sustain a sufficient supply of affordable rental homes (especially for low-income households), and Strategic Goal 3[E4] to utilize HUD's housing platform to deliver a wide variety of services to improve the quality of life of its residents and surrounding community.

Together, HUD and VA are working towards reducing the number of homeless Veterans to 59,000 in June 2012. Absent this intervention, there would be an estimated 194,000 homeless Veterans at that time. Toward this joint goal, HUD is committed to assisting an average of 13,250 homeless Veterans each fiscal year to move out of homelessness into permanent housing.

Contributing Programs

HUD-VASH

The 2008 Consolidated Appropriation Act (Public Law 110-161), enacted December 26, 2007, provided $75 million of funding for the HUD-VASH voucher program as authorized under section 8(o)(19) of the United States Housing Act of 1937. Since 2008, Congress has appropriated a total of $275 million in incremental funding for HUD-VASH vouchers.

HUD-VASH combines case management and clinical services provided by VA Medical Centers with Section 8 Housing Choice Voucher (HCV) rental assistance for homeless Veterans. The HCV program is the federal government's major program for assisting very low-income families, the elderly, and the disabled to afford decent, safe, and sanitary housing in the private market (further details are in Goal 2). HUD-VASH program goals include promoting maximal Veteran recovery and independence to sustain permanent housing in the community for the Veteran and the Veteran's family.

Supportive Housing Program (SHP)

SHP is designed to promote the development of supportive housing and supportive services to assist homeless individuals and families in the transition from homelessness and to enable them to live as independently as possible. It is designed to promote, as part of a local Continuum of Care[E5] strategy, the development of supportive housing and supportive services to assist homeless persons in the transition from homelessness and to enable them to live as independently as possible.

Assistance in SHP is provided to help homeless persons meet three overall goals: (1) achieve residential stability, (2) increase their skill levels and/or incomes, and (3) obtain greater self-determination (i.e., more influence over decisions that affect their lives).

Shelter Plus Care

Shelter Plus Care (S+C)[E6] is a program designed to provide housing and supportive services on a long-term basis for homeless persons with disabilities (primarily those with serious mental illness, chronic problems with alcohol and/or drugs, and AIDS or related diseases) and their families who are living in places not intended for human habitation (e.g., streets) or in emergency shelters.

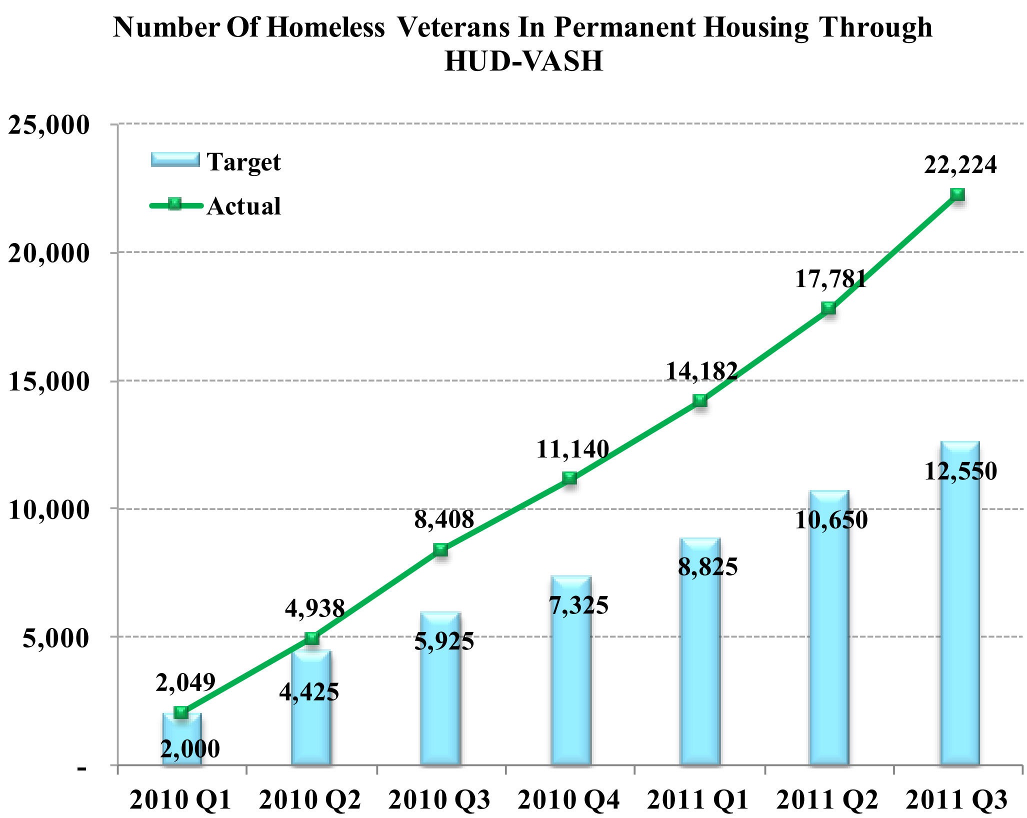
Moderate Rehabilitation Single Room Occupancy

The Moderate Rehabilitation Single Room Occupancy[E7] Program provides rental assistance to homeless individuals. Under the program, HUD enters into Annual Contributions Contracts with PHAs in connection with the moderate rehabilitation of residential properties that, when rehabilitation is completed, will contain multiple single room dwelling units.

Accomplishments

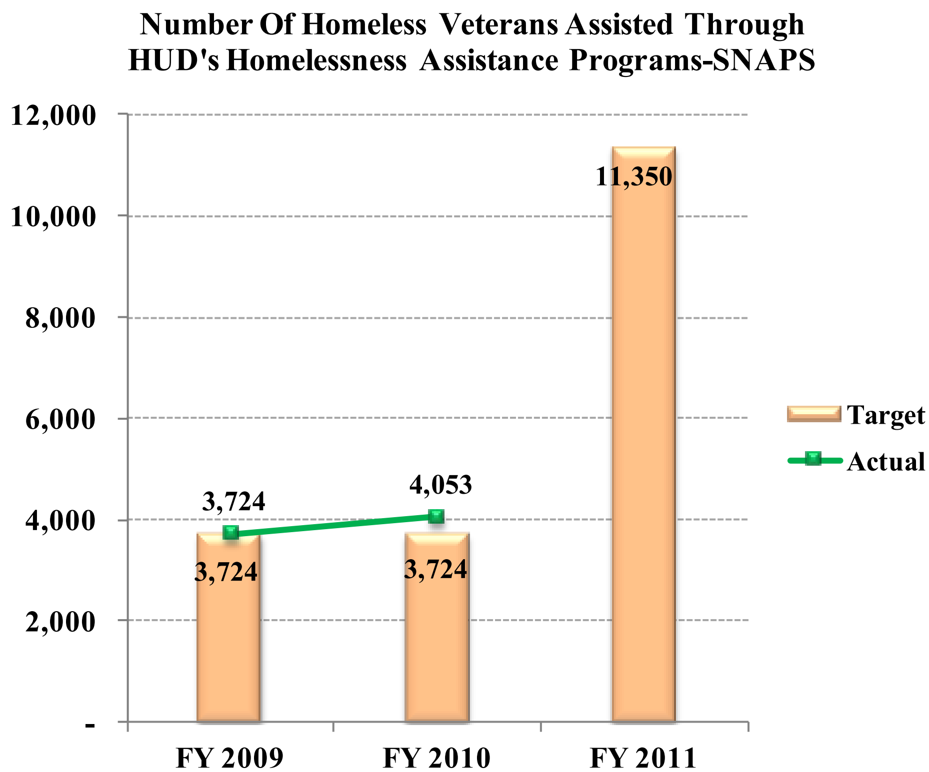
HUD-VASH Vouchers

During the first three quarters of FY 2011, PHAs participating in HUD-VASH issued 13,981 vouchers and enabled 11,084 Veterans to rent units with HUD-VASH[E8] vouchers. Compared with the numbers achieved in FY 2010, participating PHAs issued 25 percent more vouchers and enabled 32 percent more Veterans to lease units in FY 2011. HUD-VASH also continues to surpass the two-year targets established for the program in FY 2010. Between the first quarter of FY 2010 and the third quarter of FY 2011, a total of 22,224 Veterans signed a lease with a HUD-VASH voucher, exceeding the target of 12,550 by over 77 percent. Since the inception of the HUD-VASH program in FY 2008, PHAs have assisted a total of 29,120 homeless Veterans to become permanently housed.



Special Needs Assistance Program (SNAPS)

HUD grantees of the SNAPS programs report their performance outcomes to HUD on an annual basis through Annual Performance Reports. Data from the FY 2010 Annual Performance Reports indicated that Homeless Assistance Grant permanent supportive housing programs served 4,053 homeless Veterans. FY 2011 data will be available in HUD's FY 2011 APR.



Data Source and Relevance

The VA sends monthly field reports (VA Dashboard) to HUD. HUD reviews the data and converts it to a PHA-specific format. The data quality and accuracy is deemed high, due to the numerous levels of oversight by the VA (including senior staff at local, regional, and national levels), and HUD's review of data of quality control purposes. In addition, the Annual Performance Report (APR) is submitted by all Continuum of Care projects that receive McKinney-Vento funding. The SNAPS Office is striving to enhance the data quality of its APR data by improving its APR database and implementing more validation checks on the data grantees submit.

Challenges

Veterans account for a larger portion of those experiencing homelessness compared to the overall population. Data from FY 2009 reflects that on any given night Veterans comprise 11.8 percent of the homeless population, but only 7.6 percent of the general population. Causes of homelessness among Veterans are similar to causes of homelessness among non-Veterans (inter-related economic, health, and personal factors as well as a shortage of affordable housing). Combat introduces additional factors from post-traumatic stress. Like other populations, the complexity of navigating systems makes it difficult for Veterans to get their needs met. There are unique and robust programs and supports available for Veterans; although for some, their lack of awareness about such programs or their ambivalence about seeking care may keep them from receiving these services. In some cases, their military discharge status or lack of records may create complications in obtaining services.

External Factors Affecting This Goal

Homeless Veterans account for a substantial proportion of chronically homeless individuals. Reducing the number of homeless Veterans depends on successful coordination of numerous service providers, but also is affected by the following external factors.

- **The prevalence of homelessness is affected by major external factors including poverty rates, availability of affordable rental housing, and lack of affordable health care.** The lingering economic stresses continue to present a major challenge to achieve this goal.

  In 2009, the national poverty rate increased from 14.3 percent to 15.1 percent in 2010. As a result, poverty has overtaken 22.9 percent of unrelated individuals, and resulted in an 11 percent increase in the number of households living in "doubled" up housing situations[1]. The Homelessness Research Institute projects that in the absence of additional interventions, such factors could increase the overall homeless population by nearly 5 percent during the 2010-2013 period.

- **Either chronic or acute health problems can trigger episodes of homelessness.** Although persons covered by military health care increased by 400,000 during 2009-2010, twice as many uninsured persons were added[2]. Person specific factors such as mental illness and substance abuse, along with the availability of community resources to meet those needs, could affect whether a vulnerable individual results in homelessness.

- **A wide variety of partners are necessary to meet the multitude of interacting needs of homeless Veterans and the chronically homeless.** HUD works with the United States Interagency Council on Homelessness to help coordinate with federal, state, and local leaders and a wide array of service providers. Public housing agencies administer the HUD-VASH vouchers after clients are referred by Veterans Affairs Medical Centers, and some assistance is project-based, thereby requiring participation of multifamily owners as well.

- **Continued case management and clinical support services are critical for successfully maintaining Veterans in their new housing.**

[1] U.S. Census Bureau 2011, "Income, Poverty, and Health Insurance Coverage in the United States: 2010", pp.60- 239.
[2] Ibid.

Looking to the Future

In an effort to address these challenges, HUD will continue its joint partnership with the VA around the HUD-VASH program, discussed above. In FY 2012-2013, HUD will expand on its goal of reducing homelessness among Veterans to include reducing homelessness for families and the chronically homeless under its Priority Goals. With contributions from several different program offices, HUD will work with the VA and the United States Interagency Council on Homelessness to work toward the goals outlined in the Federal Strategic Plan to End Homelessness.

The HUD-VASH Program will work with the VA to build on their successes and serve Veterans in permanently supportive housing in their communities.

CPD's Office of Special Needs Assistance Programs will work with local grantees to administer the final year of the Homelessness Prevention and Rapid Re-Housing (HPRP) Program and work with local grantees to use best practices to serve vulnerable populations.

PIH's Voucher Programs and MFH will use FY 2012 to establish a baseline of formerly homeless families currently served by their programs develop policies to help encourage PHAs and local developers to serve them in the future.

Federal Strategic Plan to Prevent and End Homelessness

HUD is also a principal partner in the Administration's Federal Strategic Plan (FSP) to Prevent and End Homelessness, which is designed to spur increased collaboration at both a federal and local level, for both government and community providers. One of the key goals of the FSP is to end Veterans' homelessness in five years by strategically aligning HUD and other federal resources targeted at homeless Veterans. This homeless Veterans' component of the FSP will not only help individual Veterans escape homelessness, but it will also test models of local and federal collaboration on behalf of Veterans. It also presents an opportunity to look at cross-agency savings. As part of the FSP, HUD and VA will be partnering with Public Housing Agencies to make better use of mainstream voucher and public housing units to serve homeless Veterans with families.

Priority Goal 4: Energy and Green Retrofits

Goal Statement

DOE and HUD will work together to enable the cost effective energy retrofits of a total of 1.1 million housing units in FY 2010 and FY 2011.

Overview

The residential sector, approximately 130 million homes, is responsible for 20 percent of the nation's greenhouse gas emissions, 33 percent of electricity demand, and 22 percent of energy consumption. With most of HUD's portfolio of public and assisted housing built before the advent of energy codes, the energy-related costs in its rental housing programs (including public housing, assisted multifamily portfolios, and the Housing Choice Voucher program) are high. Each year, HUD funds more than $5 billion in energy related costs.

King County Housing Authority (Seattle) is installing an array of 213 solar panels on 24 public housing units being built with Recovery Act funds from HUD in its Greenbridge revitalization area. When finished, it will be the "largest" residential solar array in Washington State.

Lowering the environmental impact of existing buildings is a significant challenge facing the country. The President established a goal of retrofitting one million homes as part of a long-term strategy to reduce the environmental impact of these buildings and the reduction of utility costs for both owners and residents. By responding with aggressive action, utilizing Recovery Act funding, and partnering with the Department of Energy (DOE), HUD intends to make a sizable cut in energy costs by improving its stock of older, federally-assisted affordable housing through energy efficiency and green building. The partnership with DOE[E1] focuses on overcoming barriers to the use of DOE weatherization funds in public and assisted housing, as well as other collaborative efforts between the two agencies, in the areas of home energy labeling and energy efficient mortgage financing.

In addition, HUD is committed to providing safe and healthy homes for families and children by improving indoor environmental quality and addressing lead hazards and other housing conditions that threaten the health of residents.

For HUD, the Energy and Green Retrofit PG is a key measure of success for the Department's Strategic Goal 4, "Build Inclusive and Sustainable Communities Free From Discrimination."[E2] The retrofitting of existing housing, as well as the construction of new energy efficient housing, plays an essential role in reducing green house gas emissions and the sustainability of communities. HUD's specific measures for this goal are shown below.

- ***HUD will complete cost-effective energy retrofits of an estimated 126,000 HUD-assisted and public housing units.***
- ***Apart from our joint energy retrofit goal with DOE shown on the previous page, HUD will complete green and healthy improvements of 33,000 housing units through its Healthy Homes Initiative.***

The lead office for this goal is the Office of Sustainable Housing and Communities. The Office serves in a coordinating role for a broad-based departmental effort aimed at reducing energy use in the built environment. The Office administers the Sustainable Communities Initiative, which, in partnership with the Department of Transportation and the U.S. Environmental Protection Agency, awards competitive grants to metropolitan regions, cities, and rural communities for more sustainable housing and community development. Other support offices include the Office of Field Policy and Management and the Office of Policy Development and Research, which provide as-needed technical support.

Castle Square Apartments (post retrofit depiction), funded by the Green Retrofit Program of the U.S. Department of HUD (Recovery Act) is being "greened" with improvements including insulating the shell, air sealing, solar hot water, and Energy Star appliances among others.

Contributing Programs

This goal included a wide range of HUD programs. Four key programs contributing substantially towards this goal are: 1) the Recovery Act Public Housing Capital Fund[E3] administered by PIH, 2) OHHLHC's Lead Hazard Control and Healthy Homes grants;[E4] 3) a new Green Retrofit Program[E5] for Multifamily Housing administered by HUD's Office of Affordable Housing Preservation; and 4) CPD's HOME[E6] program.

Public Housing Capital Fund

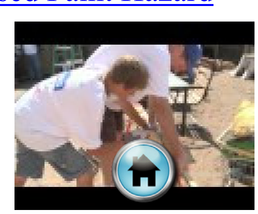
The Recovery Act provided $4 billion to the Public Housing Capital Fund for capital improvements including significant investments in energy improvements to rehabilitate and retrofit public housing units, of which $3 billion was awarded by formula and $1 billion via competition.

Competitive grants in the amount of $600 million were set aside for a "Creation of Energy Efficient, Green Communities"[E7] competition, which included two categories: (1) $300 million for new construction or "gut" rehabilitation of leading-edge green projects that meet the Enterprise Green Communities standard, which has a minimum requirement of the Energy Star for New Homes[E8] (15 percent more efficient than standard new construction); and (2) $300 million for comprehensive energy retrofits of existing housing, with adherence to specified energy and water conservation measures. These retrofits are expected to substantially increase the energy and environmental performance of public housing properties, thereby reducing energy costs and generating savings for the federal government, building residents and public housing agencies, and reducing green house gas emissions attributable to energy consumption.

Although energy efficiency was encouraged but not required for Recovery Act formula fund grants, funds are being used for energy-efficiency improvements in a significant number of units, ranging from Energy Star refrigerators and other Energy Star qualified appliances, building improvements, lighting upgrades, and new or more efficient heating and cooling equipment.

Lead Hazard Control Grants

State and local governments use these competitive grant programs—Lead-Based Paint Hazard Control and the Lead Hazard Reduction Demonstration[E9]— to identify and control lead-based paint hazards in privately owned rental or owner-occupied pre-1978 housing. The somewhat smaller of the two programs, Lead Hazard Reduction Demonstration, focuses on jurisdictions with the



greatest need, which is based on the amount of older rental housing and childhood lead poisoning cases. The Recovery Act provided approximately $80 million to the Lead Hazard Control programs. OHHLHC contributes to this goal through green retrofits of existing housing.

Green Retrofit Program

The Recovery Act-funded Green Retrofit Program aims to reduce energy use by 27 percent in 19,000 units of federally assisted Multifamily Housing.

HOME Program

The HOME program managed by CPD, includes homes built to the Energy Star for New Homes standard.

Other Programs

Other programs administered by PIH contributing to this goal include HOPE VI[E10] for new replacement housing; and Energy Performance Contracts[E11] (EPC) for a variety of energy and water conservation measures and improvements in public housing. Additionally, the PIH total includes 6,590 energy efficient and green units funded through programs administered by the Office of Native American Programs (ONAP). These units consisted of both new housing as well as retrofits of existing housing completed through the Recovery-Act funded Native American Housing and Indian Community Development Block Grants[E12] program.

Several Office of Housing programs also contribute to this PG, including the ongoing Mark to Market (M2M) Green Initiative;[E13] and energy efficiency improvements through the Supportive Housing for the Elderly (Section 202)[E14] and Supportive Housing for Persons with Disabilities programs (Section 811).[E15]

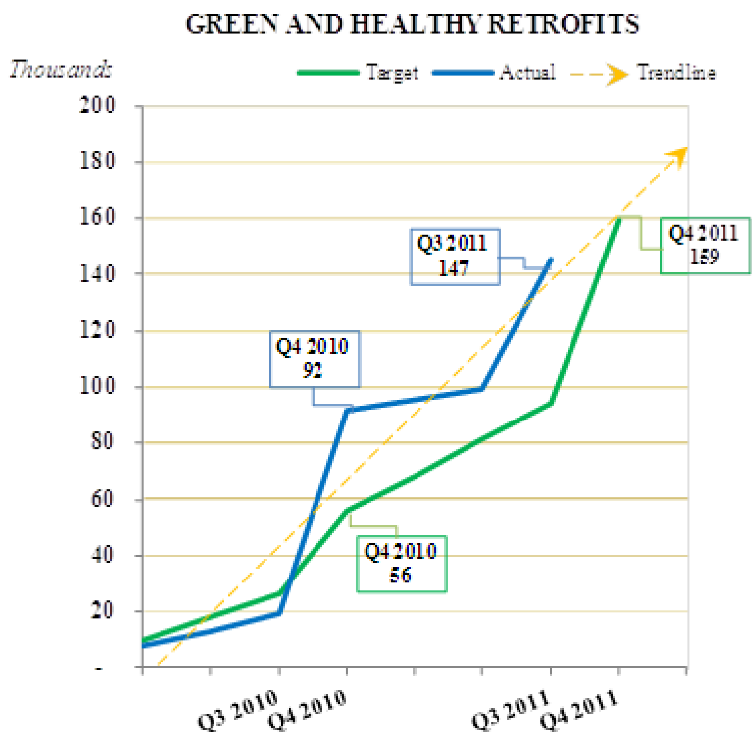
Contributing programs managed by CPD include homes built to the Energy Star for New Homes standard through the CDBG[E16] program and the Tax Credit Assistance Program (TCAP) funded through the Recovery Act.

Accomplishments

HUD is on track to meet and likely exceed this goal, as many units are still in the pipeline. Through the third quarter of FY 2011, with three months remaining to reach the two-year target of 159,000 units, 146,563 units have been completed. Of these, 118,000 were for energy retrofits or new energy units. Additionally, 657,000 units were reported by DOE through the Weatherization Assistance Program and other programs. The joint HUD-DOE total through the third quarter FY 2011 was almost 775,000 units of a target of 1.1 million units that received either comprehensive energy retrofits or one or more green building measures.

PIH Programs

In completing 88,856 cost-effective energy retrofits as of the end of Q3 FY 2011, PIH has surpassed its two-year goal of 73,957 units by 20 percent, not including the EPC program which reports on an annual basis. The total includes 55,927 retrofits funded by the Recovery Act



through the Capital Fund grant program, 2,874 energy efficient/green units developed through the HOPE VI program, and as of Q4 FY 2010, 23,465 units via Energy Performance Contracts from FY 2010. [FY 2011 results will be available after this report is published.]

The PIH total also includes 6,590 units completed through the Recovery-Act funded Indian Housing Block Grant and Indian Community Development Block Grant programs.

This goal reflects the hard work PIH has expended in working one on one with PHAs to improve data and reporting, building internal capacity in the energy center and investing significant time and energy on outreach, technical assistance, and training both to HUD staff and PHAs. Additionally, HUD held a Green Conference to share knowledge and promote the use of green energy efficient retrofits.

Healthy Homes and Lead Hazard Control Programs

OHHLHC collaborated with CPD to enable the Department to begin reporting rehabilitation activities that include lead hazard reduction as part of the two-year goal to complete 33,000 green and healthy retrofits. As a result, the Department will significantly exceed both its FY 2011 goal and the two-year goal by creating 22,718 units in FY 2011 for a combined total of more than 39,456 green and healthy retrofits in the two-year goal timeframe.

Multifamily Housing Programs

During the current fiscal year (Q1 through Q3 FY 2011), the Office of Multifamily Housing programs reported that it completed 6,036 units through the Recovery Act-funded Green Retrofit Program against the target of 11,500 units, with a total of 19,300 units projected to be completed when the program is completed next year in FY 2012. This goal was missed because the properties in the Green Retrofit Program are not considered "completed" until all funds are spent. Each project has its own timeline based upon the closing of that project. Although there were a certain number of units projected to be completed, the goals were not met due to various unique circumstances depending upon the project (i.e. rehabilitation timeline extensions, obligation of funding, administrative processing, etc.). Additionally, during the current fiscal year (Q1 through Q3 FY 2011), Multifamily Housing completed 2,830 energy retrofits through the Section 202 and the Section 811 programs versus the target of 1,853 units, and 820 units through the M2M programs, which had a target of 3,000 units. The M2M projected goals were not met due to the decrease in our pipeline at the beginning of the fiscal year. HUD's completions are based on what HUD projects to receive in the pipeline, and since the number of the pipeline decreased, the number of completions and total units decreased. From the establishment of the goal at the beginning of FY 2010 through Q3 FY 2011, Multifamily Housing is behind the target of 24,853 units for these three programs by 9,785 units.

CPD Programs

With 13,823 completed retrofits through Q3 FY 2011, CPD has exceeded its two-year goal of 12,162 retrofits by 14 percent. During the current fiscal year (Q1 through Q3 FY 2011), CPD programs reported the following accomplishments. Through the HOME program, CPD completed 5,341 cost-effective Energy Star units versus a target of 3,516 units, 52 percent ahead of target. The completion of 1,850 units in its TCAP as of the end of Q3 2011 eclipsed the target of 855 units. The CDBG program completed 157 units versus the target of 187 units as of the end of Q3 2011. Its cumulative FY 2010 through Q3 FY 2011 total of 526 units has exceeded the two-year goal.

Data Sources and Relevance

The main systems HUD uses to track accomplishments in this goal are as follows:

- The Rehabilitation Escrow Administration database and the Development Application Processing System (DAPS) tracks Multifamily Housing data. HUD has a high degree of confidence in data from the Rehabilitation Escrow Administration database. Field staff maintain DAPS which is generally considered to be reliable.
- The Integrated Disbursement and Information System (IDIS) tracks grantee performance. In FY 2009/2010, HUD re-engineered IDIS to enhance data reliability, and Field staff verify IDIS data when monitoring grantees.
- The Recovery Act Management Performance System (RAMPS) tracks Recovery Act data and is considered reliable. HOPE VI Quarterly Production Reports and the OHHLC Quarterly Progress Reporting System are also generally considered to be reliable.

A "unit equivalent" methodology approved by OMB for counting the most cost effective measures installed is utilized for part of the Capital Fund and Indian Housing Block Grant results.

Challenges

Growing public awareness of the benefits of green and energy efficiency choices may serve as an external motivation for housing providers to proceed with green retrofits. However, there are several challenges facing affordable housing providers in implementing energy efficiency and green measures. The "split incentive" between tenants and owners in rental housing with tenant-paid utilities, where the cost savings realized from their retrofits may not accrue to the party that pays for the improvements, is a challenge. In addition, HUD relies on voluntary actions by numerous external partners who may be influenced by competing demands on their resources and attention. To continue to promote energy efficiency and retrofit strategies after Recovery Act funds are fully expended, HUD will need to leverage and develop existing resources and programs. HUD will focus on creating or strengthening incentives; leveraging private sector capital for energy and green retrofits; and providing training, tools, and technical assistance to HUD's partners.

External Factors Affecting This Goal

HUD's efforts to support energy efficient, healthy housing are influenced by numerous external factors. Tighter state building energy codes have been a factor in the rise of residential energy efficiency. Such mandates, along with advancing technologies such as LED lighting, can change the array of choices available to housing providers and their potential payback. Changes in real energy prices also affect the financial feasibility of green construction and energy retrofits, along with subsidies or favorable tax treatment from state and local governments or utility companies. The availability of private financing also has become more uncertain since the 2007 turmoil in capital markets.

Looking to the Future

The Department will continue to make significant inroads in increasing the water and energy efficiency of HUD-assisted properties, and greening and improving the health of the federally assisted housing stock and endeavors to sustain the progress achieved through significant HUD investments of Recovery Act funds in healthy, energy efficient and green building over the last two years. In the next two years, the Department will continue efforts to enable cost effective, healthy retrofits, and healthy energy retrofits, as well as energy efficient new construction.

Other initiatives will include 1) extending Energy Performance Contracts to reach smaller housing authorities; 2) aligning energy standards and requirements across HUD programs and federal agencies; 3) implementing and expanding technical assistance and training for HUD grantees and partners; 4) expanding the availability of financing for home energy improvements through FHA's Title I PowerSaver pilot program; and 5) innovative financing initiatives for multifamily housing through the FHA-Fannie Mae Green Refinance Plus risk sharing program and competitive grant awards for innovative strategies for improving multifamily energy efficiency.

Transform the Way HUD Does Business

Overview

The current economic and housing crisis, the structural affordability challenges facing low-income homeowner and renters, and the new multi-dimensional challenges facing our urban, suburban, and rural communities all require an agency in which the fundamentals matter and the basics function. For too long, HUD's employees and external partners have viewed the Department as lacking in its ability to provide the support needed to deliver on its mission.

When the Department revised its Strategic Plan in FY 2010, it developed Strategic Goal 5 to specifically address the need to *Transform the Way HUD Does Business*.[E1]

In the *2010 Best Places to Work in the Federal Government* report,[E2] produced by the Partnership for Public Service and American University's Institute for the Study of Public Policy Implementation, HUD tied for last among large agencies.

HUDStat.[E3] To track performance, HUD is using HUDStat meetings, frequent goal-focused, data-driven discussions, to identify, examine, and prevent or reduce problems, find patterns and causal relationships, speed progress, improve quality, and cut costs. In a HUDStat meeting on Strategic Goal 5, HUD examined issues related to hiring, procurement, and the HUD Partner Satisfaction Survey.

Another area of concern was its decision making process. Many of the decision-making processes at HUD are highly centralized, slow, and narrowly focused on specific programs, without regard for the broader community context. This lack of coordination has diminished customer service and led to significantly slow response times on requests. HUD must become a more place-based partner, with a focus on policymaking aimed toward the interconnected economic and social needs of urban, suburban, and rural communities.

To address these two issues the Department established the two measures shown below:

- *Increase the percentage of employees who "agree" or "strongly agree" they are given a real opportunity to improve their skills in their organization; and*
- *Increase the number of decisions delegated to field offices.*

The first measure aligns with Strategic Subgoal 5A:[E4] *Build capacity-create a flexible and high-performing learning organization with a motivated, skilled workforce*, and Strategic Subgoal 5D: *Culture change—create a healthy, open, flexible work environment that reflects the values of HUD's mission*. To improve employees' knowledge, skills, and ability, the Department is developing greater institutional knowledge, increasing workforce flexibility and cross-training, and creating a mobility program with lateral reassignments, details, and rotations. To improve the culture of the Department, HUD is building an environment that promotes and enables creativity, innovation, and collaboration.

The second measure aligns with Strategic Subgoal 5B:[E5] *Focus on results-create an empowered organization that is customer centered, place-based, collaborative, and responsive to employee and stakeholder feedback*. To fulfill this measure, HUD is improving response time and consistency to efficiently meet our customers' needs, delegating more authority within headquarters and to the field, and escalating to headquarters only decisions that require centralized control. In May 2009, 52 decision points were identified as possible candidates for delegation. After review with program leadership, a Strategic Goal 5 team decided to delegate 23 of these decision points. Of these delegations, 11 relate to busting bureaucracy to help HUD achieve its mission, and 12 delegations relate to providing additional administrative flexibility to empower decision-making at the appropriate level. [See the related Signature Initiatives in HUD's FY 2010 - 2015 Strategic Plan.]

Accomplishments

Increase the percentage of employees who "agree" or "strongly agree" they are given a real opportunity to improve their skills in their organization.

In FY 2011, HUD's goal was to achieve a 52 percent positive response in this measure on the 2011 Employee Viewpoint Survey (EVS). HUD reached its goal by achieving a 3.1 percent increase on this question from 49.3 percent in the 2010 EVS to 52.4 percent in the 2011 EVS.

Increase the number of decisions delegated to field offices by 14 in FY 2011.

In the Office of Housing, delegations were implemented to provide authority to field staff to approve various Flexible Subsidy Notes and Multifamily Closing Agreements, which streamlined processes and freed up funds for operations and maintenance in multifamily housing. HUD also delegated the approval of several compliance agreements to resolve performance issues locally. In addition, the Department completed a number of administrative delegations to the field offices to simplify recruiting, hiring, and training. Lastly, HUD fully achieved this measure by implementing all 23 delegations, nine in FY 2010, and the remaining 14 in FY 2011.

As demonstrated in this discussion, challenges exist, but plans have and will continue to be developed to transform the Department. The transformation is a long-term and multi-year process and HUD is committed to an investment in transformation that will be implemented persistently over time.

Though the agency has made steady progress on a number of Transformation priorities over the past year, HUD is taking a more comprehensive approach to Strategic Goal 5 in FY 2012. Accordingly, the HUD senior team worked to build on the Strategic Goal 5 measures outlined in the Strategic Plan to define a more concrete set of measures, based on the following criteria:

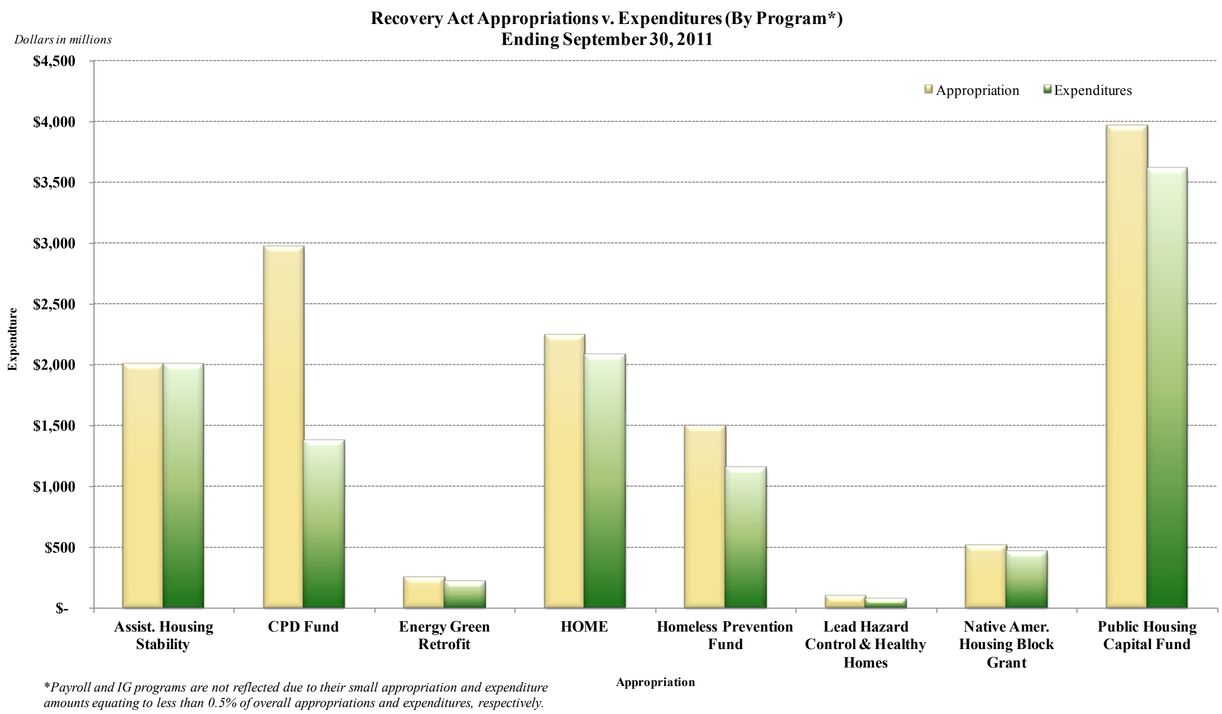
- Alignment to leadership priorities (i.e., internal and external customer pain points)
- Alignment to actual interventions underway, with a particular focus on aligning to key Transformation projects
- Availability of data, and the ability to set quantitative targets and track on a frequent basis

FY 2012 Strategic Goal 5 measures will focus on training, employee performance management, hiring, the acquisitions process, information technology, PHA reporting burden, cross-program collaboration, and NOFA timeliness.

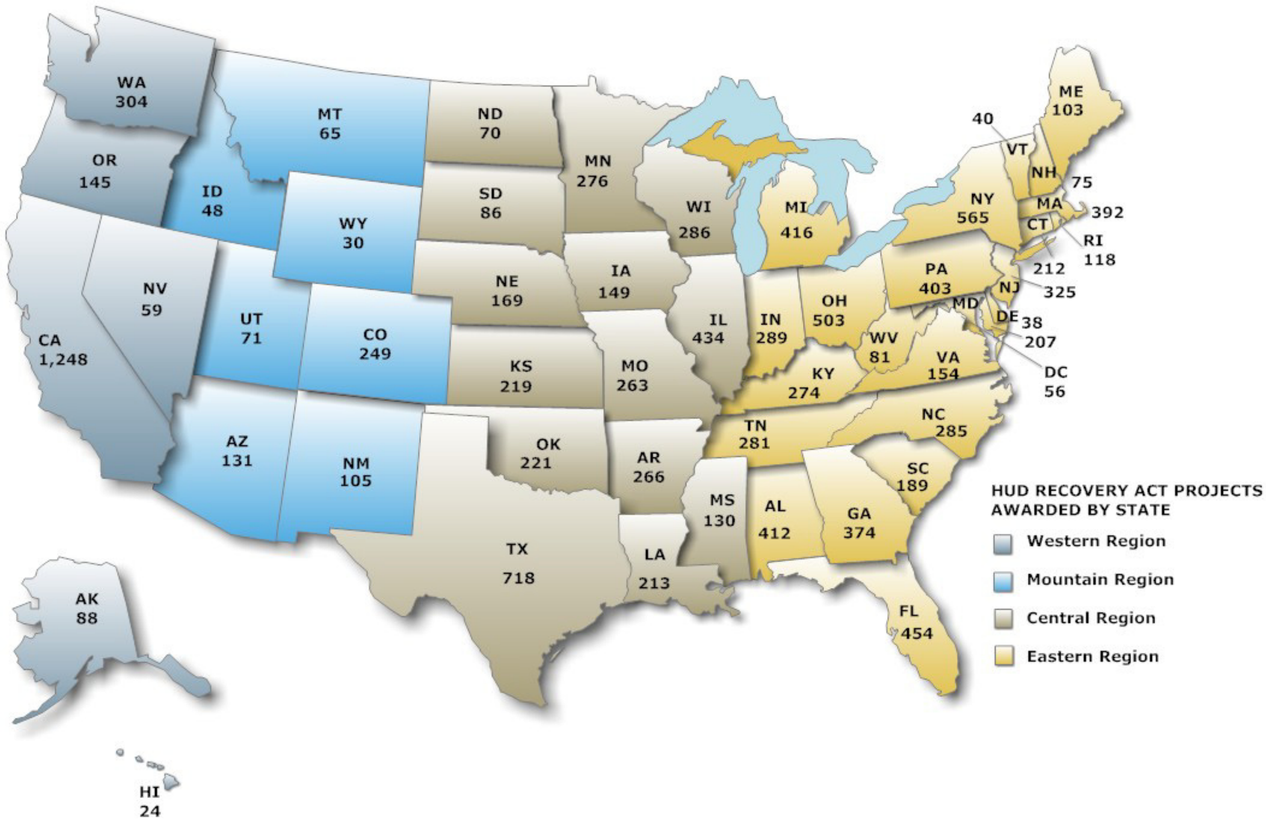
The Recovery Act

Overview

The American Recovery and Reinvestment Act[E1] (Recovery Act) provided $13.6 billion for projects and programs administered by HUD, of which nearly 75 percent was allocated via formula grants to state and local recipients and the remaining 25 percent of funds were awarded via competition, with 100 percent of grant and loan funds obligated, and $11.0 billion (or 81.0 percent) disbursed to grantees by September 30, 2011.



HUD's Recovery Act funds are already being invested in programs that: (1) promote energy efficiency and create green jobs, (2) support assisted housing improvements and critical public projects in need of gap funding, and (3) promote stable communities and help families hardest hit by the economic crisis. As reported by Recovery Act recipients, since the inception of the Act these funds have led to over half a million people being served through homelessness prevention assistance, nearly 19,979 homes being developed, and over 490,958 units of housing being renovated, many of which have improved energy efficiency. In the third quarter of FY 2011, HUD Recovery Act recipients reported 19,325 jobs saved or created.



Accomplishments

Helping America's Cities Recover

Local homelessness programs, such as the Homeless Prevention Rapid Re-Housing Program (HPRP) that is funded by the Recovery Act, have enabled homeless Veterans to pay for security deposits, in combination with HUD-VASH's rental assistance, as well as VA's case management and clinical services. In doing so, HUD-VASH has helped more than 22,224 Veterans through the end of Q3 FY 2011. In addition, HPRP has allowed families to confront homelessness brought on by the economic crisis, serving many people who have never before faced the prospect of being out on the street and providing them with rental payments and/or assistance to get them back in their homes. Through HPRP, individuals and families are able to take advantage of targeted payments to cover rent and supportive services that will keep them in housing and out of shelters. In a 2009 survey by the U.S. Conference of Mayors,[E2] 72 percent of cities reported that HPRP is changing the way they provide support to people who are homeless or at risk of being homeless—by enabling these communities to help people before or soon after they become homeless. As of June 30, 2011, HUD has helped 1,058,587 people nationwide through HPRP.[E3] In its first year (FY 2009), HPRP assisted 15,292 Veterans.

The Recovery Act has also spurred competition among cities, encouraging collaboration among local entities and across sectors, and leading to significant leveraging of funds beyond the Federal government. It [Recovery Act] allowed for critical, collaborative local and regional action in response to the foreclosure crisis through the second round of the Neighborhood Stabilization Program (NSP2). This program distributed $2 billion[E4] in an innovative competition to ensure that the money would go to regions with high rates of foreclosure and the accompanying plans to respond to the crisis. That approach led to a positive partnership, not just among Federal agencies, but also with numerous nonprofit organizations and major financial institutions to speed the pace at which communities recover from the foreclosure crisis.

In addition, by providing NSP2 grantees an exclusive 12-14 day First Look window to evaluate and bid on foreclosed and abandoned properties before they hit the open market, one of HUD's partners, the National Community Stabilization Trust, helped 188 communities access Real Estate Owned (REO) properties last year alone at an average discount of nearly 13 percent (more than $26 million total). With the Federal government's assistance and with the competitive NSP2 projects well under way, HUD anticipates an increase in strategic REO acquisition during calendar years 2011 and 2012 in targeted hardest hit markets. These investments are expected to have substantial ripple effects.

More detailed information on funding allocations and on spending progress of the Recovery Act funds for HUD programs can be found at www.HUD.Gov/Recovery.[E5]

Analysis of Financial Condition and Results

As a reflection of HUD's ongoing commitment to financial management excellence, the Department has received an unqualified opinion on our financial statements from HUD's Office of Inspector General, for the 12th year in a row. In order to help the reader to understand the Department's financial results, position, and condition, the following analysis addresses the relevance of particular balances and amounts as well as major changes in types and/or amounts of assets, liabilities, costs, revenues, obligations, and outlays.

The principal financial statements have been prepared from the Department's accounting records in order to report the financial position and results of HUD's operations, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of the Department in accordance with generally accepted accounting principles for Federal entities and the formats prescribed by OMB, the statements are provided in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the United States Government, a sovereign entity.

This part provides a summary of HUD's:

- Financial Data
- Analysis of Financial Position
- Analysis of Off-Balance Sheet Risk

Summarized Financial Data
(Dollars in Billions)

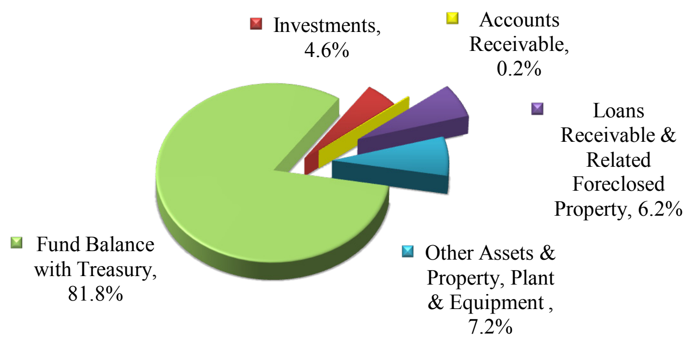
	2011	2010
Total Assets	$135.9	$140.5
Total Liabilities	$51.0	$45.4
Net Position	$84.8	$95.0
FHA Insurance-In-Force	$1,181.5	$1,041.0
Ginnie Mae Mortgage-Backed Securities Guarantees	$1,221.7	$1,046.2
Other HUD Program Commitments	$56.9	$64.9

Analysis of Financial Position

Assets - Major Accounts

Total Assets for FY 2011, as reported in the Consolidated Balance Sheets, are displayed in the graph below. *Total Assets* of $135.9 billion are comprised primarily of *Fund Balance with Treasury* of $111.2 billion (eighty-two percent), *Loans Receivable & Related Foreclosed Property* of $8.4 billion, *Investments* of $6.3 billion, and *Other Assets and Property, Plant & Equipment* of $9.7 billion at September 30, 2011.

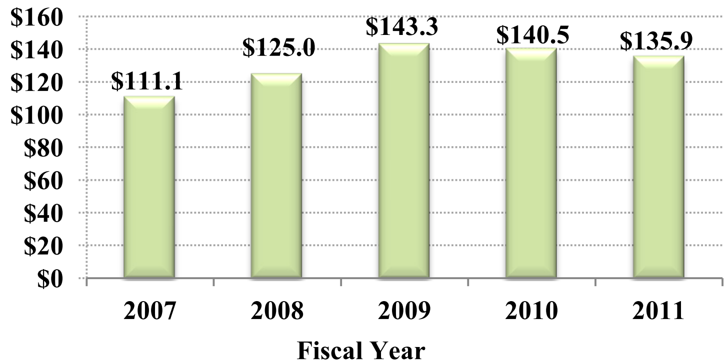
Composition of HUD Assets - FY11



Total Assets decreased $4.6 billion (three percent) from $140.5 billion at September 30, 2010. The net decrease was due primarily to a decrease of $7.4 billion (five percent) in *Fund Balance with Treasury, Intragovernmental Investments, Accounts Receivable,* and *Loans Receivable and Related Foreclosed Property*, which is offset by an increase of $2.8 billion (two percent) in *Other Assets and Property, Plant & Equipment.*

The table below shows *Total Assets* for FY 2011 and the four preceding years. The changes and trends impacting *Total Assets* are discussed below.

Total Assets Trend
(*Dollars in Billions*)



Fund Balance with Treasury of $111.2 billion represents HUD's aggregate amount of funds available to make authorized expenditures and pay liabilities. *Fund Balance with Treasury* decreased $4.8 billion due to a decrease of $3.6 billion in funding for CDBG, a decrease of $2.4 billion in funding for PIH, and a decrease of $1.3 billion for HOME, which are offset by an increase in funding for FHA of $2.9 billion. The decreases in *Fund Balance with Treasury* noted above were related to expenditures of American Recovery and Reinvestment Act of 2009 (ARRA) funding. The FHA increase is due primarily to the transfer of cash accrued from the maturity of investments and sale of several large bonds from the MMI Capital Reserve Account Fund into the MMI Financing Account for the FY 2010 upward re-estimate. The net funding decreased for all other programs by $0.4 billion.

Investments of $6.3 billion consist primarily of investments by FHA's Mutual Mortgage Insurance/Cooperative Management Housing Insurance Fund and by Ginnie Mae, in non-marketable, intra-governmental, Treasury securities (i.e., investments not sold in public markets). FHA and Ginnie Mae investments decreased by $1.5 billion (nineteen percent). The decrease in the net value of the FHA investments is caused by the maturity and the sale of several large bonds. The decrease in Ginnie Mae investments is due to a $1.3 billion divestiture of U.S. government securities to fund loan buyouts.

Accounts Receivable of $0.2 billion primarily consists of claims to cash from the public and state and local authorities for bond refunding, Ginnie Mae premiums, FHA insurance premiums, and Section 8 year-end settlements. A 100 percent allowance for loss is established for all delinquent debt 90 days and over. The *Accounts Receivable* decrease of $0.1 billion is primarily due to a decrease in Ginnie Mae's accrued mortgage interest receivable.

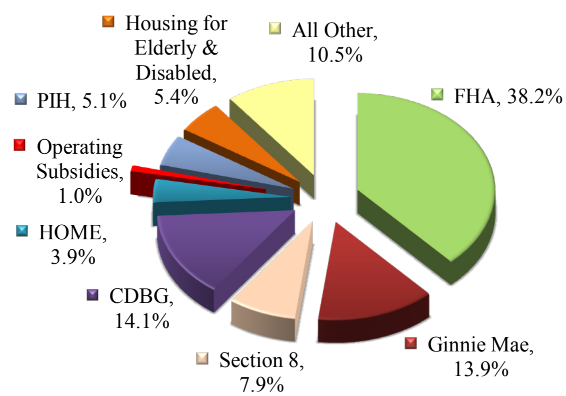
Loans Receivable and Related Foreclosed Property of $8.4 billion are generated by FHA credit program receivables and by HUD's support of construction and rehabilitation of low rent housing, principally for the elderly and disabled under the Section 202/811 programs. The decrease of $1.0 billion is primarily attributed to a decrease in the single family foreclosed property; offset by increases in HECM notes, and Single Family partial claims notes.

Remaining Assets of $9.7 billion, comprising (seven percent) of *Total Assets*, include fixed assets and other assets. The net change pertaining to the *Remaining Assets* balance was an increase by nearly (forty percent) compared to the prior fiscal year, due primarily to a $2.8 billion increase in Ginnie Mae's *Remaining Assets.* The increase is due to an increase in mortgage balance resulting from large loan buyout and advances. The increase is also due to Ginnie Mae's change in the run-off variable in the calculation of the guaranty asset.

Assets - Major Programs

The chart below presents *Total Assets* for FY 2011 by major responsibility segment or program.

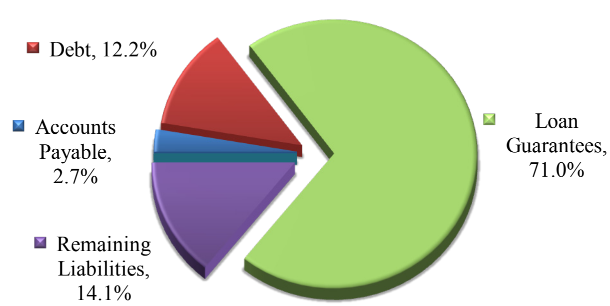
Assets by Responsibility Segments



Liabilities – Major Accounts

Total Liabilities for FY 2011, as reported in the Consolidated Balance Sheets, are displayed in the chart below.

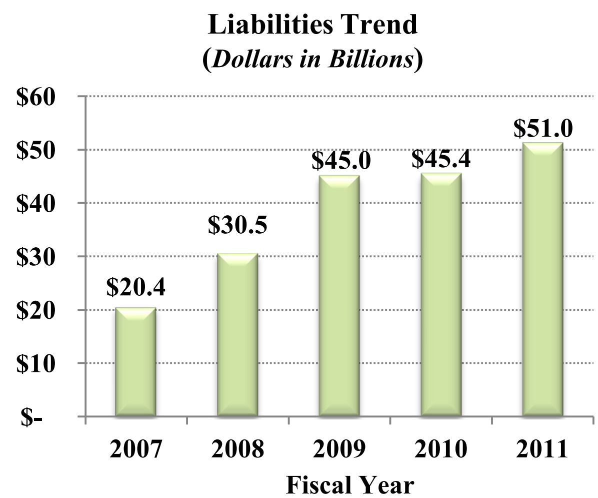
Composition of HUD Liabilities



Total Liabilities of $51.0 billion consist primarily of *Loan Guarantees* of $36.2 billion (seventy one percent), *Debt* in the amount of $6.2 billion (twelve percent), *Accounts Payable* of $1.4 billion (three percent), and *Remaining Liabilities* amounting to $7.2 billion (fourteen percent) at September 30, 2011.

Total Liabilities increased $5.6 billion (twelve percent) from $45.4 billion at September 30, 2010, due primarily to an increase of $1.1 billion in *Loan Guarantees,* $1.3 billion of *Intragovernmental Debt*, and $3.2 billion in *Remaining Liabilities*. This increase in *Total Liabilities* is due primarily to an upward adjustment to FHA's subsidy re-estimate and Ginnie Mae's loss reserves on default related expenses. Additionally, there was a change in the run-off variable in the calculation of the guaranty asset and the guaranty liability, as accounted for under the Financial Accounting Standards Board's (FASB's) Accounting Standards Codification (ASC) topic 460, Guarantees, that Ginnie Mae provides on Mortgage-Backed Securities (MBS) issued by third-party issuers.

The chart below presents *Total Liabilities* for FY 2011 and the four preceding years. A discussion of the changes and trends impacting Total Liabilities is presented in the subsequent paragraphs.



Loan Guarantees consist of the *Liability for Loan Guarantees* related to Credit Reform loans made after October 1, 1991 and the *Loan Loss Reserve* related to guaranteed loans made before October 1, 1991. The liability for *Loan Guarantees* and the *Loan Loss Reserve* are both comprised of the present value of anticipated cash outflows for defaults such as claim payments, premium refunds, property expense for on-hand properties, and sales expense for sold properties, less anticipated cash inflows such as premium receipts, proceeds from property sales, and principal interest on Secretary-held notes.

Debt includes *Intragovernmental Debt* of $6.1 billion and *Debt Held by the Public* of $0.1 billion. The *Intragovernmental Debt* consists primarily of loans from the Treasury but also includes funds borrowed from the Federal Financing Bank by Public Housing Authorities and

Tribally Designated Housing Entities to finance construction and rehabilitation of low rent housing. *Debt Held by the Public* consists of existing housing authority bonds and debentures issued in lieu of cash disbursements to the public at par by FHA to pay claims. The $1.1 billion increase in *Debt* (new borrowings exceed repayments) from $5.1 billion at September 30, 2010, was due to an increase in MMI borrowing with the Treasury needed for negative subsidy transfers for 2011 cohort.

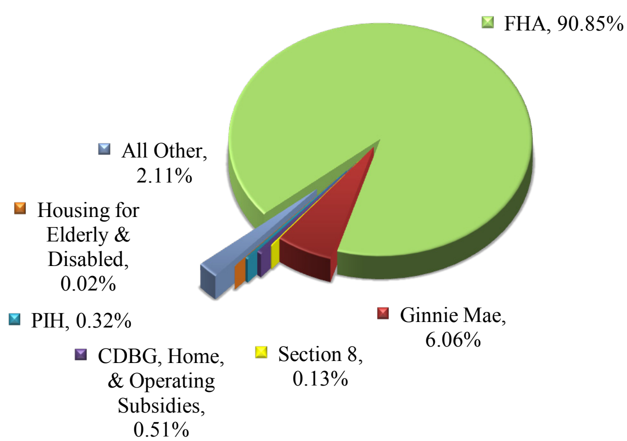
Accounts Payable consist primarily of pending grants payments.

Remaining Liabilities of $7.2 billion consist primarily of *Intragovernmental Liabilities, Federal Employee and Veteran Benefits,* and *Other Liabilities*. FHA increase of $1.9 billion is due to an increase in GI negative credit subsidy expense transferred to GI receipt account resulting in a larger payable to Treasury.

Liabilities – Major Programs

The chart below presents *Total Liabilities* for FY 2011 by responsibility segment.

Liabilities by Responsibility Segment



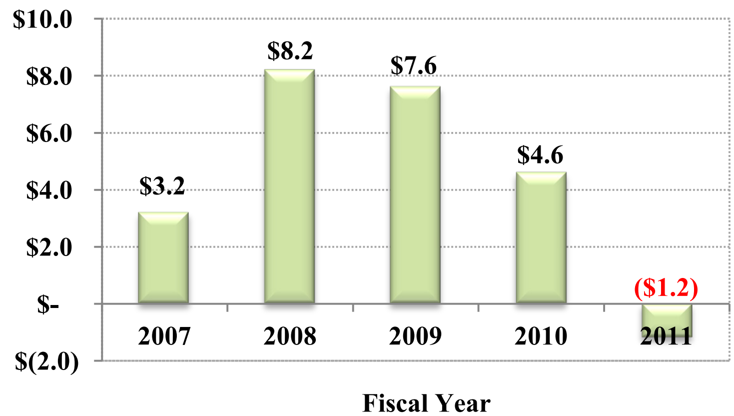
Changes in Net Position

Changes in *Unexpended Appropriations*, *Net Cost of Operations*, and *Financing Sources* combine to determine the *Net Position* at the end of the year. The elements are further discussed below. *Net Position* as reported in the *Statements of Changes in Net Position* reflects a decrease of $10.2 billion or eleven percent from the prior fiscal year. The net decrease in *Net Position* is primarily attributable to a $9.0 billion decrease in *Unexpended Appropriations* and a $1.2 billion decrease in *Cumulative Results of Operations*.

The combined effect of HUD's *Net Cost of Operations* and *Financing Sources* resulted in a 126 percent decrease in *Net Change in Cumulative Results of Operations* of $(1.2) billion during FY 2011. The significant year-to-year fluctuation shown in the chart on the next page is due primarily to the annual re-estimation of long-term credit program costs and capital transfers related to the Department's liquidating programs.

This chart presents HUD's *Net Change in Cumulative Results of Operations* for FY 2011 and the four preceding years.

Net Change in Cumulative Results of Operations for FY 2007 - 2011
(*Dollars in Billions*)

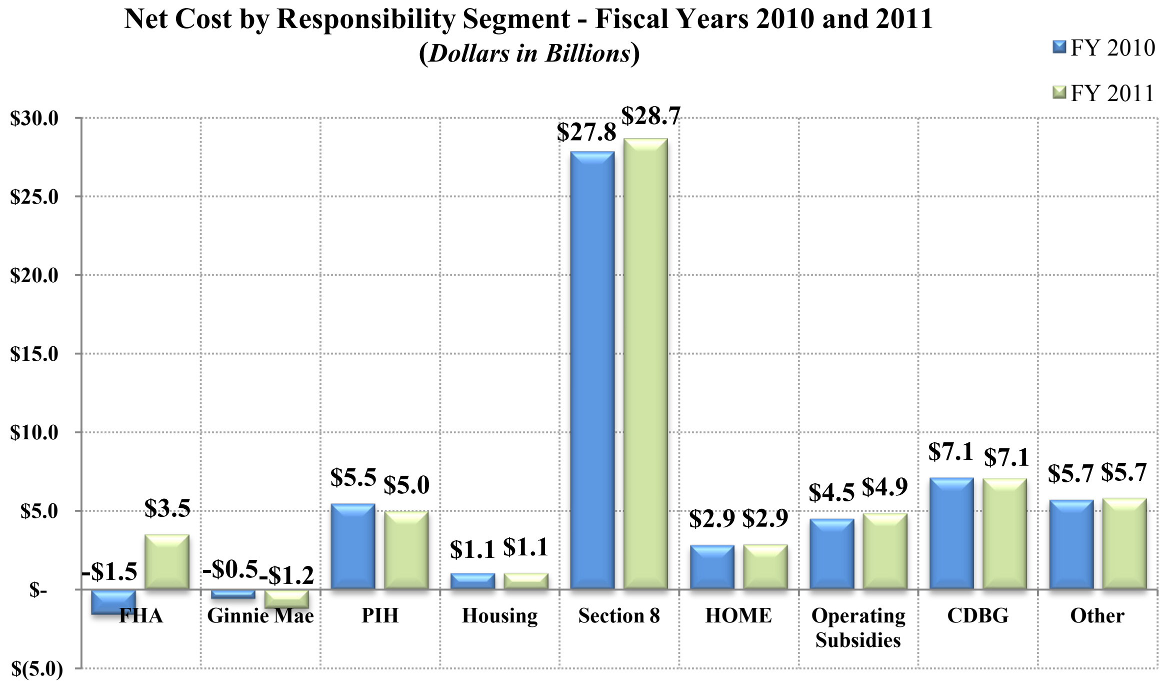


Unexpended Appropriations: The decrease by thirteen percent from $70.0 billion in FY 2010 to $61.0 billion in FY 2011 is driven by the expenditure of ARRA funds.

Financing Sources: As shown in HUD's *Statement of Changes in Net Position*, HUD's financing sources for FY 2011 totaled $56.4 billion. This amount is comprised primarily of $59.5 billion in *Appropriations Used*, offset by approximately $3.1 billion in net transfers out. The transfers out consist of new FHA subsidy endorsements and credit subsidy upward re-estimates.

Net Cost of Operations: As reported in the *Consolidated Statements of Net Cost, Net Cost of Operations* amounts to $57.6 billion for FY 2011, an increase of $5.1 billion (ten percent) from the prior fiscal year. *Net Cost of Operations* consists of total costs, including direct program and administrative costs, offset by program exchange revenues.

The chart below presents HUD's *Total Net Cost* for FY 2011 by responsibility segment.



As shown in the chart, *Cost of Operations* was primarily a result of spending of $28.7 billion, (fifty percent) of *Net Cost*, in support of the Section 8 program (administered jointly by the Housing, Community Planning and Development, and PIH programs). The current fiscal year change in *Net Cost* for the Section 8 programs was $0.9 billion, (three percent), more than the prior fiscal year. FHA *Net Cost* increased by $5.1 billion, due primarily to a $3.5 billion or increase in gross costs due to a increase in credit subsidy expense from the re-estimate and a increase in credit subsidy expense from current year endorsements in the MMI financing account and the increase in MMI borrowing needed for negative subsidy transfers for the 2011 cohort.

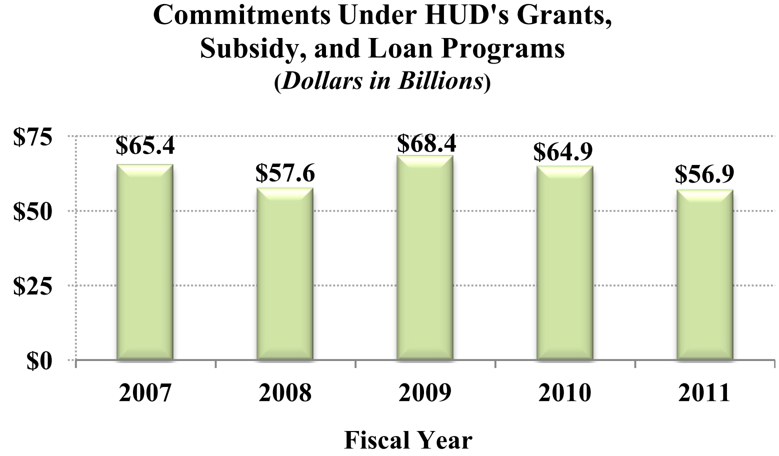
Analysis of Off-Balance-Sheet Risk

The financial risks of HUD's credit activities are due primarily to managing FHA's insurance of mortgage guarantees and Ginnie Mae's guarantees of MBS. Financial operations of these entities can be affected by large unanticipated losses from defaults by borrowers and issuers and by an inability to sell the underlying collateral for an amount sufficient to recover all costs incurred.

Contractual and Administrative Commitments

HUD's *Contractual Commitments* of $56.9 billion in FY 2011 represents HUD's commitment to provide funds in future periods under existing contracts for its grant, loan, and subsidy programs. *Administrative Commitments* (reservations) of $1.9 billion relate to specific projects for which funds will be provided upon execution of the related contract.

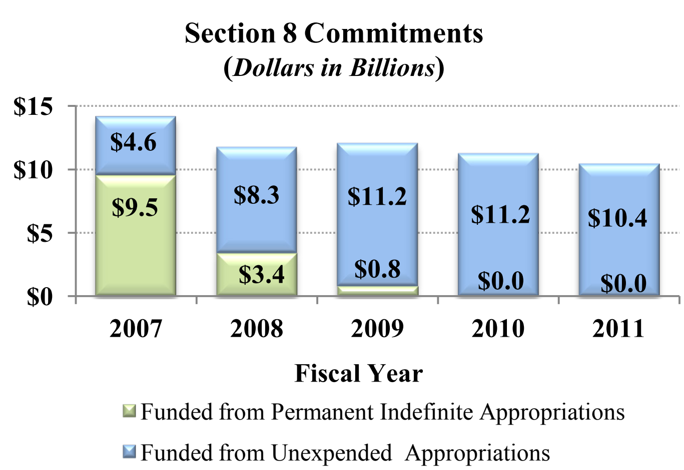
The chart below presents HUD's *Contractual Commitments* for FY 2011 and the four preceding years.



These commitments are primarily funded by a combination of unexpended appropriations and permanent indefinite appropriations, depending on the inception date of the contract. HUD draws on permanent indefinite budget authority to fund the current year's portion of contracts entered into prior to FY 1988. Since FY 1988, HUD has been appropriated funds in advance for the entire contract term in the initial year, resulting in substantial increases and sustained balances in HUD's unexpended appropriations.

Total Commitments (contractual and administrative) decreased by $8.3 billion or (twelve percent) during FY 2011. The change is primarily attributable to a decrease of $2.3 billion in PIH commitments, a decrease of $1.3 billion in HOME program commitments, and a decrease of $2.7 billion in CDBG program commitments. *All Other Commitments* reflect a decrease of $2.3 billion with a slight offset by an increase in commitments of $0.3 billion for FHA

The chart below presents HUD's Section 8 *Contractual Commitments* for FY 2011 and the four preceding years.

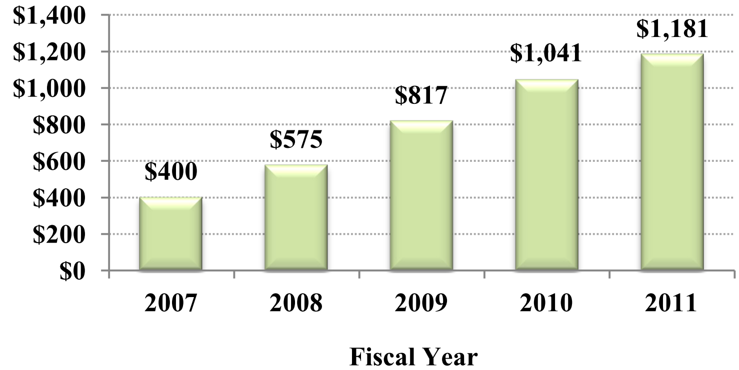


To contain the costs of future Section 8 contract renewals, HUD began converting all expiring contracts to one-year terms during FY 1996. By changing to one-year contract terms, HUD effectively reduced the annual budget authority needed from Congress to fund the subsidies while still maintaining the same number of contracts outstanding.

FHA Insurance-In-Force

The chart below presents FHA's Insurance-In-Force (including the Outstanding Balance of HECM loans) of $1,181 billion for FY 2011 and the four preceding years. This is an increase of $140 billion (thirteen percent) from the FY 2010 FHA Insurance-In-Force of $1,041 billion. FHA's volume has grown significantly during the mortgage crisis as a result of constrained activity by private mortgage insurers and private lenders.

FHA Insurance In Force - As of September 30
(*Dollars in Billions*)



Ginnie Mae Guarantees

Ginnie Mae financial instruments with off-balance sheet risk include guarantees of MBS and commitments to guarantee. The securities are backed by pools of FHA and PIH insured, Rural Housing Service-insured, and Veterans Affairs-guaranteed mortgage loans. Ginnie Mae is exposed to credit loss in the event of non-performance by other parties to the financial instruments. The total amount of Ginnie Mae guaranteed securities outstanding at September 30, 2010 and 2011, was approximately $1,046 billion and $1,222 billion, respectively. However, Ginnie Mae's potential loss is considerably less because the FHA and Rural Housing Service insurance and Veterans Affairs guaranty serve to indemnify Ginnie Mae for most losses. Also, as a result of the structure of the security, Ginnie Mae bears no interest rate or liquidity risk.

During the mortgage closing period and prior to granting its guaranty, Ginnie Mae enters into commitments to guarantee MBS. The commitment ends when the MBS are issued or when the commitment period expires. Ginnie Mae's risks related to outstanding commitments are much less than for outstanding securities due, in part, to Ginnie Mae's ability to limit commitment authority granted to individual issuers of MBS. Outstanding commitments as of September 30, 2011 and 2010 were $102.6 billion and $80.0 billion, respectively.

The chart below presents Ginnie Mae MBS for FY 2011 and the four preceding years.

Ginnie Mae Mortgaged-Backed Securities
Outstanding at FY End
(*Dollars in Billions*)

Generally, Ginnie Mae's MBS pools are diversified among issuers and geographic areas. No significant geographic concentrations of credit risk exist; however, to a limited extent, securities are concentrated among issuers. In FY 2011 and 2010, Ginnie Mae issued a total of $153 billion and $184.3 billion, respectively, in its multi-class securities program. The estimated outstanding balance of multiclass securities in the total MBS securities balance at September 30, 2011 and 2010 were $547.5 billion and $489 billion, respectively. These securities do not subject Ginnie Mae to additional credit risk beyond that assumed under the MBS program.

Multi-class securities include:

- REMICs – Real Estate Mortgage Investment Conduits are a type of multiclass mortgage-related security in which interest and principal payments from mortgages are structured into separately traded securities.
- Stripped MBS – Stripped MBS are securities created by "stripping" or separating the principal and interest payments from the underlying pool of mortgages into two classes of securities, with each receiving a different proportion of the principal and interest payments.
- Platinums – A Ginnie Mae Platinum security is formed by combining Ginnie Mae MBS pools that have uniform coupons and original terms to maturity into a single certificate.

Management Assurances

The Federal Managers' Financial Integrity Act (FMFIA) of 1982

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) and OMB Circular A-123, *Management's Responsibility for Internal Control*, requires ongoing evaluations of the adequacy of the systems of internal accounting and administrative controls and the annual reporting of all material weaknesses found during the evaluations. FMFIA explains management's responsibility for, and its role in, the assessment of accounting and administrative internal controls. Guidance for implementing FMFIA is provided through OMB Circular A-123. Internal controls are an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Programs operate efficiently and effectively in accordance with applicable laws and management policy;
- Obligations and costs are in compliance with applicable laws and regulations;
- Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
- Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts, reliable financial and statistical reports, and to maintain accountability over the assets.

Senior management throughout the Department annually provide assurance statements concerning the effectiveness and efficiency of internal controls within their programs, the reliability of internal control over financial reporting, and compliance with applicable laws and regulations. Using a building block concept, the Secretary's assurance statement shown in this section is based upon these supporting statements.

Section 4

Section 4 of FMFIA requires agencies to report on whether their accounting system conforms to the mandated federal financial management system requirements. Agencies must report instances of material non-conformance, including the preparation of remediation plans that address the non-conformance. OMB Circular A-127, *Financial Management Systems,* requirements address all aspects of managing financial management systems. A system is considered non-conforming when it does not comply with the requirements of the Circular. The materiality or severity of the impact of non-conformance is evaluated against the overall capability of the system to consistently generate accurate, reliable, and timely financial information essential for effective and efficient management of the Agency.

During FY 2011, HUD identified no material non-conformance issues and maintained its focus on successfully implementing its aggressive approach toward resolving past financial system non-conformance concerns. The Department's program offices are vigorously working to ensure compliance with FMFIA and OMB Circular A-127.

At the end of FY 2011, three financial management systems, HUD Procurement System (HPS), Small Purchase System (SPS) and Facilities Integrated Resources Management System (FIRMS), remain non-compliant. HPS and SPS were identified as non-compliant as part of HUD's FY 2006 financial statement audit while FIRMS was identified as non-compliant as part of an A-127 review in FY 2009.

HUD developed remediation plans to replace HPS and SPS with the HUD Integrated Acquisition Management System (HIAMS) to meet the agency's procurement and business needs. The HIAMS solicitation was issued July 1, 2010, and the Department expects to implement HIAMS in the first quarter of FY 2012. While HIAMS is being developed, HPS and SPS have compensating controls in place in order to mitigate their noncompliance issues. The Department has also developed a remediation plan that includes interfaces between FIRMS and HUD's core financial management and acquisition systems. In the meantime, additional compensating controls have been implemented.

Federal Financial Management Improvement Act (FFMIA) of 1996

The Federal Financial Management Improvement Act of 1996 and OMB Circular A-127, *Financial Management Systems* prescribes policies and standards for executive departments and agencies to follow when managing their financial management systems. According to OMB Circular A-127, financial management systems are substantially compliant when an agency's financial management systems routinely provide reliable and timely financial information for managing day-to-day operations as well as to produce reliable financial statements, maintain effective internal control, and comply with legal and regulatory requirements.

During FY 2011, the Department assessed its financial management systems for compliance with the FFMIA and the Secretary has determined that, when taken as a whole, the Department is in compliance with FFMIA. This determination is based on the results of FISMA reviews and testing performed for OMB Circular A-123, Appendix A. Although our auditor has opined that the Department's financial management systems did not substantially comply with the Act (for more detailed information, see Section 2, *Independent Auditor's Report*), HUD management disagrees with the audit opinion, and asserts that our financial management systems satisfy OMB's three-part requirement needed to report substantial compliance with FFMIA. The requirements specifically state that agencies are in substantial compliance: 1) when they can prepare financial statements and other required financial and budget reports using information generated by the financial management system(s); 2) provide reliable and timely financial information for managing current operations; 3) account for assets reliably so that they can be properly protected from loss, misappropriation, or destruction; and 4) do all of the above in a way that is consistent with Federal accounting standards and the U.S. Government Standard General Ledger (USSGL) at the transaction level. HUD's financial management systems satisfy all of these requirements.

HUD continues to strengthen and improve its financial management systems. The Department initiated a major financial systems modernization project—the HUD Integrated Financial Management Improvement Project (HIFMIP). HIFMIP establishes an enterprise vision to achieve a core Integrated Financial Management Solution (IFMS) with a single financial system infrastructure to accomplish the Department's integration and modernization goals.

Through implementation of HIFMIP, the future "to be" state of the Department's IFMS environment will include the skilled resources of a Shared Service Provider (SSP) that provides application hosting services and a comprehensive source of financial budget and performance information, as well as meeting federal financial management system requirements for core accounting services for the Department. It will have the capability to share relevant information with other government agencies, such as the U.S. Department of the Treasury, and includes an agency executive information system that provides financial and program management information to all internal and external stakeholders. The IFMS environment will also include a single Integrated Core Financial System (ICFS), which integrates all of HUD financial management systems (HUD Central Accounting and Program System (HUDCAPS), FHA Subsidiary Ledger (FHASL), and Ginnie Mae Financial and Accounting System (GFAS)) using standardized applications and services.

In FY 2011, the Department made measurable progress in implementing IFMS. The Department completed conversion design and build programs, conducted business process re-engineering to eliminate any need for Commercial Off-the-Shelf (COTS) customization, standardized interfaces approach to save build time, provided streamlined capabilities for future interfaces, and established a shared service center helpdesk. The migration of FHASL to the SSP was completed ahead of schedule in FY 2011. It is projected that ICFS will replace HUDCAPS and become HUD's new core financial system in FY 2012.

Federal Information Security Management Act (FISMA) of 2002

The Federal Information Security Management Act of 2002 (FISMA) requires each agency to generate "…a comprehensive framework for ensuring the effectiveness of information security controls over information resources that support Federal operations and assets…" It assigns specific responsibilities to Federal agencies, the National Institute of Standards and Technology (NIST), and the Office of Management and Budget (OMB) in order to strengthen information system security. In particular, FISMA requires an agency's head to implement policies and procedures that cost-effectively reduce information technology security risks to an acceptable level and to annually report to OMB on the effectiveness of the agencies' security programs.

HUD relies extensively on Information Technology to carry out its operations. The agency continues to improve on its Information System Security Program. The implemented improvements during FY 2011 include strengthening the Department's Cyber Security Awareness and Training program; reissuing guidance to HUD System Owners about the need for System Administrators to maintain separate accounts for system administration activities; ensuring HUD follows NIST guidance on remote access into HUD's network; and ensuring proper Interconnection Security Agreements are in place and are current. HUD continues to work to create its comprehensive enterprise Cyber Security Continuous Monitoring Strategy and program and to complete the Security Assessment and Authority to Operate for HUD's centralized identity management system, Centralized HUD Account Management Process.

FY 2011 Annual Assurance Statement

The Department of Housing and Urban Development's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act of 1982 (FMFIA), Sections 2 and 4. HUD conducted its annual assessment of the effectiveness of internal control to support effective and efficient programmatic operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control*. Based on the results of this evaluation, HUD can provide an unqualified statement of assurance that its internal controls and financial management systems meet the objectives of FMFIA, as of September 30, 2011. No material weaknesses were found in the design of HUD's operations of the internal controls during the evaluation. After the end of the fiscal year, some items affecting non-material amounts came to our attention. These items are currently under investigation and internal controls will be appropriately strengthened to mitigate any risks.

In addition, HUD conducted its assessment of the effectiveness of HUD's internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this evaluation, HUD can provide reasonable assurance that its internal control over financial reporting, as of June 30, 2011, was operating effectively and that no material weaknesses were found in the design or operation of the internal control over financial reporting.

In accordance with guidance established by the American Recovery and Reinvestment Act (Recovery Act) of 2009, HUD can provide reasonable assurance that all Recovery Act programs were managed effectively and efficiently, utilized reliable and accurate data to report achievement of program goals, and were in compliance with applicable laws and regulations. All HUD Recovery Act funds were awarded and distributed in a prompt, fair, and reasonable manner for the sole purpose designated in the Recovery Act.

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires federal agencies to implement and maintain financial management systems that are in substantial compliance with federal financial management systems requirements, federal accounting standards, and the United States Government Standard General Ledger at the transaction level. HUD hereby provides reasonable assurance that its financial management systems substantially comply with FFMIA for FY 2011.

Shaun Donovan
Secretary

November 15, 2011

Office of Inspector General's Management and Performance Challenges Summary

In accordance with the Reports Consolidation Act of 2000, HUD's OIG annually identifies the most significant management and performance challenges facing the Department. Below are six challenges identified by the OIG this fiscal year along with a summary of management updates on Departmental progress in addressing each issue. [The complete Office of Inspector General memorandum and management's comments is located in Section 3.]

Management Updates

	Management Updates
Single Family Programs *Effective management of its growing portfolio of insured mortgages represents a continuing challenge for the Department.*	• **FHA's Transformation Initiative will implement a modern "off-the shelf" Financial Industry Standard Platform.** • **The new platform will aggregate loan transaction data, determine trends to help identify lending risks, and improve data quality.**
Oversight of Recovery Act Funds *Carrying out the goals of the Recovery Act, while dealing with the influx of mortgages and refinancing, and conducting normal operations is a significant challenge.*	• **The HUD Recovery Team meets monthly with Program Managers and the OIG to address issues.** • **PIH conducted 6,500 Capital Fund Recovery Act Reviews with 4,000 more planned for FY 2012 and beyond.**
Human Capital Management *For many years, one of the Department's major challenges has been to effectively manage its limited staff to accomplish its primary mission.*	• **The Department decreased agency hiring time to 79 days.** • **OCHCO initiated an Inter-Agency Agreement with the Office of Personnel Management to secure licenses for two systems to support the workforce planning pilot.**
Financial Management Systems *Since 1991, OIG has annually reported on the lack of an integrated financial management system and the need to enhance FHA's management controls over its portfolio of integrated insurance and financial systems.*	• **Large IT projects such as HIFMIP are being developed in manageable segments.** • **HUD is replacing HUDCAPS and the Program Accounting System resulting in the creation of the new Integrated Core Financial System for OCFO.**
Public and Assisted Housing Program Administration *HUD has a challenge of ensuring that adequate funding is available to support the Housing Choice Voucher program and has made improvements in the area of erroneous payments, but more are needed.*	• **The HUD Shortfall Prevention Team has provided technical assistance to 476 PHAs to prevent lease terminations.** • **HUD has also developed and implemented a utilization optimization tool to assist PHAs to make more informed programmatic decisions impacting their leasing and costs on an ongoing basis.**
Administering Programs Directed Toward Victims of Natural Disasters *Because of HUD's continuing role in addressing natural disasters, it faces challenges in monitoring disaster program funds.*	• **CPD has developed a *Disaster Recovery Policy and Procedures* manual to ensure consistency in program review requirements for both headquarters and field staff.** • **CPD has also issued new risk management guidance as part of the CPD Risk Analysis process that includes a separate examination of disaster recovery grants.**

Improper Payments Elimination and Recovery

HUD has identified one program as being at-risk for significant improper payments, the Rental Housing Assistance Program. The overall reduction in improper payments for HUD's three major types of Rental Housing Assistance Programs (Public Housing, Section 8 Housing Choice Vouchers and Moderate Rehabilitation, and Owner-administered Project-based Assistance Programs {Section 8, Section 202, and Section 811}) over the past ten years has been primarily attributed to HUD's efforts to work with its housing industry partners through enhanced program guidance, training, oversight, and enforcement. Collectively, these efforts have had a positive impact on the program administrators' ability to reduce errors in the calculation of income, rent, and subsidies. The FY 2011 report on Improper Payments, which uses data from FY 2010, states that HUD's percentage of errors in rental subsidy is estimated to be 2.9 percent of total payments, which is 0.1 percentage points better than the goal of 3.0 percent and a reduction of 0.2 percentage points from FY 2009.

HUD's Five-Year Trend of Improper Payment Elimination

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Total Program Payments (billions)	$27.505	$28.151	$29.035	$30.015	$32.564
Percentage of Improper Payments	5.5%	3.5%	3.5%	3.1%	2.9%

This is especially noteworthy, as the total amount of expenditures has grown significantly over the time that improper payment levels have been reported. For example, the 17.1 percent improper payment rate on the base of $18.8 billion in expenditures reported in FY 2000, if compared to current expenditures, would equate to $5.57 billion (i.e., 17.1 percent of $32.56 billion) in improper payments, compared to our actual result of $959 million.

HUD is continuing to examine and take actions to correct the underlying causes of improper payments in the Rental Housing Assistance Program. The three major components of errors which could in improper payments for these programs include: 1) the failure of the program administrator to properly apply income exclusions and deductions to correctly determine income, rent, and subsidy levels; 2) the beneficiary tenant's failure to properly disclose all income sources and amounts upon which subsidies are determined; and 3) billing and payment errors for subsidies due between HUD and third party program administrators or housing providers.

HUD is in the process of implementing the recovery audit requirements of IPERA. A pilot program will be conducted to determine the cost and benefit comparisons for implementing a recovery auditing program.

Apart from payment recapture audits, HUD identified $196.9 million and recovered $50.7 million of improper payments through post-payment reviews during FY 2011.

A detailed report and description of HUD's elimination and recovery of improper payments and implementation of the Improper Payments Elimination and Recovery Act (IPERA) is contained in the Other Accompanying Information section of this report.

Message from the Acting Chief Financial Officer

November 15, 2011

I am pleased to report, for the twelfth consecutive year, the Department has earned an unqualified (clean) audit opinion on its FY 2011 financial statements; and, for the fourth consecutive year, no material weaknesses in internal controls. HUD continues its history of strong financial management and effective internal controls by steadily improving the capabilities of HUD's financial infrastructure. HUD is in the process of implementing a flexible, modern core financial system that promotes transparency and produces accurate and faster reporting. This effort coincides with the Department's Strategic Goal to *Transform the Way HUD Does Business.*

Although HUD's OIG issued an unqualified opinion with no reported material weaknesses, the OIG noted ten significant deficiencies (SDs), of which three were new this fiscal year. HUD has been working diligently toward resolving these significant deficiencies. Many corrective actions to resolve the SDs are multi-year efforts. The SDs and their expected resolution dates are addressed in the Summary of Financial Statement Audit and Management Assurances subsection found in the Other Accompanying Information section of this report.

In addition to the SDs, the OIG noted five areas where HUD did not substantially comply with laws and regulations. The first, non-compliance with the Federal Financial Management Improvement Act, was also noted as a significant deficiency and is discussed in the Management Assurances subsection of the Management's Discussion and Analysis section. For information on the Department's non-compliance with laws and regulations, please refer to the Summary of Financial Statement Audit and Management Assurances subsection found in the Other Accompanying Information section of this report.

The area of improper payments has received significant attention under the present Administration as the federal government seeks to utilize its ever decreasing resources in an effective and efficient manner. The Improper Payments Elimination and Recovery Act (IPERA) of 2010 and Executive Order 13520, *Reducing Improper Payments and Eliminating Waste in Federal Programs*, are the driving forces toward reducing improper payments. HUD has served as a Government-wide leader in reducing improper payments (see the narrative in the Other Accompanying Information section of this report). For example, HUD's Office of PIH recognizes decreases in the following areas: a) improper payments made on behalf of deceased beneficiaries by 48 percent; b) program beneficiaries with invalid social security numbers by 42 percent; and c) cases of tenant underreporting of income by 28 percent. Overall, HUD reduced the combined baseline gross improper payment estimates of $3.43 billion in FY 2000 (i.e., 17.1 percent of FY 2000 expenditures) to $959 million in FY 2010 (i.e., 2.9 percent of FY 2010 expenditures), a reduction of 72 percent.

In accordance with an Executive Order titled *Delivering an Efficient, Effective, and Accountable Government*, dated June 13, 2011, HUD strives to serve the American people with the utmost effectiveness and efficiency by cutting waste and increasing the efficiency of Government operations. HUD is improving its effectiveness and efficiency by curbing growth in contract spending, terminating poorly performing information technology projects, deploying state of the art fraud detection tools to crack down on waste, focusing agency leaders on achieving ambitious improvements in high priority areas, and increasing transparency to the public to enhance accountability and accelerate innovation. Other initiatives to cut waste and save on costs include an energy efficiency project at the Robert C. Weaver Headquarters Building, a reduction in the motor vehicle fleet, decreased travel through the use of video teleconferencing, more efficient use of travel and relocation funds, and greater efficiencies in the purchase of supplies and materials.

Other financial management achievements include:

- Reduced the number of checks processed manually by processing collections electronically using internet technologies.
- Implemented accelerated obligation processes for various NOFA program areas. This high-profile initiative for the Department allows HUD to get money out the door faster to the families who need it most.
- Improved customer service for internal and external users by collaborating with various program and support offices to reduce system access request time by 88 percent.
- Completed a review of the effectiveness of security controls of OCFO systems in accordance with OMB guidance and the Federal Information Security Management Act of 2002—finding no material weaknesses or significant deficiencies.
- Earned the Certificate of Excellence in Accountability Reporting for the fifth consecutive year from the Association of Government Accountants for HUD’s outstanding efforts in preparing the FY 2010 Agency Financial Report.

In these important and ongoing activities, I wish to recognize the valuable contributions of the dedicated staff in the OCFO, the FHA Comptroller’s Office, Ginnie Mae’s Office of Finance, and the Office of Inspector General. It is due to our collective efforts that we can report the above successes.

David P. Sidari

Financial Statements

Introduction

The principal financial statements have been prepared to report the financial position and results of operations of HUD, pursuant to the requirements of 31 U.S.C. 3515(b). While the financial statements have been prepared from HUD's books and records in accordance with formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

The principal financial statements and notes should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

The financial statements presented herein are:

The **Consolidated Balance Sheet**, as of September 30, 2011 and 2010, which presents those resources owned or managed by HUD that are available to provide future economic benefits (assets); amounts owed by HUD that will require payments from those resources or future resources (liabilities); and residual amounts retained by HUD comprising the difference (net position).

The **Consolidated Statement of Net Cost,** which presents the net cost of HUD operations for the years ended September 30, 2011 and 2010. HUD's net cost of operations includes the gross costs incurred by HUD less any exchange revenue earned from HUD activities.

The **Consolidated Statement of Changes in Net Position,** which presents the change in HUD's net position resulting from the net cost of HUD operations, budgetary financing sources other than exchange revenues, and other financing sources for the years ended September 30, 2011 and 2010.

The **Combined Statement of Budgetary Resources,** which presents the budgetary resources available to HUD during FY 2011 and 2010, the status of these resources at September 30, 2011 and 2010, and the outlay of budgetary resources for the years ended September 30, 2011 and 2010.

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

Department of Housing and Urban Development
Consolidated Balance Sheet
As of September 2011 and 2010
(Dollars in Millions)

	2011	2010
ASSETS		
Intragovernmental		
Fund Balance with Treasury (Note 4)	$ 111,154	$ 115,907
Investments (Note 5)	6,273	7,721
Other Assets (Note 9)	29	39
Total Intragovernmental Assets	117,456	123,667
Investments (Note 5)	63	136
Accounts Receivable (Note 6)	230	322
Credit Program Receivables and Related Foreclosed Property (Note 7)	8,414	9,432
General Property Plant and Equipment (Note 8)	301	258
Other Assets (Note 9)	9,392	6,647
TOTAL ASSETS	**$ 135,856**	**$ 140,462**
LIABILITIES		
Intragovernmental Liabilities		
Accounts Payable (Note 10)	8	6
Debt (Note 11)	6,091	4,775
Other Intragovernmental Liabilities (Note 14)	3,748	1,323
Total Intragovernmental Liabilities	9,847	6,104
Accounts Payable (Note 10)	1,365	1,050
Loan Guarantees (Note 7)	36,214	35,073
Debt Held by the Public (Note 11)	153	292
Federal Employee and Veterans' Benefits (Note 12)	76	72
Loss Reserves (Note 13)	396	1,005
Other Governmental Liabilities (Note 14)	2,964	1,842
TOTAL LIABILITIES	**$ 51,015**	**$ 45,438**
NET POSITION		
Unexpended Appropriations - Earmarked Funds (Note 17)	2,213	6,817
Unexpended Appropriations	58,829	63,231
Cumulative Results of Operations - Earmarked Funds (Note 17)	16,434	15,220
Cumulative Results of Operations	7,365	9,756
TOTAL NET POSITION	**84,841**	**95,024**
TOTAL LIABILITIES AND NET POSITION	**$ 135,856**	**$ 140,462**

The accompanying notes are an integral part of these statements.

Department of Housing and Urban Development
Consolidating Statement of Net Cost
For the Years Ended September 2011 and 2010
(Dollars in Millions)

	2011	2010
COSTS		
Federal Housing Administration		
Gross Cost (Note 19)	$ 5,699	$ 1,132
Less: Earned Revenue	(2,179)	(2,680)
Net Program Costs	3,520	(1,548)
Government National Mortgage Association		
Gross Cost (Note 19)	(121)	822
Less: Earned Revenue	(1,062)	(1,363)
Net Program Costs	(1,183)	(541)
Section 8		
Gross Cost (Note 19)	28,653	27,795
Less: Earned Revenue	-	-
Net Program Costs	28,653	27,795
Low Rent Public Housing Loans and Grants		
Gross Cost (Note 19)	4,996	5,481
Less: Earned Revenue	-	-
Net Program Costs	4,996	5,481
Operating Subsidies		
Gross Cost (Note 19)	4,866	4,515
Less: Earned Revenue	-	-
Net Program Costs	4,866	4,515
Housing for the Elderly and Disabled		
Gross Cost (Note 19)	1,312	1,361
Less: Earned Revenue	(262)	(280)
Net Program Costs	1,050	1,081
Community Development Block Grants		
Gross Cost (Note 19)	7,093	7,125
Less: Earned Revenue	-	-
Net Program Costs	7,093	7,125
HOME		
Gross Cost (Note 19)	2,879	2,851
Less: Earned Revenue	-	-
Net Program Costs	2,879	2,851
Other		
Gross Cost (Note 19)	5,601	5,592
Less: Earned Revenue	(34)	(47)
Net Program Costs	5,567	5,545
Costs Not Assigned to Programs	170	191
Consolidated		
Gross Cost (Note 19)	61,148	56,865
Less: Earned Revenue	(3,537)	(4,370)
NET COST OF OPERATIONS	**$ 57,611**	**$ 52,495**

The accompanying notes are an integral part of these statements.

Department of Housing and Urban Development
Consolidated Statement of Changes in Net Position
For the Years Ended September 2011 and 2010
(Dollars in Millions)

	2011			2010		
	EARMARKED FUNDS	**ALL OTHER FUNDS**	**CONSOLIDATED TOTAL**	**EARMARKED FUNDS**	**ALL OTHER FUNDS**	**CONSOLIDATED TOTAL**
CUMULATIVE RESULTS OF OPERATIONS:						
Beginning of Period	$ 15,218	$ 9,756	$ 24,974	$ 14,625	$ 5,799	$ 20,424
Adjustments:						
Corrections of Errors	-	(1)	(1)	-	-	-
Beginning Balances, As Adjusted	15,218	9,755	24,973	14,625	5,799	20,424
BUDGETARY FINANCING SOURCES:						
Other Adjustments	-	3	3	-	7	7
Appropriations Used	4,578	54,905	59,483	4,902	52,196	57,098
Donations/Forfeitures-Cash & Cash Equivalents	2	-	2	-	-	-
Transfers In/Out Without Reimbursement	9	(501)	(492)	10	(1,170)	(1,160)
OTHER FINANCING SOURCES (NON-EXCHANGE):						
Transfers In/Out Without Reimbursement	-	(1,824)	(1,824)	-	1,002	1,002
Imputed Financing	1	90	91	1	99	100
Other	-	(826)	(826)	-	-	-
Total Financing Sources	4,590	51,847	56,437	4,913	52,134	57,047
Net Cost of Operations	(3,374)	(54,237)	(57,611)	(4,318)	(48,177)	(52,495)
Net Change	1,216	(2,390)	(1,174)	595	3,957	4,552
CUMULATIVE RESULTS OF OPERATIONS	**$ 16,434**	**$ 7,365**	**$ 23,799**	**$ 15,220**	**$ 9,756**	**$ 24,976**
UNEXPENDED APPROPRIATIONS:						
Beginning of Period	$ 6,819	$ 63,231	$ 70,050	$ 11,719	$ 66,204	$ 77,923
Adjustments:						
Corrections of Errors	-	1	1	-	-	-
Beginning Balances, As Adjusted	6,819	63,232	70,051	11,719	66,204	77,923
BUDGETARY FINANCING SOURCES:						
Appropriations Received	-	51,123	51,123	1	49,819	49,820
Appropriations Transfers In/Out	1	(1)	-	-	(82)	(82)
Other Adjustments	(29)	(620)	(649)	(1)	(514)	(515)
Appropriations Used	(4,578)	(54,905)	(59,483)	(4,902)	(52,196)	(57,098)
Total Budgetary Financing Sources	(4,606)	(4,403)	(9,009)	(4,902)	(2,973)	(7,875)
UNEXPENDED APPROPRIATIONS	**2,213**	**58,829**	**61,042**	**6,817**	**63,231**	**70,048**
NET POSITION	**$ 18,647**	**$ 66,194**	**$ 84,841**	**$ 22,037**	**$ 72,987**	**$ 95,024**

The accompanying notes are an integral part of these statements.

Department of Housing and Urban Development
Combined Statement of Budgetary Resources
For the Years Ended September 2011 and 2010
(Dollars in Millions)

	2011 Budgetary	2011 NonBudgetary Credit Program Financing Accounts	2010 Budgetary	2010 NonBudgetary Credit Program Financing Accounts
Budgetary Resources:				
Unobligated Balance, Brought Forward	$ 23,564	$ 34,809	$ 40,344	$ 26,968
Recoveries of Prior Year Unpaid Obligations	823	26	896	70
Budget Authority				
Appropriation	51,148	3	49,842	7
Borrowing Authority	22	3,870	36	796
Contract Authority	-	-	-	-
Spending Authority from Offsetting Collections Earned				
Collected	12,914	27,905	8,808	28,213
Change in Receivable from Federal Sources	(15)	-	(84)	(3)
Change in Unfilled Customer Orders				
Advance Received	(8)	-	(11)	-
W/O Advance from Federal Sources	184	1	18	(5)
Subtotal Budget Authority	64,245	31,779	58,609	29,008
Nonexpenditure Transfers, Net	(11)	-	-	-
Permanently Not Available	(2,091)	(2,579)	(4,186)	(449)
Total Budgetary Resources	**$ 86,530**	**$ 64,035**	**$ 95,663**	**$ 55,597**
Status of Budgetary Resources:				
Obligations Incurred				
Direct	59,703	27,607	64,082	20,787
Reimbursable	5,067	-	8,017	-
Subtotal	64,770	27,607	72,099	20,787
Unobligated Balances				
Apportioned	6,357	13,198	7,804	4,074
Subtotal	6,357	13,198	7,804	4,074
Unobligated Balances Not Available	15,403	23,230	15,760	30,736
Total Status of Budgetary Resources	**$ 86,530**	**$ 64,035**	**$ 95,663**	**$ 55,597**
Change in Obligated Balance:				
Obligated Balance, Net				
Unpaid Obligations, Brought Forward	64,662	1,891	68,751	1,464
Less: Uncollected Customer Payments from Federal Sources	(74)	(15)	(141)	(23)
Total Unpaid Obligated Balance, Net	64,588	1,876	68,610	1,441
Obligations Incurred, Net	64,770	27,607	72,099	20,787
Less: Gross Outlays	(71,976)	(27,151)	(75,292)	(20,290)
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(823)	(26)	(896)	(70)
Change in Uncollected Customer Payments from Federal Sources	(169)	(1)	66	7
Obligated Balance, Net - End of Period				
Unpaid Obligations	56,634	2,321	64,662	1,891
Less: Uncollected Customer Payments from Federal Sources	(244)	(16)	(74)	(15)
Total Obligated Balance, Net - End of Period	56,390	2,305	64,588	1,876
Net Outlays				
Gross Outlays	71,976	27,151	75,292	20,290
Less: Offsetting Collections	(12,066)	(27,904)	(7,805)	(28,213)
Less: Distributed Offsetting Receipts	(1,921)	-	(1,718)	-
Net Outlays	**$ 57,989**	**$ (753)**	**$ 65,769**	**$ (7,923)**

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

September 30, 2011 and 2010

Note 1: Entity and Mission

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

HUD's major programs are as follows:

The Federal Housing Administration[E1] (FHA) administers active mortgage insurance programs which are designed to make mortgage financing more accessible to the home-buying public and thereby to develop affordable housing. FHA insures private lenders against loss on mortgages which finance single family homes, multifamily projects, health care facilities, property improvements, and manufactured homes.

The Government National Mortgage Association[E2] (Ginnie Mae) guarantees the timely payment of principal and interest on mortgage-backed securities issued by approved private mortgage institutions and backed by pools of mortgages insured or guaranteed by FHA, the Department of Agriculture (USDA), the Department of Veterans Affairs (VA), and the HUD Office of Public and Indian Housing (PIH).

The Section 8 Rental Assistance[E3] programs assist low- and very low-income families in obtaining decent and safe rental housing. HUD makes up the difference between what a low- and very low-income family can afford and the approved rent for an adequate housing unit funded by the Housing Choice Voucher (HCV) Program.

The Community Development Block Grant[E4] (CDBG) programs provide funds for metropolitan cities, urban counties, and other communities to use for neighborhood revitalization, economic development, and improved community facilities and services. The United States Congress appropriated $17.5 billion in FY 2008 and $150 million in emergency supplemental appropriations in FY 2005 for the "Community Development Fund" for emergency expenses to respond to the Hurricane Katrina relief efforts. Funds of $2.1 billion were disbursed in FY 2011 and $2.4 billion was disbursed in FY 2010. Any remaining un-obligated balances remain available until expended.

The Home Investments Partnerships[E5] program provides grants to states, local governments, and Indian tribes to implement local housing strategies designed to increase home ownership and affordable housing opportunities for low- and very low-income families.

Operating Subsidies[E6] are provided to PHAs and Tribally Designated Housing Entities (TDHEs) to help finance the operations and maintenance costs of their housing projects.

The Low Rent Public Housing Grants[E7] program provides grants to PHAs and TDHEs for construction and rehabilitation of low-rent housing. This program is a continuation of the Low Rent Public Housing Loan program which pays principal and interest on long-term loans made to PHAs and TDHEs for construction and rehabilitation of low-rent housing.

The **Section 202/811** Supportive Housing for the Elderly[E8] and Persons with Disabilities[E9] programs provided 40-year loans to nonprofit organizations sponsoring rental housing for the elderly or disabled. During FY 1992, the program was converted to a grant program. The grant program provides capital for long-term supportive housing for the elderly (Section 202) and the disabled (Section 811).

Other Programs not included above consist of other smaller programs which provide grant, subsidy funding, and direct loans to support other HUD objectives such as fair housing and equal opportunity, energy conservation, assistance for the homeless, rehabilitation of housing units, removal of lead hazards, and home ownership. The programs provide 12 percent of HUD's consolidated revenues and financing sources for FY 2011 and 8 percent of HUD's consolidated revenues and financing sources for FY 2010.

Note 2: Summary of Significant Accounting Policies

A. Basis of Consolidation

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

The Department's FY 2011 financial statements do not include the accounts and transactions of two transfer appropriations, the Appalachian Regional Commission and the Department of Transportation Surface Transportation Projects. Some laws require departments (parent) to allocate budget authority to another department (child). Allocation means a delegation, authorized by law, by one department of its authority to obligate and outlay funds to another department. HUD, the child account, receives budget authority and then obligates and outlays sums of up to the amount included in the allocation. As required by OMB Circular A-136, financial activity is in the parent account which is also accountable for and maintains the responsibility for reporting while the child performs on behalf of the parent and controls how the funds are expended. Consequently, these balances are not included in HUD's consolidated financial statements as specified by OMB Circular A-136.

B. Basis of Accounting

The Department's FY 2011 financial statements include the accounts and transactions of Ginnie Mae, FHA, and its grant, subsidy and loan programs.

The financial statements are presented in accordance with the OMB Circular No. A-136, Financial Reporting Requirements, and in conformance with the Federal Accounting Standards Advisory Board's (FASAB) Statements of Federal Financial Accounting Standards (SFFAS).

The financial statements are presented on the accrual and budgetary bases of accounting. Under the accrual method, HUD recognizes revenues when earned, and expenses when a liability is incurred, without regard to receipt or payment of cash. Generally, procedures for HUD's major grant and subsidy programs require recipients to request periodic disbursement concurrent with incurring eligible costs. Budgetary accounting facilitates compliance with legal requirements on the use of Federal funds.

The Department's disbursement policy permits grantees/recipients to request funds to meet immediate cash needs to reimburse themselves for eligible incurred expenses and eligible expenses expected to be received and paid within three days or as subsidies payable in accordance with the Cash Management Improvement Act of 1990. HUD's disbursement of funds for these purposes are not considered advance payments but are viewed as sound cash management between the Department and the grantees. In the event it is determined that the grantee/recipient did not disburse the funds within the three-day time frame, interest earned must be returned to HUD and deposited into one of Treasury's miscellaneous receipt accounts.

C. Use of Estimates

The preparation of the principal financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at 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 the Department's best estimates based on pertinent information available.

To estimate the allowance for subsidy (AFS) associated with loans receivable and related foreclosed property and the liability for loan guarantees (LLG), the Department uses cash flow model assumptions associated with the loan guarantees subject to the Federal Credit Reform Act of 1990 (FCRA), as described in Note 7, to estimate the cash flows associated with future loan performance. To make reasonable projections of future loan performance, the Department develops assumptions based on historical data, current and forecasted program and economic assumptions.

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

D. Credit Reform Accounting

The primary purpose of the Federal Credit Reform Act of 1990, which became effective on October 1, 1991, is to more accurately measure the cost of Federal credit programs and to place the cost of such credit programs on a basis equivalent with other Federal spending. OMB Circular No. A-11, Part 5, Federal Credit Programs defines loan guarantee as any guarantee, insurance or other pledge with respect to the payment of all or a part of the principal or interest on any debt obligation of a non-Federal borrower (Issuer) to a non-Federal lender (Investor). FHA practices Credit Reform accounting. In the opinion of Ginnie Mae management, and HUD's General Counsel, the Federal Credit Reform Act does not apply to Ginnie Mae. Nevertheless, in consultation with the OMB, Ginnie Mae has adopted certain credit reform practices.

The FCRA establishes the use of the program, financing, and general fund receipt accounts for loan guarantees committed and direct loans obligated after September 30, 1991 (Credit Reform). It also establishes the liquidating account for activity relating to any loan guarantees committed and direct loans obligated before October 1, 1991 (pre-Credit Reform). These accounts are classified as either budgetary or non-budgetary in the Combined 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.

The program account is a budget account that receives and obligates appropriations to cover the subsidy cost of a direct loan or loan guarantee and disburses the subsidy cost to the financing account. The program account also receives appropriations for administrative expenses. The financing account is a non-budgetary account that records all of the cash flows resulting from Credit Reform direct loans or loan guarantees. It disburses loans, collects repayments and fees, makes claim payments, holds balances, borrows from U.S. Treasury, earns or pays interest, and receives the subsidy cost payment from the program account.

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

In order to resolve the different requirements between the FCRA and the National Affordable Housing Act of 1990 (NAHA), OMB instructed FHA to create the capital reserve account to retain the Mutual Mortgage Insurance/Cooperative Management Housing Insurance (MMI/CMHI) negative subsidy and subsequent downward re-estimates. Specifically, the NAHA required that FHA's MMI fund achieve a Capital Ratio of 2.0 percent by FY 2000. The Capital Ratio is defined as the ratio of economic net worth (current cash plus the present value of all future net cash flows) of the MMI fund to unamortized insurance in force (the unpaid balance of insured mortgages). Therefore, to ensure that the calculated capital ratio reflects the actual strength of the MMI fund, the resources of the capital reserve account, which are considered FHA assets, are included in the calculation of the MMI fund's economic net worth.

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

E. Operating Revenue and Financing Sources

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

Appropriations for Grant and Subsidy Programs

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

Ginnie Mae Fees

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

F. Appropriations and Moneys Received from Other HUD Programs

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

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

G. Investments

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

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

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

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

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.

H. Credit Program Receivables and Related Foreclosed Property

HUD finances mortgages and provides loans to support construction and rehabilitation of low rent housing, principally for the elderly and disabled under the Section 202/811 program. Prior to April 1996, mortgages were also assigned to HUD through FHA claims settlement (i.e., Mortgage Notes Assigned (MNAs). Single family mortgages were assigned to FHA when the mortgagor defaulted due to certain "temporary hardship" conditions beyond the control of the mortgagor, and when, in management's judgment, it is likely that the mortgage could be brought current in the future. FHA's loans receivable include MNAs, also described as Secretary-held notes, and 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 mortgages are assigned to FHA when lenders file mortgage insurance claims for defaulted notes.

Credit program receivables for direct loan programs and defaulted guaranteed loans assigned for direct collection are valued differently based on the direct loan obligation or loan guarantee commitment date. These valuations are in accordance with the Federal Credit Reform Act of 1990 and SFFAS No. 2, "Accounting for Direct Loans and Loan Guarantees," as amended by SFFAS No. 18. Those obligated or committed on or after October 1, 1991 (post-Credit Reform) are valued at the net present value of expected cash flows from the related receivables.

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

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

I. Borrowings

As further discussed in Note 11, several of HUD's programs have the authority to borrow funds from the U.S. Treasury for program operations. These borrowings, representing unpaid principal balances and future accrued interest is reported as debt in HUD's consolidated financial statements. The PIH Low Rent Public Housing Loan Program and the Housing for the Elderly or Handicapped fund were financed through borrowings from the Federal Financing Bank or the U.S. Treasury prior to the Department's conversion of these programs to grant programs. The Department also borrowed funds from the private sector to assist in the construction and rehabilitation of low rent housing projects under the PIH Low Rent Public Housing Loan Program. Repayments of these long-term borrowings have terms up to 40 years.

In accordance with Credit Reform accounting, FHA also 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 amount related to new loan disbursements, and existing loan modifications from the financing accounts to the general fund receipts account (for cases in GI/SRI funds) or the liquidating account (for cases in MMI/CMHI funds). In some instances, borrowings are also needed to transfer the credit subsidy related to downward re-estimate from the GI/SRI financing account to the GI/SRI receipt account or when available cash is less than claim payments due.

J. Liability for Loan Guarantees

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

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

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

Ginnie Mae also establishes loss reserves to the extent management believe issue defaults are probable and FHA, USDA, and PIH insurance or guarantees are insufficient to recoup Ginnie Mae expenditures.

K. Full Cost Reporting

Beginning in FY 1998, SFFAS No. 4, Managerial Cost Accounting Concepts and Standards for the Federal Government, required that full costing of program outputs be included in Federal agency financial statements. Full cost reporting includes direct, indirect, and inter-entity costs. For purposes of the consolidated department financial statements, HUD identified each responsible segment's share of the program costs or resources provided by HUD or other Federal agencies.

L. Accrued Unfunded Leave and Federal Employees Compensation Act (FECA) Liabilities

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

M. Retirement Plans

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

A primary feature of FERS is that it offers a savings plan whereby HUD automatically contributes one percent of pay and matches any employee contribution up to five percent of an individual's basic pay. Under CSRS, employees can contribute up to $16,500 of their pay to the savings plan, but there is no corresponding matching by HUD. Although HUD funds a portion of the benefits under FERS relating to its employees and makes the necessary withholdings from them, it has no liability for future payments to employees under these plans, nor does it report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities applicable to its employees' retirement plans.

N. Financial Accounting Standards Board Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees

The Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) topic 460, Guarantees (ASC 460), formerly known as (FASB) Interpretation No. 45 (FIN 45), clarifies the requirements of accounting for Contingencies (ASC 450), relating to the guarantor's accounting for, and disclosure of, the issuance of certain types of guarantees. ASC 450 requires that upon issuance of a guaranty, the guarantor must recognize a liability for the fair value of the obligation it assumes under the guaranty. The issuance of a guaranty under the Mortgage-Backed Securities (MBSs) Program obligates Ginnie Mae to stand ready to perform over the term of the guaranty in the event that the specified triggering events or conditions occur.

At inception of the guaranty, Ginnie Mae recognizes a liability for the guaranty it provides on MBSs issued by third-party issuers. Generally, a guaranty liability is initially measured at fair value. However, Ginnie Mae applies the practical expedient in ASC 460-10-30-2a (ASC Topic 460, Guarantees (ASC 460)), which allows the guaranty liability to be recognized at inception based on the premium received or receivable by the guarantor, provided the guaranty is issued in a standalone arm's-length transaction with an unrelated party. Ginnie Mae initially recognizes a guaranty liability at fair value for its obligation to stand ready to perform on these upon issuance of a guaranty. Subsequently, the guaranty liability is measured by a systematic and rational amortization method. We have computed the value of our guarantee based on the life of the mortgage-backed securities and their underlying loans. Based on this evaluation, we have disclosed a liability of $2,175.1 million as of September 30, 2011, and $1,103.8 million as of September 30, 2010 categorized as other liabilities, see Note 14.

Additionally, as the guaranty is issued in a standalone transaction for a premium, Ginnie Mae records a guaranty asset (representing a receivable at net present value) for the guaranty fees as the offsetting entry for the guaranty liability in accordance with ASC 460-10-55-23a. The guaranty asset is calculated based on the present value of the expected future cash flows from the guaranty fees based on the unpaid principal balance of the outstanding MBSs in the non-defaulted issuer portfolio; this is same calculations used to value the guaranty liability under the practical expedient in ASC 460-10-30-2a. Thus, there is no impact on the net financial position of Ginnie Mae due to FIN 45.

O. Mortgage Servicing Rights

Mortgage servicing rights (MSR) represent Ginnie Mae's right to service mortgage loans in mortgage-backed securities, obtained from issuers upon default. The MSR is a component of "Other Assets" in HUD's consolidated Balance Sheet when the present value of the estimated compensation for mortgage servicing activities exceeds adequate compensation for such servicing activities. Ginnie Mae considers adequate compensation to be the amount of compensation that would be required by a substitute master sub-servicer should one be required. Market information is used to determine adequate compensation for these services. Ginnie Mae receives a weighted average servicing fee of approximately 38 basis points annually on the remaining outstanding principal balances of the loans. The servicing fees are collected from the monthly payments made by the borrowers.

Ginnie Mae initially recognized an MSR at amortized cost during FY 2009 and subsequently to account for the MSR at fair value in FY 2010. Ginnie Mae measures its MSRs fair value and changes to their fair values. Ginnie Mae estimates the fair value of MSRs using a valuation model that calculates the present value of estimated future net servicing income. This is accomplished through a valuation approach that factors in prepayment risk and consists of projecting servicing cash flows under multiple interest rate scenarios and discounting these cash flows using risk-adjusted discount rates (see Note 9 for more information about HUD's estimates of the fair value of MSRs using a valuation model).

P. Subsequent Events

Ginnie Mae management has evaluated subsequent events through November 4, 2011, the date through which the financial statements were made available to be issued.

On October 11, 2011, Ginnie Mae defaulted a single family issuer with a remaining principal balance of $490.5 million. The contingent liability associated with this default has been included in the reserve for loss on MBS program guaranty recorded on the Balance Sheets as of September 30, 2011.

During October 2011, Ginnie Mae repurchased approximately $345.3 million of loans out of Single Family defaulted MBS pools. Ginnie Mae management has determined that the repurchase will not have a material adverse effect on the financial position of Ginnie Mae.

On November 1, 2011, Ginnie Mae defaulted, without extinguishment, a single family issuer with a remaining principal balance of $411.4 million.

Note 3: Entity and Non-Entity Assets

Non-entity assets consist of assets that belong to other entities but are included in the Department's consolidated financial statements and are offset by various liabilities to accurately reflect HUD's net position. The Department's non-entity assets principally consist of: (1) U.S. deposit of negative credit subsidy in the GI/SRI general fund receipt account, (2) escrow monies collected by FHA that are either deposited at the U.S. Treasury, Minority-Owned banks or invested in U.S. Treasury securities, and (3) cash remittances from Section 8 bond refundings deposited in the General Fund of the Treasury.

HUD's assets as of September 30, 2011 and 2010 were as follows (dollars in millions):

Description	2011 Entity	2011 Non-Entity	2011 Total	2010 Entity	2010 Non-Entity	2010 Total
Intragovernmental						
Fund Balance with Treasury (Note 4)	$ 109,191	$ 1,963	$ 111,154	$ 115,112	$ 795	$ 115,907
Investments (Note 5)	6,270	3	6,273	7,721	-	7,721
Other Assets (Note 9)	29	-	29	39	-	39
Total Intragovernmental Assets	$ 115,490	$ 1,966	$ 117,456	$ 122,872	$ 795	$ 123,667
Investments (Note 5)	63	-	63	136	-	136
Accounts Receivable, Net (Note 6)	197	33	230	278	44	322
Loan Receivables and Related Foreclosed Property, Net (Note 7)	8,414	-	8,414	9,432	-	9,432
General Property, Plant and Equipment, Net (Note 8)	301	-	301	258	-	258
Other Assets (Note 9)	9,326	66	9,392	6,577	70	6,647
Total Assets	**$ 133,791**	**$ 2,065**	**$ 135,856**	**$ 139,553**	**$ 909**	**$ 140,462**

Note 4: Fund Balance with the U.S. Treasury

The U.S. Treasury, which, in effect, maintains HUD's bank accounts, processes substantially all of HUD's receipts and disbursements. HUD's fund balances with the U.S. Treasury as of September 30, 2011 and 2010 were as follows (dollars in millions):

Description	2011	2010
Revolving Funds	$ 41,578	$ 39,149
Appropriated Funds	61,576	70,357
Trust Funds	5,505	5,389
Other	2,495	1,012
Total - Fund Balance	**$ 111,154**	**$ 115,907**

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

In addition to fund balance, contract and investment authority are also a part of HUD's funding sources. Contract authority permits an agency to incur obligations in advance of an appropriation, offsetting collections, or receipts to make outlays to liquidate the obligations. HUD has permanent indefinite contract authority. Since federal securities are considered the equivalent of cash for budget purposes, investments in them are treated as a change in the mix of assets held, rather than as a purchase of assets.

HUD's fund balances with U.S. Treasury as reflected in the entity's general ledger as of September 30, 2011 and 2010 were as follows (dollars in millions):

Status of Resources - 2011

Description	Unobligated Available	Unobligated Unavailable	Obligated Not Yet Disbursed	Unfilled Customer Orders	Status of Total Resources	Fund Balance	Other Authority	Total Resources
FHA	$ 13,392	$ 28,422	$ 3,057	$ (21)	$ 44,850	$ 40,755	$ 4,094	$ 44,849
Ginnie Mae	1	8,824	518	(14)	9,329	7,210	2,120	9,330
Section 8 Rental Assistance	296	50	10,440	-	10,786	10,782	5	10,787
CDBG	1,042	18	18,135	-	19,195	19,195	-	19,195
HOME	355	3	4,932	-	5,290	5,290	-	5,290
Operating Subsidies	2	13	1,312	-	1,327	1,327	-	1,327
PIH Loans and Grants	139	42	6,805	-	6,986	6,986	12	6,998
Section 202/811	1,125	40	3,299	-	4,464	4,464	-	4,464
Section 235/236	55	264	2,477	-	2,796	1,380	1,415	2,795
All Other	3,148	957	7,980	(225)	11,860	11,848	-	11,848
Total	**$ 19,555**	**$ 38,633**	**$ 58,955**	**$ (260)**	**$ 116,883**	**$ 109,237**	**$ 7,646**	**$ 116,883**

Status of Resources Covered by Fund Balance

Description	Unobligated Available	Unobligated Unavailable	Obligated Not Yet Disbursed	Unfilled Customer Orders	Fund Balance	Non-Budgetary: Suspense, Deposit and Receipt Accounts	Total Fund Balance
FHA	$ 13,392	$ 24,327	$ 3,057	$ (21)	40,755	$ 1,250	$ 42,005
Ginnie Mae	1	6,705	518	(14)	7,210	-	7,210
Section 8 Rental Assistance	296	45	10,441	-	10,782	12	10,794
CDBG	1,042	18	18,135	-	19,195	-	19,195
HOME	355	3	4,932	-	5,290	-	5,290
Operating Subsidies	2	13	1,312	-	1,327	-	1,327
PIH Loans and Grants	139	42	6,805	-	6,986	-	6,986
Section 202/811	1,125	40	3,299	-	4,464	-	4,464
Section 235/236	-	3	1,377	-	1,380	-	1,380
All Other	3,148	945	7,980	(225)	11,848	655	12,503
Total	**$ 19,500**	**$ 32,141**	**$ 57,856**	**$ (260)**	**$ 109,237**	**$ 1,917**	**$ 111,154**

Status of Resources Covered by Other Authority

Description	Unobligated Available	Unobligated Unavailable	Obligated Not Yet Disbursed	Unfilled Customer Orders	Permanent Indefinite Authority	Investment Authority	Borrowing Authority
FHA	$ -	$ 4,094	$ -	$ -	$ -	$ 4,094	$ -
Ginnie Mae	-	2,120	-	-	-	2,120	-
Section 8 Rental Assistance	-	5	-	-	5	-	-
PIH Loans and Grants	-	-	-	-	-	-	-
Section 202/811	-	-	-	-	-	-	-
Section 235/236	55	261	1,099	-	1,415	-	-
All Other	-	12	-	-	-	-	12
Total	**$ 55**	**$ 6,492**	**$ 1,099**	**$ -**	**$ 1,420**	**$ 6,214**	**$ 12**

Status of Receipt Account Balances

Description	Fund Balance
FHA	$ 1,250
Section 8 Rental Assistance	12
All Other	655
Total	**$ 1,917**

Breakdown of All Other

Description	Fund Balance
Other Repayments of Capital Investments and Recoveries	$ 609
Negative Subsidies and Downward Restimates of Subsidies and Manufactured Housing Fees Trust Fund	46
Total	**$ 655**

Status of Resources - 2010

Description	Unobligated Available	Unobligated Unavailable	Obligated Not Yet Disbursed	Unfilled Customer Orders	Status of Total Resources	Fund Balance	Other Authority	Total Resources
FHA	$ 4,577	$ 35,329	$ 2,663	$ (24)	$ 42,545	$ 38,459	$ 4,086	$ 42,545
Ginnie Mae	2	9,838	378	(24)	10,194	6,650	3,544	10,194
Section 8 Rental Assistance	441	8	11,156	-	11,605	11,600	5	11,605
CDBG	1,903	117	20,764	-	22,784	22,784	-	22,784
HOME	244	20	6,300	-	6,564	6,564	-	6,564
Operating Subsidies	6	5	1,336	-	1,347	1,347	-	1,347
PIH Loans and Grants	215	82	9,130	-	9,427	9,427	-	9,427
Section 202/811	1,234	115	3,916	-	5,265	5,265	-	5,265
Section 235/236	35	279	3,013	-	3,327	1,289	2,038	3,327
All Other	3,221	703	7,897	(41)	11,780	11,780	-	11,780
Total	**$ 11,878**	**$ 46,496**	**$ 66,553**	**$ (89)**	**$ 124,838**	**$ 115,165**	**$ 9,673**	**$ 124,838**

Status of Resources Covered by Fund Balance

Description	Unobligated Available	Unobligated Unavailable	Obligated Not Yet Disbursed	Unfilled Customer Orders	Fund Balance	Non-Budgetary: Suspense, Deposit and Receipt Accounts	Total Fund Balance
FHA	$ 4,577	$ 31,243	$ 2,663	$ (24)	38,459	$ 619	$ 39,078
Ginnie Mae	2	6,294	378	(24)	6,650	-	6,650
Section 8 Rental Assistance	433	-	11,167	-	11,600	10	11,610
CDBG	1,903	117	20,764	-	22,784	-	22,784
HOME	244	20	6,300	-	6,564	-	6,564
Operating Subsidies	6	5	1,336	-	1,347	-	1,347
PIH Loans and Grants	215	82	9,130	-	9,427	-	9,427
Section 202/811	1,235	115	3,915	-	5,265	-	5,265
Section 235/236	-	3	1,286	-	1,289	-	1,289
All Other	3,221	703	7,897	(41)	11,780	113	11,893
Total	**$ 11,836**	**$ 38,582**	**$ 64,836**	**$ (89)**	**$ 115,165**	**$ 742**	**$ 115,907**

Status of Resources Covered by Other Authority

Description	Unobligated Available	Unobligated Unavailable	Obligated Not Yet Disbursed	Unfilled Customer Orders	Permanent Indefinite Authority	Investment Authority	Borrowing Authority
FHA	$ -	$ 4,086	$ -	$ -	$ -	$ 4,086	$ -
Ginnie Mae	-	3,544	-	-	-	3,544	-
Section 8 Rental Assistance	8	8	(11)	-	5	-	-
PIH Loans and Grants	-	-	-	-	-	-	-
Section 202/811	-	-	-	-	-	-	-
Section 235/236	34	276	1,728	-	2,038	-	-
All Other	-	-	-	-	-	-	-
Total	**$ 42**	**$ 7,914**	**$ 1,717**	**$ -**	**$ 2,043**	**$ 7,630**	**$ -**

Status of Receipt Account Balances

Description	Fund Balance
FHA	$ 619
Section 8 Rental Assistance	10
All Other	113
Total	**$ 742**

An immaterial difference exists between HUD's recorded Fund Balances with the U.S. Treasury and the U.S. Department of Treasury's records. It is the Department's practice to adjust its records to agree with Treasury's balances at the end of the fiscal year. The adjustments are reversed at the beginning of the following fiscal year.

Of the $4,105 million of HUD's unobligated balances reported in HUD's ALL Other Programs, $472 million represents funds from the EHLP. Of the $1 billion authorized under this program, $528 million have been obligated as of September 30, 2011. The Department will be retaining the unobligated balances at this time in accordance with "no-year" account requirements at 31 U.S.C. 1555. As the program continues to operate over the next few years with continuing obligation authority for potential obligation adjustments and obligations and expenses related to the continued administration of the program, HUD will use these unobligated balances in this no-year account for these additional obligations. If families with current commitments need adjustments to reach the statutory maximum assistance amount of $50,000, HUD could need to obligate an additional $93,063,007. In addition, HUD will need to obligate additional administrative funds to cover the activities of the National Servicing Center, which will service the EHLP loans over the life of the program. This cost is estimated at $2,000,000. Some additional amounts may be needed to cover administrative corrections that are still under review. And so, at this time, HUD is estimating that an additional $95.1 million may be needed to cover these additional obligations, bringing the total amount of obligations projected for this program at this time to approximately $623.1 million.

Note 5: Investments

The U.S. Government securities are non-marketable intra-governmental securities. Interest rates are established by the U.S. Treasury and during FY 2011 ranged from 0.63 percent to 1.88 percent. During FY 2010 interest rates ranged from 0.63 percent to 3.38 percent. The amortized cost and estimated market value of investments in debt securities as of September 30, 2011 and 2010 were as follows (dollars in millions):

	Cost	Amortized (Premium)/ Discount, Net	Accrued Interest	Net Investments	Market Value
FY 2011	$ 6,228	$ 16	$ 29	$ 6,273	$ 7,354
FY 2010	$ 7,648	$ 30	$ 43	$ 7,720	$ 8,858

Investments in Private-Sector Entities

These investments in private-sector entities are the result of FHA's participation in the Accelerated Claims Disposition Demonstration program and Risk Sharing Debentures as discussed in Note 2G. The following table presents financial data on FHA's investments in

Section 601 and Risk Sharing Debentures as of September 30, 2011 and 2010 (dollars in millions):

	Beginning Balance	New Acquisitions	Share of Earnings or Losses	Return of Investment	Redeemed	Ending Balance
2011						
601 Program	$ 9	$ -	$ (1)	$ (2)	$ -	$ 6
Risk Sharing Debentures	127	1	-	-	(71)	57
Total	**$ 136**	**$ 1**	**$ (1)**	**$ (2)**	**$ (71)**	**$ 63**
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 6: Accounts Receivable (Net)

The Department's accounts receivable represents Section 8 year-end settlements, claims to cash from the public and state and local authorities for bond refundings, sustained audit findings, FHA insurance premiums and foreclosed property proceeds. A 100 percent allowance for loss is established for all delinquent accounts 90 days and over.

Section 8 Settlements

Prior to January 1, 2005, the Housing Choice Voucher (HCV) Program's Section 8 subsidies were disbursed based on estimated amounts due under the contracts. At the end of each year, the actual amount due under the contracts was determined. The excess of subsidies paid to PHAs during the year over the actual amount due was reflected as an accounts receivable in the balance sheet. These receivable amounts were "collected" by offsetting such amounts with subsidies due to the PHAs in subsequent periods. On January 1, 2005, Congress changed the basis of the program funding from a "unit-based" process with program variables that affected the total annual Federal funding need, to a "budget-based" process that limits the Federal funding to PHAs to a fixed amount. Under this "budget-based" process, a year-end settlement process to determine actual amounts due is no longer applicable.

Bond Refundings

Many of the Section 8 projects constructed in the late 1970s and early 1980s were financed with tax exempt bonds with maturities ranging from 20 to 40 years. The related Section 8 contracts provided that the subsidies would be based on the difference between what tenants could pay pursuant to a formula, and the total operating costs of the Section 8 project, including debt service. The high interest rates during the construction period resulted in high subsidies. When interest rates came down in the 1980s, HUD was interested in getting the bonds refunded. One method used to account for the savings when bonds are refunded (PHAs sell a new series of bonds at a lower interest rate, to liquidate the original bonds), is to continue to pay the original amount of the bond debt service to a trustee. The amounts paid in excess of the lower "refunded" debt service and any related financing costs, are considered savings. One-half of these savings are provided to the PHA, the remaining one-half is returned to HUD. As of September 30, 2011 and 2010, HUD was due $28 million and $39 million, respectively.

Section 236 Excess Rental Income

The Excess Rental Income receivable account represents the difference between the amounts that projects reported to HUD's Lockbox as owing (in use prior to August 2008) and the actual amount collected. On a monthly basis, projects financed under Section 236 of the National Housing Act must report the amount of rent collected in excess of basic rents and remit those funds to the Department. Unless written authorization is given by the Department to retain the excess rental income, the difference must be remitted to HUD. Generally, the individual amounts owing under Excess Rental Income receivables represents monthly reports remitted without payment.

Other Receivables

Other receivables include sustained audit findings, refunds of overpayment, FHA insurance premiums and foreclosed property proceeds due from the public.

The following shows accounts receivable as reflected in the Balance Sheet as of September 30, 2011 and 2010 (dollars in millions):

	2011			2010		
Description	**Gross Accounts Receivable**	**Allowance for Loss**	**Total, Net**	**Gross Accounts Receivable**	**Allowance for Loss**	**Total, Net**
Public						
Section 8 Settlements	$ 12	$ (4)	$ 8	$ 73	$ (61)	$ 12
Bond Refundings	32	(4)	28	43	(4)	39
Section 236 Excess Rental Income	10	(4)	6	13	-	13
Other Receivables:						
FHA	112	(80)	32	122	(106)	16
GNMA	583	(437)	146	363	(127)	236
Other Receivables	13	(3)	10	9	(3)	6
Total Assets	**$ 762**	**$ (532)**	**$ 230**	**$ 623**	**$ (301)**	**$ 322**

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

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

Direct loan obligations or loan guarantee commitments made after FY 1991, and the resulting direct loans or defaulted guaranteed loans, are governed by the Federal Credit Reform Act of 1990 and are recorded as the net present value of the associated cash flows (i.e., interest rate differential, interest subsidies, estimated delinquencies and defaults, fee offsets, and other cash flows).

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

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

The following is an analysis of loan receivables, loan guarantees, liability for loan guarantees, and the nature and amounts of the subsidy costs associated with the loans and loan guarantees for FY 2011 and FY 2010:

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

1. FHA
   a) MMI/CMHI Direct Loan Program
   b) GI/SRI Direct Loan Program
   c) MMI/CMHI Loan Guarantee Program
   d) GI/SRI Loan Guarantee Program
   e) H4H Loan Guarantee Program
   f) HECM Program
2. Housing for the Elderly and Disabled
3. All Other
   a) CPD Revolving Fund
   b) Flexible Subsidy Fund
   c) Section 108 Loan Guarantees
   d) Indian Housing Loan Guarantee Fund

e) Loan Guarantee Recovery Fund

f) Native Hawaiian Housing Loan Guarantee Fund

g) Title VI Indian Housing Loan Guarantee Fund

h) Green Retrofit Direct Loan Program

i) Emergency Homeowners’ Loan Program

B. Direct Loans Obligated Pre-1992 (Allowance for Loss Method) (dollars in millions):

	2011				
Direct Loan Programs	**Loans Receivable, Gross**	**Interest Receivable**	**Allowance for Loan Losses**	**Foreclosed Property**	**Value of Assets Related to Direct Loans, Net**
FHA					
a) MMI/CHMI Direct Loan Program	$ -	$ -	$ (4)	$ -	(4)
b) GI/SRI Direct Loan Program	16	10	(6)	-	20
Housing for the Elderly and Disabled	2,845	29	(9)	1	2,866
All Other					
a) CPD Revolving Fund	5	-	(5)	1	1
b) Flexible Subsidy Fund	538	11	(479)	-	70
Total	**$ 3,404**	**$ 50**	**$ (503)**	**$ 2**	**$ 2,953**

	2010				
Direct Loan Programs	**Loans Receivable, Gross**	**Interest Receivable**	**Allowance for Loan Losses**	**Foreclosed Property**	**Value of Assets Related to Direct Loans, Net**
FHA					
a) MMI/CHMI Direct Loan Program	$ -	$ -	$ (5)	$ -	$ (5)
b) GI/SRI Direct Loan Program	20	10	(11)	-	19
Housing for the Elderly and Disabled	3,187	33	(12)	3	3,211
All Other					
a) CPD Revolving Fund	5	-	(5)	1	1
b) Flexible Subsidy Fund	583	11	(520)	-	74
Total	**$ 3,795**	**$ 54**	**$ (553)**	**$ 4**	**$ 3,300**

C. Direct Loans Obligated Post-1991 (dollars in millions):

Direct Loan Programs	2011 Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans
All Other					
a) Green Retrofit Program	$ 83	$ 1	$ -	$ (69)	$ 15
b) Emergency Homeowners' Loan Program	-	-	-	-	-
Total	**$ 83**	**$ 1**	**$ -**	**$ (69)**	**$ 15**

Direct Loan Programs	2010 Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans
All Other					
a) Green Retrofit Program	$ 56	$ -	$ -	$ (46)	$ 10
Total	**$ 56**	**$ -**	**$ -**	**$ (46)**	**$ 10**

D. Total Amount of Direct Loans Disbursed (Post-1991) (dollars in millions):

Direct Loan Programs	Current Year	Prior Year
All Other		
a) Green Retrofit Program	$ 28	$ 56
b) Emergency Homeowners' Loan Program	-	-
Total	**$ 28**	**$ 56**

E. Subsidy Expense for Direct Loans by Program and Component (dollars in millions):

E1. Subsidy Expense for New Direct Loans Disbursed (dollars in millions):

Direct Loan Programs	2011 Interest Differential	Defaults	Fees and Other Collections	Other	Total
All Other					
a) Green Retrofit Program	$ 11	$ 12	$ -	$ -	$ 23
b) Emergency Homeowners' Loan Program	-	-	-	-	-
Total	**$ 11**	**$ 12**	**$ -**	**$ -**	**$ 23**

Direct Loan Programs	2010 Interest Differential	Defaults	Fees and Other Collections	Other	Total
All Other					
a) Green Retrofit Program	$ 23	$ 24	$ -	$ (1)	$ 46
Total	**$ 23**	**$ 24**	**$ -**	**$ (1)**	**$ 46**

E2. Modifications and Re-estimates (dollars in millions):

Direct Loan Programs	2011 Total Modification	Interest Rate Re-estimates	Technical Re-stimates	Total Re-estimates
All Other				
a) Green Retrofit Program	$ -	$ -	$ -	$ -
b) Emergency Homeowners' Loan Program	-	-	-	-
Total	**$ -**	**$ -**	**$ -**	**$ -**

Direct Loan Programs	2010 Total Modification	Interest Rate Re-estimates	Technical Re-stimates	Total Re-estimates
All Other				
a) Green Retrofit Program	$ -	$ -	$ -	$ -
Total	**$ -**	**$ -**	**$ -**	**$ -**

E3. Total Direct Loan Subsidy Expense (dollars in millions):

Direct Loan Programs	Current Year	Prior Year
All Other		
a) Green Retrofit Program	$ 23	$ 46
b) Emergency Homeowners' Loan Program	-	-
Total	**$ 23**	**$ 46**

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

Budget Subsidy Rates for Direct Loans for FY 2011 Cohorts

	2011				
Direct Loan Programs	**Interest Differential**	**Defaults**	**Fees and Other Collections**	**Other**	**Total**
All Other					
a) Green Retrofit Program	40.96%	42.66%	0.00%	-1.32%	82.30%
b) Emergency Homeowners' Loan Program	0.00%	0.00%	0.00%	97.72%	97.72%

	2010				
Direct Loan Programs	**Interest Differential**	**Defaults**	**Fees and Other Collections**	**Other**	**Total**
All Other					
a) Green Retrofit Program	40.96%	42.66%	0.00%	-1.32%	82.30%
b) Emergency Homeowners' Loan Program	0.00%	0.00%	0.00%	0.00%	0.00%

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

Beginning Balance, Changes, and Ending Balance	FY 2011	FY 2010
Beginning balance of the subsidy cost allowance	$ 46	$ -
Add: subsidy expense for direct loans disbursed during the reporting years by component:	-	-
a) Interest rate differential costs	11	23
b) Default costs (net of recoveries)	12	24
c) Fees and other collections	-	-
d) Other subsidy costs	-	(1)
Total of the above subsidy expense components	23	46
Adjustments:		
a) Loan modifications	-	-
b) Fees received	-	-
c) Foreclosed properties acquired	-	-
d) Loans written off	-	-
e) Subsidy allowance amortization	1	-
f) Other	-	-
Ending balance of the subsidy cost allowance before re-estimates	70	46
Add or subtract subsidy re-estimates by component:		
a) Interest rate re-estimate	-	-
b) Technical/default re-estimate	-	-
Total of the above re-estimate components	-	-
Ending balance of the subsidy cost allowance	**$ 70**	**$ 46**

H. Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method) (dollars in millions):

	2011				
	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan and Interest Losses	Foreclosed Property, Net	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
FHA					
a) MMI/CMHI Funds	$ 17	$ -	$ (42)	$ 32	$ 7
b) GI/SRI Funds, Excluding HECM	2,462	215	(1,673)	11	1,015
c) GI/SRI Funds, HECM	5	1	(1)	4	9
Total	**$ 2,484**	**$ 216**	**$ (1,716)**	**$ 47**	**$ 1,031**

	2010				
	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan and Interest Losses	Foreclosed Property, Net	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
FHA					
a) MMI/CMHI Funds	$ 16	$ -	$ (8)	$ 16	$ 24
b) GI/SRI Funds, Excluding HECM	2,578	214	(1,831)	2	963
c) GI/SRI Funds, HECM	4	1	(1)	2	6
Total	**$ 2,598**	**$ 215**	**$ (1,840)**	**$ 20**	**$ 993**

I. Defaulted Guaranteed Loans from Post-1991 Guarantees (dollars in millions):

	2011				
	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property, Gross	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
FHA					
a) MMI/CMHI Funds	$ 1,142	$ 5	$ (3,866)	$ 5,199	$ 2,480
b) GI/SRI Funds, Excluding HECM	724	2	(646)	276	356
c) GI/SRI Funds, HECM	1,396	642	(521)	61	1,578
All Other	-	-	-	-	-
Total	**$ 3,262**	**$ 649**	**$ (5,033)**	**$ 5,536**	**$ 4,414**

	2010				
	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property, Gross	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
FHA					
a) MMI/CMHI Funds	$ 728	$ -	$ (4,282)	$ 6,833	$ 3,279
b) GI/SRI Funds, Excluding HECM	680	2	(594)	379	467
c) GI/SRI Funds, HECM	1,103	524	(288)	44	1,383
All Other	-	-	-	-	-
Total	**$ 2,511**	**$ 526**	**$ (5,164)**	**$ 7,256**	**$ 5,129**

	2011	2010
Total Credit Program Receivables and Related Foreclosed Property, Net	$8,414	$9,432

J. Guaranteed Loans Outstanding (dollars in millions):

J1. Guaranteed Loans Outstanding (dollars in millions):

	2011	
Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
FHA Programs		
a) MMI/CMHI Funds	$ 1,062,770	$ 1,003,107
b) GI/SRI Funds	104,234	93,596
c) H4H Progam	125	124
All Other	4,551	4,546
Total	**$ 1,171,680**	**$ 1,101,373**

	2010	
Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
FHA Programs		
a) MMI/CMHI Funds	$ 925,436	$ 878,611
b) GI/SRI Funds	99,640	89,322
c) H4H Progam	24	24
All Other	4,073	4,068
Total	**$ 1,029,173**	**$ 972,025**

J2. Home Equity Conversion Mortgage Loans Outstanding (dollars in millions):

Loan Guarantee Programs	2011 Current Year Endorsements	Cumulative Current Outstanding Balance	Cumulative Maximun Potential Liability
FHA Programs	$ 18,141	$ 84,635	$ 131,775

Loan Guarantee Programs	2010 Current Year Endorsements	Cumulative Current Outstanding Balance	Cumulative Maximun Potential Liability
FHA Programs	$ 21,023	$ 73,257	$ 118,794

J3. New Guaranteed Loans Disbursed (dollars in millions):

Loan Guarantee Programs	2011 Outstanding Principal, Guaranteed Loans, Face Value	2011 Amount of Outstanding Principal Guaranteed
FHA Programs		
a) MMI/CMHI Funds	$ 217,714	$ 215,367
b) GI/SRI Funds	16,689	16,617
c) H4H Program	101	100
All Other	720	720
Total	**$ 235,224**	**$ 232,804**

New Guaranteed Loans Disbursed (Prior Reporting Year):

Loan Guarantee Programs	2010 Outstanding Principal, Guaranteed Loans, Face Value	2010 Amount of Outstanding Principal Guaranteed
FHA Programs		
a) MMI/CMHI Funds	$ 296,486	$ 293,778
b) GI/SRI Funds	14,991	14,939
c) H4H Program	20	20
All Other	725	725
Total	**$ 312,222**	**$ 309,462**

K. Liability for Loan Guarantees (Estimated Future Default Claims, Pre-1992) (dollars in millions):

Loan Guarantee Programs	2011 Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims	2011 Liabilities for Loan Guarantees for Post-1991 Guarantees (Present Value)	2011 Total Liabilities For Loan Guarantees
FHA Programs	$ 33	$ 36,070	$ 36,103
All Other	-	111	111
Total	**$ 33**	**$ 36,181**	**$ 36,214**

Loan Guarantee Programs	2010 Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims	Liabilities for Loan Guarantees for Post-1991 Guarantees (Present Value)	Total Liabilities For Loan Guarantees
FHA Programs	$ 53	$ 34,905	$ 34,958
All Other	-	115	115
Total	**$ 53**	**$ 35,020**	**$ 35,073**

L. Subsidy Expense for Post-1991 Guarantees:

L1. Subsidy Expense for Current Year Loan Guarantees (dollars in millions):

Loan Guarantee Programs	Endorsement Amount	2011 Default Component	Fees Component	Other Component	Subsidy Amount
FHA					
a) MMI/CMHI Funds, Excluding HECM	$ 217,714	$ 5,201	$ (14,108)	$ 2,170	$ (6,737)
b) MMI/CMHI Funds, HECM	18,141	931	(933)	-	(2)
c) GI/SRI Funds	16,689	429	(882)	1	(452)
d) H4H Program	101	16	(6)	1	11
All Other	-	11	-	-	11
Total	**$ 252,645**	**$ 6,588**	**$ (15,929)**	**$ 2,172**	**$ (7,169)**

L2. Subsidy Expense for Prior Year Loan Guarantees (dollars in millions):

Loan Guarantee Programs	Endorsement Amount	2010 Default Component	Fees Component	Other Component	Subsidy Amount
FHA					
a) MMI/CMHI Funds, Excluding HECM	$ 296,486	$ 9,603	$ (15,525)	$ 3,376	$ (2,546)
b) MMI/CMHI Funds, HECM	21,023	1,079	(1,185)	-	(106)
c) GI/SRI Funds	14,991	438	(867)	1	(428)
d) H4H Program	20	4	-	-	4
All Other	-	10	-	-	10
Total	**$ 332,520**	**$ 11,134**	**$ (17,577)**	**$ 3,377**	**$ (3,066)**

L3. Modification and Re-estimates (dollars in millions):

Loan Guarantee Programs	2011 Total Modifications	2011 Interest Rate Re-estimates	2011 Technical Re-estimates	2011 Total Re-estimates
FHA				
a) MMI/CMHI Funds	$ -	$ -	$ 8,395	$ 8,395
b) GI/SRI Funds	(37)	-	(573)	(610)
All Other	-	-	(18)	(18)
Total	**$ (37)**	**$ -**	**$ 7,804**	**$ 7,767**

Loan Guarantee Programs	2010 Total Modifications	2010 Interest Rate Re-estimates	2010 Technical Re-estimates	2010 Total Re-estimates
FHA				
a) MMI/CMHI Funds	$ -	$ -	$ (2,160)	$ (2,160)
b) GI/SRI Funds	(5)	-	3,195	3,190
All Other	-	-	(24)	(24)
Total	**$ (5)**	**$ -**	**$ 1,011**	**$ 1,006**

L4. Total Loan Guarantee Subsidy Expense (dollars in millions):

Loan Guarantee Programs	Current Year	Prior Year
FHA		
a) MMI/CMHI Funds	$ 1,656	$ (4,812)
b) GI/SRI Funds	(1,062)	2,762
c) H4H Program	11	4
All Other	$ (7)	$ (14)
Total	**$ 598**	**$ (2,060)**

M. Subsidy Rates for Loan Guarantees by Programs and Component:

Budget Subsidy Rates for Loan Guarantees for FY 2011 Cohorts

Loan Guarantee Program	Default	Fees and Other Collections	Other	Total
FHA Programs				
MMI/CMHI				
Single Family - Forward	4.71%	-13.07%	2.00%	-6.36%
Single Family - HECM	5.11%	-5.12%	0.00%	-0.01%
Multi Family - Section 213	5.24%	-12.67%	2.00%	-5.43%
GI/SRI				
Multifamily				
Section 221(d)(4)	7.30%	-10.99%	0.00%	-3.69%
Section 207/223(f)	3.92%	-10.67%	0.00%	-6.75%
Section 223(a)(7)	3.92%	-10.67%	0.00%	-6.75%
Section 232	9.11%	-0.06%	0.00%	9.05%
Section 242	1.81%	-5.48%	0.00%	-3.67%
H4H				
Single Family - Section 257	15.95%	-6.14%	1.09%	10.90%
All Other Programs				
CDBG, Section 108(b)	2.34%			2.34%
Loan Guarantee Recovery	50.00%			50.00%
Indian Housing	1.83%	-1.00%		0.83%
Native Hawaiian Housing	1.83%	-1.00%		0.83%
Title VI Indian Housing	10.20%			10.20%

Budget Subsidy Rates for Loan Guarantees for FY 2010 Cohorts

Loan Guarantee Program	Default	Fees and Other Collections	Other	Total
FHA Programs				
MMI/CMHI				
Single Family - Forward (4/5/2010 - Present)	3.23%	-5.50%	1.14%	-1.13%
Single Family - Forward (10/1/2009 - 4/4/2010)	3.22%	-4.97%	1.13%	-0.62%
Single Family - HECM	5.11%	-5.61%	0.00%	-0.50%
Multi Family - Section 213 (4/5/2010 - Present)	3.23%	-5.50%	1.14%	-1.13%
Multi Family - Section 213 (10/1/2009 - 4/4/2010)	3.22%	-4.96%	1.12%	-0.62%
GI/SRI				
Multifamily				
Section 221(d)(4)	4.23%	-5.86%	0.00%	-1.63%
Section 207/223(f)	1.45%	-5.32%	0.00%	-3.87%
Section 223(a)(7)	1.45%	-5.32%	0.00%	-3.87%
Section 232	3.67%	-5.96%	0.00%	-2.29%
Section 242	1.55%	-5.83%	0.00%	-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%
All Other Programs				
CDBG, Section 108(b)	2.40%			2.40%
Loan Guarantee Recovery	50.00%			50.00%
Indian Housing	1.68%	-1.00%		0.68%
Native Hawaiian Housing	3.52%	-1.00%		2.52%
Title VI Indian Housing	11.18%			11.18%

N. Schedule for Reconciling Loan Guarantee Liability Balances (Post-1991 Loan Guarantees) (dollars in millions):

Beginning Balance, Changes, and Ending Balance	**2011**	**2010**
Beginning balance of the loan guarantee liability	$ 35,073	$ 34,153
Add: subsidy expense for guaranteed loans disbursed during the reporting years by component:		
(a) Interest supplement costs	-	-
(b) Default costs (net of recoveries)	6,588	11,134
(c) Fees and other collections	(15,929)	(17,577)
(d) Othe subsidy costs	2,172	3,377
Total of the above subsidy expense components	$ (7,169)	$ (3,066)
Adjustments:		
(a) Loan guarantee modifications	-	-
(b) Fees Received	8,589	10,083
(c) Interest supplemental paid	-	-
(d) Foreclosed property and loans acquired	5,088	6,815
(e) Claim payments to lenders	(17,217)	(16,487)
(f) Interest accumulation on the liability balance	1,401	1,351
(g) Other	6	15
Ending balance of the subsidy cost allowance before re-estimates	$ 25,771	$ 32,864
Add or Subtract subsidy re-estimates by component:		
(a) Interest rate re-estimate	-	-
(b) Technical/default re-estimate	(287)	(1,602)
(c) Adjustment of prior years credit subsidy re-estimates	10,730	3,811
Total of the above re-estimate components	10,443	2,209
Ending balance of the subsidy cost allowance	**$ 36,214**	**$ 35,073**

O. Administrative Expenses (dollars in millions):

Loan Guarantee Program	**2011**	**2010**
FHA	$ 673	$ 581
All Other	-	-
Total	**$ 673**	**$ 581**

Note 8: General Property, Plant, and Equipment (Net)

General property, plant, and equipment consists of furniture, fixtures, equipment and data processing software used in providing goods and services that have an estimated useful life of two or more years. Purchases of $100,000 or more are recorded as an asset and depreciated over their estimated useful life on a straight-line basis with no salvage value. Capitalized replacement and improvement costs are depreciated over the remaining useful life of the replaced or improved asset. Generally, the Department’s assets are depreciated over a four-year period, unless it can be demonstrated that the estimated useful life is significantly greater than four years.

The following shows general property, plant, and equipment as of September 30, 2011 and 2010, (dollars in millions):

Description	2011 Cost	2011 Accumulated Depreciation and Amortization	2011 Book Value	2010 Cost	2010 Accumulated Depreciation and Amortization	2010 Book Value
Equipment	$ 2	$ (1)	$ 1	$ 1	$ (1)	$ -
Leasehold Improvements	-	-	-	-	-	-
Internal Use Software	170	(125)	45	159	(106)	53
Internal Use Software in Development	255	-	255	205	-	205
Total Assets	**$ 427**	**$ (126)**	**$ 301**	**$ 365**	**$ (107)**	**$ 258**

Note 9: Other Assets

The following shows HUD's Other Assets as of September 30, 2011 and September 30, 2010 (dollars in millions):

Description	2011 FHA	2011 Ginnie Mae	2011 All Other	2011 Total
Intragovernmental Assets:				
Other Assets	$ 3	$ -	$ 26	$ 29
Total Intragovernmental Assets	**3**	**-**	**26**	**29**
Mortgagor Reserves for Replacement - Cash	$ 66	-	-	66
Financial Accounting Standards Board Interpretation No 45	-	2,175	-	2,175
Mortgage Loans Held for Investment, net	-	6,350	-	6,350
Mortgage Loans Held for Sale, net	-	-	-	-
Advances Against Defaulted Mortgage-Backed Security Pools, net	-	685	-	685
Properties Held for Sale, net	-	3	-	3
Mortgage Servicing Rights	-	111	-	111
Other Assets	3	-	(1)	2
Total	**$ 72**	**$ 9,324**	**$ 25**	**$ 9,421**

Description	2010 FHA	2010 Ginnie Mae	2010 All Other	2010 Total
Intragovernmental Assets:				
Other Assets	$ 5	$ -	$ 34	$ 39
Total Intragovernmental Assets	**5**	**-**	**34**	**39**
Mortgagor Reserves for Replacement - Cash	$ 70	-	-	70
Financial Accounting Standards Board Interpretation No 45	-	1,104	-	1,104
Mortgage Loans Held for Investment, net	-	4,443	-	4,443
Mortgage Loans Held for Sale, net	-	-	-	-
Advances Against Defaulted Mortgage-Backed Security Pools, net	-	842	-	842
Properties Held for Sale, net	-	42	-	42
Mortgage Servicing Rights	-	138	-	138
Other Assets	6	-	2	8
Total	**$ 81**	**$ 6,569**	**$ 36**	**$ 6,686**

Mortgage Loans Held for Investment, net

Ginnie Mae owns secured single family mortgage loans which fall under FHA's Title 1 program. Ginnie Mae classifies these loans as held for investment. For non-VA insured loans, Ginnie Mae expects to collect the full amount of the unpaid principal balance and debenture rate interest (for months allowed in the insuring agency's timeline), when the insurer reimburses Ginnie Mae subsequent to filing a claim. As a result, these loans are under ASC Subtopic 310-20, *Nonrefundable Fees and Other Costs*. In accordance with ASC 310-20-30-5, these loans are recorded at the unpaid principal balance which is the amount Ginnie Mae pays to repurchase these loans. Accordingly, Ginnie Mae recognizes interest income on these loans on an accrual basis at the debenture rate for the number of months allowed under the insuring agency's timeline. After the allowed timeline, Ginnie Mae considers these loans to be non-performing as the collection of interest is no longer reasonably assured, and places these loans on non-accrual status.

Ginnie Mae assesses the collectability of mortgage loans bought out of the defaulted portfolios that are uninsured and defaulted loans that are VA insured for which Ginnie Mae only receives a portion of the original principal balance. Since the principal and interest payments are not fully guaranteed from the insurer or there is a lack of insurance, if these loans are delinquent at acquisition, it is probable that Ginnie Mae will be unable to collect all contractually required payments receivable. Accordingly, these loans are considered to be credit impaired and are accounted for under ASC Subtopic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. At the time of acquisition, these loans are recorded at the lower of their acquisition cost or present value of expected amounts to be received. As non-performing loans, these loans are placed on nonaccrual status.

During fiscal year 2011, following the guidelines outlined in the Ginnie Mae MBS Guide, a large number of loans were repurchased out of pools due to delinquencies of greater than 120 days. Ginnie Mae also acquires mortgages ineligible to remain in pools. In addition, Ginnie Mae bought loans out of pools in order to complete modifications in accordance with FHA guidelines. Ginnie Mae bought out $2.2 billion in mortgage loans primarily from the single family defaulted portfolio.

Advances against defaulted mortgage-backed security (MBS) pools represent payments made to fulfill Ginnie Mae's guarantee of timely principal and interest payments to MBS holders. Principal and Interest receivable for foreclosed properties that have been conveyed to the insuring agency are reported in the advance category while Ginnie Mae is awaiting payment of the receivable; short sales receivable are reported in this category for these financial statements. The allowance for uncollectible advances is estimated based on actual and expected recovery experience including expected recoveries from FHA, USDA, VA, and PIH.

Mortgage Servicing Rights

FASB Accounting Standards Codification (ASC) 860, Servicing Assets and Liabilities (formerly SFAS 156, Accounting for Servicing Financial Assets: an Amendment of SFAS 140) provides guidance over the accounting for the right to service a financial asset. ASC 860-50-25-1 states that an entity shall recognize and initially measure at fair value, if practicable, a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in (among other situations) an acquisition or assumption of a servicing obligation that does not relate to financial assets of the servicer or its consolidated affiliates.

During FY 2010, Ginnie Mae assumed the servicing rights on a $27.5 billion in combined servicing portfolio of two large defaulted Ginnie Mae MBS issuers. The servicing rights were assumed with no consideration transferred, and the loans related to the assumed servicing rights are currently serviced by one of the Ginnie Mae master sub-servicers. Ginnie Mae uses a valuation model that calculates the present value of estimated future net servicing income to determine the fair value of MSRs, which factors in prepayment risk. This approach consists of projecting servicing cash flows under multiple interest rate scenarios and discounting these cash flows using risk-adjusted discount rates. The economic assumptions used in the valuation of MSRs include weighted-average lives and prepayment rates of the MSRs. HUD relies on this valuation model as a basis for the MSR amount recorded in its financial statements. This model involves significant number of assumptions and has limitations.

The following table displays the fair value of the MSR for fiscal year ended September 30, 2011 (dollars in millions):

Description	MSR
Balance, October 1, 2010	$ 138
Additions/Sales	-
Issuer defaulted August 4, 2009	-
Issuer defaulted December 17, 2009	-
Impact of customer payments	-
Other changes in market value	(27)
	111

The following table displays the fair value of the MSR for fiscal year ended September 30, 2010 (dollars in millions):

Description	MSR
Balance, October 1, 2009	$ -
Additions/Sales	-
Issuer defaulted August 4, 2009	129
Issuer defaulted December 17, 2009	9
Impact of customer payments	-
Other changes in market value	-
	138

The key economic assumptions used in determining the fair value of MSRs are as follows for fiscal years ended September 30, 2011 and September 30, 2010 (dollars in millions):

Description	September 30 2011	September 30 2010
Valuation at period end:		
Fair value (millions)	$ 111	$ 138
Weighted-average life (years)	3.97	2.77
Prepayment rates assumptions:		
Rate assumption	20.62%	29.90%
Impact on fair value of a 10% adverse change	(6)	(9)
Impact on fair value of a 20% adverse change	(12)	(17)
Discount rate assumptions:		
Rate assumption	12.50%	12.51%
Impact on fair value of a 10% adverse change	(4)	(4)
Impact on fair value of a 20% adverse change	(7)	(7)

Description	2010 Issuer Defaulted August 4, 2009	2010 Issuer Defaulted December 17, 2009
Valuation at period end:		
Fair value (millions)	$ 129	$ 9
Weighted-average life (years)	2.77	2.80
Prepayment rates assumptions:		
Rate assumption	29.92%	29.43%
Impact on fair value of a 10% adverse change	(8)	(1)
Impact on fair value of a 20% adverse change	(16)	(1)
Discount rate assumptions:		
Rate assumption	12.51%	12.50%
Impact on fair value of a 10% adverse change	(3)	-
Impact on fair value of a 20% adverse change	(7)	(1)

Note 10: Liabilities Covered and Not Covered by Budgetary Resources

The following shows HUD's liabilities as of September 30, 2011 and 2010 (dollars in millions):

Description	2011 Covered	2011 Not-Covered	2011 Total	2010 Covered	2010 Not-Covered	2010 Total
Intragovernmental						
Accounts Payable	$ 8	$ -	$ 8	$ 6	$ -	$ 6
Debt	6,091	-	6,091	4,775	-	4,775
Other Intragovernmental Liabilities	3,730	18	3,748	1,305	18	1,323
Total Intragovernmental Liabilities	$ 9,829	$ 18	$ 9,847	$ 6,086	$ 18	$ 6,104
Accounts Payable	1,365	-	1,365	1,050	-	1,050
Liabilities for Loan Guarantees	36,214	-	36,214	35,073	-	35,073
Debt	153	-	153	292	-	292
Federal Employee and Veterans' Benefits	-	76	76	-	72	72
Loss Reserves	396	-	396	1,005	-	1,005
Other Liabilities	2,865	99	2,964	1,750	92	1,842
Total Liabilities	**$ 50,822**	**$ 193**	**$ 51,015**	**$ 45,256**	**$ 182**	**$ 45,438**

HUD's other governmental liabilities principally consists of Ginnie Mae's compliance with FASB Interpretation No. 45, FHA's special receipt account and the Department's payroll costs. Further disclosures of HUD's other liabilities are also found in Note 14.

Note 11: Debt

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

The following shows HUD borrowings, and borrowings by PHAs/TDHEs for which HUD is responsible for repayment, as of September 30, 2011 (dollars in millions):

Description	Beginning Balance	Net Borrowings	Ending Balance
Debt to the U.S. Treasury	$ 4,775	$ 1,316	$ 6,091
Held by the Public	292	(139)	153
Total Debt	$ 5,067	$ 1,177	$ 6,244
Classification of Debt:			
Intragovernmental Debt			$ 6,091
Debt held by the Public			153
Total Debt			**$ 6,244**

The following shows HUD borrowings, and borrowings by PHAs/TDHEs for which HUD is responsible for repayment, as of September 30, 2010 (dollars in millions):

Description	Beginning Balance	Net Borrowings	Ending Balance
Debt to the U.S. Treasury	$ 4,425	$ 350	$ 4,775
Held by the Public	477	(185)	292
Total Debt	$ 4,902	$ 165	$ 5,067
Classification of Debt:			
Intragovernmental Debt			$ 4,775
Debt held by the Public			292
Total Debt			**$ 5,067**

Interest paid on borrowings as of September 30, 2011 and 2010 was $412 million and $315 million, respectively. The purpose of these borrowings is discussed in the following paragraphs.

Borrowings from the U.S. Treasury

In FY 2011 and FY 2010, FHA borrowed $3,835 billion and $790 million, respectively, from the U.S. Treasury. The borrowings were needed when FHA initially determined negative credit subsidy amounts related to new loan disbursements or to existing loan modifications. In some instances, borrowings were needed where available cash was less than claim payments due or downward subsidy re-estimates. All borrowings were made by FHA's financing accounts. Negative subsidies were generated primarily by the MMI/CMHI Fund financing account; downward re-estimates have occurred from activity of the FHA's loan guarantee financing accounts. These borrowings carried interest rates ranging from 1.68 percent to 7.59 percent during FY2011 and FY 2010.

In FY2011, HUD borrowed $33.10 for its other credit reform programs. For the Emergency Homeowners' Relief Program, these borrowings earned an interest rate of 1.68 percent. Borrowings were also made under the Indian Housing Loan Guarantee Program, which earned interest rates ranging from 4.08 percent to 7.23 percent. As in FHA's credit reform programs, all borrowings were made in the financing accounts.

Borrowings from the Federal Financing Bank (FFB) and the Public

During the 1960s, 1970s, and 1980s, PHAs obtained loans from the private sector and from the FFB to finance development and rehabilitation of low rent housing projects. HUD is repaying these borrowings on behalf of the PHAs, through the Low Rent Public Housing program. For borrowings from the Public, interest is payable throughout the year.

Before July 1, 1986, the FFB purchased notes issued by units of general local government and guaranteed by HUD under Section 108. These notes had various maturities and carried interest rates that were one-eighth of one percent above rates on comparable Treasury obligations. The FFB held substantially all outstanding notes, and no note purchased by the FFB has ever been declared in default. In March of FY 2010, HUD repaid all FFB borrowings for the Low Rent Public Housing program.

Debentures Issued To Claimants

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 4.0 percent to 13.375 percent in FY 2011 and 4.00 percent to 13.375 percent in FY 2010. Debentures may be redeemed by lenders prior to maturity to pay mortgage insurance premiums to FHA, or they may be called with the approval of the Secretary of the U. S. Treasury.

Note 12: Federal Employee and Veterans' Benefits

HUD is a non-administering agency, therefore relies on cost factors and other actuarial projections provided by the Department of Labor (DOL) and Office of Personnel Management

(OPM). HUD's imputed costs consist of two components, pension and health care benefits. During FY 2011, HUD recorded imputed costs of $90 million which consisted of $44 million for pension and $46 million for health care benefits. During FY 2010, HUD recorded imputed costs of $100 million which consisted of $55 million for pension and $45 million for health care benefits. These amounts are reported by OPM and charged to expense with a corresponding amount considered as an imputed financing source in the Statement of Changes in Net Position.

HUD also accrues the portion of the estimated liability for disability benefits assigned to the agency under the Federal Employee Compensation Act (FECA), administered and determined by the DOL. The liability, based on the net present value of estimated future payments based on a study conducted by DOL, was $76 million as of September 30, 2011, and $72 million as of September 30, 2010. Future payments on this liability are to be funded by future financing sources.

In addition to the imputed costs of $90 million noted above, HUD recorded benefit expenses totaling $173 million for 2011 and $161 million for FY 2010.

Note 13: Loss Reserves

For FY 2011 and FY 2010, Ginnie Mae loss reserves were $395.8 million and $1,004.9 million, respectively. Reserves are established to the extent management believes losses due to defaults are probable and estimable and FHA, USDA, VA, and PIH insurance or guarantees are insufficient to recoup Ginnie Mae expenditures. The reserve represents probable and estimable losses net of recoveries for currently defaulted issuers as well as probable and estimable future defaults by issuers of mortgage-backed securities. An increase to the reserve is established through a provision charged to operations while a decrease to the reserve is a recapture of expense charged to operations. The reserve is relieved as losses are realized from the disposal of the defaulted issuers' portfolios. Ginnie Mae recovers part of its losses through servicing fees on the performing portion of the portfolios.

In estimating losses, management utilizes a statistically-based model that evaluates numerous factors, including but not limited to, general and regional economic conditions, mortgage characteristics, and actual and expected future default and loan loss experience. Based on its analysis of its loss exposure, Ginnie Mae reduced its reserve balance in FY 2011. Ginnie Mae management believes that its reserve is adequate to cover probable and estimable losses of default-related losses due to Ginnie Mae guaranteed mortgage-backed securities.

Note 14: Other Liabilities

The following shows HUD's Other Liabilities as of September 30, 2011 (dollars in millions):

Description	Non-Current	Current	Total
Intragovernmental Liabilities			
FHA Special Receipt Account Liability	$ -	$ 3,051	$ 3,051
Unfunded FECA Liability	18	-	18
Employer Contributions and Payroll Taxes	-	9	9
Miscellaneous Receipts Payable to Treasury	-	664	664
Advances to Federal Agencies	-	6	6
Total Intragovernmental Liabilities	$ 18	$ 3,730	$ 3,748
Other Liabilities			
FHA Other Liabilities	$ -	$ 319	$ 319
FHA Escrow Funds Related to Mortgage Notes	-	111	111
Ginnie Mae Deferred Income	-	117	117
Deferred Credits	-	20	20
Deposit Funds	-	58	58
Accrued Unfunded Annual Leave	84	-	84
Accrued Funded Payroll Benefits	-	64	64
Contingent Liability	16	-	16
Other - FIN 45	-	2,175	2,175
Total Other Liabilities	**$ 118**	**$ 6,594**	**$ 6,712**

Special Receipt Account Liability

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

The following shows HUD's Other Liabilities as of September 30, 2010 (dollars in millions):

Description	Non-Current	Current	Total
Intragovernmental Liabilities			
FHA Special Receipt Account Liability	$ -	$ 1,165	$ 1,165
Unfunded FECA Liability	18	-	18
Employer Contributions and Payroll Taxes	-	8	8
Miscellaneous Receipts Payable to Treasury	-	121	121
Advances to Federal Agencies	-	11	11
Total Intragovernmental Liabilities	$ 18	$ 1,305	$ 1,323
Other Liabilities			
FHA Other Liabilities	$ -	$ 307	$ 307
FHA Escrow Funds Related to Mortgage Notes	-	119	119
Ginnie Mae Deferred Income	-	114	114
Deferred Credits	-	20	20
Deposit Funds	-	26	26
Accrued Unfunded Annual Leave	83	-	83
Accrued Funded Payroll Benefits	-	60	60
Contingent Liability	9	-	9
Other - FIN 45	-	1,104	1,104
Total Other Liabilities	**$ 110**	**$ 3,055**	**$ 3,165**

Note 15: Financial Instruments with Off-Balance Sheet Risk

Some of HUD's programs, principally those operated through FHA and Ginnie Mae, enter into financial arrangements with off-balance sheet risk in the normal course of their operations.

A. FHA Mortgage Insurance

The outstanding principal of FHA's guaranteed loans (face value) as of September 30, 2011 and 2010 was $1,167 billion and $1,025 billion, respectively. The amount of outstanding principal guaranteed (insurance-in-force) as of September 30, 2011 and 2010 was $1,097 billion and $968 billion, respectively, as disclosed in Note 7E. The maximum claim amount (MCA) outstanding for FHA's reverse mortgage insurance program (HECM) as of September 30, 2011 and 2010 was $132 billion and $119 billion, respectively. As of September 30, 2011 and 2010 the insurance-in-force (the outstanding balance of active loans) was $85 billion and 73 billion, respectively as disclosed in Note 7J. The HECM 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.

B. Ginnie Mae Mortgage-Backed Securities

Ginnie Mae financial instruments with off-balance sheet risk include guarantees of Mortgage-Backed Securities (MBS) and commitments to guarantee MBS. The securities are backed by pools of FHA, USDA, VA and PIH mortgage loans. Ginnie Mae is exposed to credit loss in the event of non-performance by other parties to the financial instruments. The total amount of Ginnie Mae guaranteed securities outstanding at September 30, 2011 and 2010, was approximately $1,221.7 billion and $1,046.2 billion, respectively. However, Ginnie Mae's potential loss is considerably less because of the financial strength of the Department's issuers. Additionally, in the event of default, the underlying mortgages serve as primary collateral and FHA, USDA, VA and PIH insurance or guarantee indemnifies Ginnie Mae for most losses.

During the mortgage closing period and prior to granting its guaranty, Ginnie Mae enters into commitments to guarantee MBS. The commitment ends when the MBS are issued or when the commitment period expires. Ginnie Mae's risks related to outstanding commitments are much less than for outstanding securities due, in part, to Ginnie Mae's ability to limit commitment authority granted to individual issuers of MBS. Outstanding commitments as of September 30, 2011 and 2010 were $102.6 billion and $80 billion, respectively. Generally, Ginnie Mae's MBS pools are diversified among issuers and geographic areas. No significant geographic concentrations of credit risk exist; however, to a limited extent, securities are concentrated among issuers.

In FY 2011 and FY 2010, Ginnie Mae issued a total of $153 billion and $236.2 billion, respectively, in its multi-class securities program. The estimated outstanding balance for the complete multi-class securities program (REMICs, Platinum's, etc.) at September 30, 2011 and

2010, were $547.5 billion and $488.7 billion, respectively. These guaranteed securities do not subject Ginnie Mae to additional credit risk beyond that assumed under the MBS program.

C. Section 108 Loan Guarantees

Under HUD's Loan Guarantee (Section 108) program, recipients of the CDBG Entitlement Grant program funds may pledge future grant funds as collateral for loans guaranteed by HUD (these loans were provided from private lenders since July 1, 1986). Section 108 provides entitlement communities with a source of financing for projects that are too large to be financed from annual grants. The amount of loan guarantees outstanding as of September 30, 2011 and 2010 was $2.2 billion and $2.2 billion, respectively. HUD's management believes its exposure in providing these loan guarantees is limited, since loan repayments can be offset from future CDBG Entitlement Program Funds and, if necessary, other funds provided to the recipient by HUD. HUD has never had a loss under this program since its inception in 1974.

Note 16: Contingencies

Lawsuits and Other

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.

As of September 30, 2011, Ginnie Mae held defaulted FHA-insured mortgage loans. These loans, acquired from defaulted mortgage-backed securities issuers, have an unpaid principal balance of $5.2 billion. Ginnie Mae may submit requests for claim payments to FHA for some or all of these loans. Subject to all existing claim verification controls, FHA would pay such claims to Ginnie Mae upon conveyance of the foreclosed property to FHA. Any liability for such claims and offsetting recoveries has been reflected in the Liability for Loan Guarantees on the accompanying financial statements based on the default status of the insured loans.

HUD is party to a number of claims and tort actions related to lawsuits brought against it concerning the implementation or operation of its various programs. The potential loss related to an ongoing case related be HUD's assisted housing programs is probable at this time and as a result, the Department has recorded a contingent liability of $15.6 million in its financial statements. The Department also estimates other cases where the expected outcome totaling $8 million is reasonably possible but not probable and therefore no contingent liability was recorded in HUD's financial statements. Other ongoing suits cannot be reasonably determined at this time and in the opinion of management and general counsel, the ultimate resolution of pending litigation will not have a material effect on the Department's financial statements.

Note 17: Earmarked Funds

Earmarked funds are financed by specifically identified revenues and are required by statute to be used for designated activities or purposes.

Ginnie Mae

Ginnie Mae is a self-financed government corporation, whose program operations are financed by a variety of fees, such as guaranty, commitment, new issuer, handling, and transfer servicing fees, which are to be used only for Ginnie Mae's legislatively authorized mission. In FY 2011, Ginnie Mae was authorized to use $12.8 million for payroll and payroll related expenses.

Rental Housing Assistance Fund

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

Flexible Subsidy

The Flexible Subsidy Fund assists financially troubled subsidized projects under certain FHA authorities. The subsidies are intended to prevent potential losses to the FHA fund resulting from project insolvency and to preserve these projects as a viable source of housing for low and moderate-income tenants. Priority was given with Federal insurance-in-force and then to those with mortgages that had been assigned to the Department.

American Recovery and Reinvestment Act Programs (Recovery Act)

The Recovery Act includes $13.6 billion for 17 programs at HUD which are distributed across three themes that align with the broader Recovery goals. A further discussion of HUD's accomplishments under the Recovery Act program can be found at www.hud.gov/recovery.

Manufactured Housing Fees Trust Fund

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

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

The following shows earmarked funds activity as of September 30, 2011 (dollars in millions):

	Ginnie Mae	Rental Housing Assistance	Flexible Subsidy	Manufactued Housing Fees Trust Fund	Recovery Act Funds	Other	Eliminations	Total Earmarked Funds
Balance Sheet								
Fund Balance w/Treasury	$ 7,210	$ 3	$ 200	$ 17	$ 2,602	$ 3	$ -	$ 10,035
Investments	2,139	-	-	-	-	-	-	2,139
Accounts Receivable	146	6	-	-	-	-	-	152
Loans Receivable	-	-	70	-	15	-	-	85
General Property, Plant and Equipment	31	-	-	-	-	-	-	31
Other	9,325	-	-	-	-	-	-	9,325
Total Assets	**$ 18,851**	**$ 9**	**$ 270**	**$ 17**	**$ 2,617**	**$ 3**	**$ -**	**$ 21,767**
Accounts Payable	$ 365	$ -	$ -	$ -	$ 30	$ -	$ -	$ 395
Loss Reserves	396	-	-	-	-	-	-	396
Other Liabilities	2,329	-	-	-	-	-	-	2,329
Total Liabilities	$ 3,090	$ -	$ -	$ -	$ 30	$ -	$ -	$ 3,120
Unexpended Appropriations	$ 2	$ -	$ (376)	$ -	$ 2,587	$ -	$ -	$ 2,213
Cumulative Results of Operations	15,759	9	646	17	-	3	-	16,434
Total Net Position	$ 15,761	$ 9	$ 270	$ 17	$ 2,587	$ 3	$ -	$ 18,647
Total Liabilities and Net Position	**$ 18,851**	**$ 9**	**$ 270**	**$ 17**	**$ 2,617**	**$ 3**	**$ -**	**$ 21,767**
Statement of Net Cost For the Period Ended								
Gross Costs	$ (121)	$ 7	$ (18)	$ 7	$ 4,577	$ -	$ -	$ 4,452
Less Earned Revenues	(1,060)	-	(14)	(3)	-	-	-	(1,077)
Net Costs	**$ (1,181)**	**$ 7**	**$ (32)**	**$ 4**	**$ 4,577**	**$ -**	**$ -**	**$ 3,375**
Statement of Changes in Net Position for the Period Ended								
Net Position Beginning of Period	$ 14,578	$ 16	$ 238	$ 13	$ 7,193	$ -	$ -	$ 22,038
Appropriations Received	-	-	-	-	-	-	-	-
Transfers In/Out Without Reimbursement	1	-	-	8	-	-	-	9
Imputed Costs	1	-	-	-	-	-	-	1
Other Adjustments	-	-	-	-	(29)	-	-	(29)
Donations and Forfeitures of Cash & Cash Equivalen	-	-	-	-	-	3	-	3
Net Cost of Operations	1,181	(7)	32	(4)	(4,577)	-	-	(3,375)
Change in Net Position	$ 1,183	$ (7)	$ 32	$ 4	$ (4,606)	$ 3	$ -	$ (3,391)
Net Position End of Period	**$ 15,761**	**$ 9**	**$ 270**	**$ 17**	**$ 2,587**	**$ 3**	**$ -**	**$ 18,647**

The following shows earmarked funds activity as of September 30, 2010 (dollars in millions):

	Ginnie Mae	Rental Housing Assistance	Flexible Subsidy	Manufactued Housing Fees Trust Fund	Recovery Act Funds	Other	Eliminations	Total Earmarked Funds
Balance Sheet								
Fund Balance w/Treasury	$ 6,650	$ 3	$ 164	$ 12	$ 7,226	$ -	$ -	$ 14,055
Investments	3,572	-	-	-	-	-	-	3,572
Accounts Receivable	236	13	-	-	-	-	-	249
Loans Receivable	-	-	74	-	10	-	-	84
General Property, Plant and Equipment	36	-	-	-	-	-	-	36
Other	6,569	-	-	-	-	-	-	6,569
Total Assets	**$ 17,063**	**$ 16**	**$ 238**	**$ 12**	**$ 7,236**	**$ -**	**$ -**	**$ 24,565**
Accounts Payable	$ 261	$ -	$ -	$ -	$ 43	$ -	$ -	$ 304
Loss Reserves	1,005	-	-	-	-	-	-	1,005
Other Liabilities	1,219	-	-	-	-	-	-	1,219
Total Liabilities	$ 2,485	$ -	$ -	$ -	$ 43	$ -	$ -	$ 2,528
Unexpended Appropriations	$ -	$ -	$ (376)	$ -	$ 7,193	$ -	$ -	$ 6,817
Cumulative Results of Operations	14,578	16	614	12	-	-	-	15,220
Total Net Position	$ 14,578	$ 16	$ 238	$ 12	$ 7,193	$ -	$ -	$ 22,037
Total Liabilities and Net Position	**$ 17,063**	**$ 16**	**$ 238**	**$ 12**	**$ 7,236**	**$ -**	**$ -**	**$ 24,565**
Statement of Net Cost For the Period Ended								
Gross Costs	$ 822	$ 3	$ (23)	$ 6	$ 4,903	$ -	$ (3)	$ 5,708
Less Earned Revenues	(1,362)	(16)	(11)	(3)	(1)	-	3	(1,390)
Net Costs	**$ (540)**	**$ (13)**	**$ (34)**	**$ 3**	**$ 4,902**	**$ -**	**$ -**	**$ 4,318**
Statement of Changes in Net Position for the Period Ended								
Net Position Beginning of Period	$ 14,036	$ 3	$ 204	$ 6	$ 12,095	$ -	$ -	$ 26,344
Appropriations Received	1	-	-	-	-	-	-	1
Transfers In/Out Without Reimbursement	-	-	-	9	-	-	-	9
Imputed Costs	1	-	-	-	-	-	-	1
Other Adjustments	-	-	-	-	-	-	-	-
Donations and Forfeitures of Cash & Cash Equivalen	-	-	-	-	-	-	-	-
Net Cost of Operations	540	13	34	(3)	(4,902)	-	-	(4,318)
Change in Net Position	$ 542	$ 13	$ 34	$ 6	$ (4,902)	$ -	$ -	$ (4,307)
Net Position End of Period	**$ 14,578**	**$ 16**	**$ 238**	**$ 12**	**$ 7,193**	**$ -**	**$ -**	**$ 22,037**

Note 18: Intragovernmental Costs and Exchange Revenue

The data below shows HUD’s intragovernmental costs and earned revenue separately from activity with the public. Intragovernmental transactions are exchange transactions made between two reporting entities within the Federal government. Intragovernmental costs are identified by the source of the goods and services; both the buyer and seller are Federal entities. Also note that there may be instances where the revenue may be classified as non-Federal if the goods or services are subsequently sold to the public. Public activity involves exchange transactions between the reporting entity and a non-Federal entity.

The following shows HUD's intragovernmental costs and exchange revenue (dollars in millions):

2011	Federal Housing Administration	Ginnie Mae	Section 8 Rental Assistance	Low Rent Public Housing Loans and Grants	Operating Subsidies	Housing for the Elderly and Disabled	Community Development Block Grants	HOME	All Other	Consolidating
Intragovernmental Costs	$ 435	$ 2	$ 90	$ 36	$ 20	$ 30	$ 23	$ 12	$ 314	$ 962
Public Costs	5,264	(123)	28,563	4,960	4,846	1,282	7,070	2,867	5,287	60,016
Subtotal Costs	$ 5,699	$ (121)	$ 28,653	$ 4,996	$ 4,866	$ 1,312	$ 7,093	$ 2,879	$ 5,601	$ 60,978
Unassigned Costs									$ 170	$170
Total Costs										$ 61,148
Intragovernmental Earned Revenue	$ (2,105)	$ (232)	$ -	$ -	$ -	$ -	$ -	$ -	$ (19)	$ (2,356)
Public Earned Revenue	(74)	(830)	-	-	-	(262)	-	-	(15)	(1,181)
Total Earned Revenue	(2,179)	(1,062)	-	-	-	(262)	-	-	(34)	(3,537)
Net Cost of Operations	**$ 3,520**	**$ (1,183)**	**$ 28,653**	**$ 4,996**	**$ 4,866**	**$ 1,050**	**$ 7,093**	**$ 2,879**	**$ 5,737**	**$ 57,611**

2010	Federal Housing Administration	Ginnie Mae	Section 8 Rental Assistance	Low Rent Public Housing Loans and Grants	Operating Subsidies	Housing for the Elderly and Disabled	Community Development Block Grants	HOME	All Other	Consolidating
Intragovernmental Costs	$ 305	$ 2	$ 92	$ 219	$ 23	$ 35	$ 22	$ 12	$ 234	$ 944
Public Costs	827	820	27,703	5,262	4,492	1,326	7,103	2,839	5,359	55,731
Subtotal Costs	$ 1,132	$ 822	$ 27,795	$ 5,481	$ 4,515	$ 1,361	$ 7,125	$ 2,851	$ 5,593	$ 56,675
Unassigned Costs									$ 191	$ 191
Total Costs										$ 56,866
Intragovernmental Earned Revenue	$ (2,548)	$ (483)	$ -	$ -	$ -	$ -	$ -	$ -	$ (20)	$ (3,051)
Public Earned Revenue	(132)	(880)	-	-	-	(280)	-	-	(28)	(1,320)
Total Earned Revenue	(2,680)	(1,363)	-	-	-	(280)	-	-	(48)	(4,371)
Net Cost of Operations	**$ (1,548)**	**$ (541)**	**$ 27,795**	**$ 5,481**	**$ 4,515**	**$ 1,081**	**$ 7,125**	**$ 2,851**	**$ 5,736**	**$ 52,495**

Note 19: Total Cost and Earned Revenue by Budget Functional Classification

The following shows HUD's total cost and earned revenue by budget functional classification for FY 2011 (dollars in millions):

Budget Functional Classification	Gross Cost	Earned Revenue	Net Cost
Intragovernmental:			
Commerce and Housing Credit	$ 437	$ (2,343)	$ (1,906)
Community and Regional Development	89	(6)	83
Income Security	434	(2)	432
Other Multiple Functions	$ 2	$ (5)	$ (3)
Total Intragovernmental	962	(2,356)	(1,394)
With the Public:			
Commerce and Housing Credit	$ 5,187	$ (1,161)	$ 4,026
Community and Regional Development	7,279	-	7,279
Income Security	46,992	(20)	46,972
Administration of Justice	51	-	51
Other Multiple Functions	507	-	507
Total with the Public	$ 60,016	$ (1,181)	$ 58,835
Not Assigned to Programs:			
Income Security	170	-	170
Total with the Public	$ 170	$ -	$ 170
TOTAL:			
Commerce and Housing Credit	$ 5,624	$ (3,504)	$ 2,120
Community and Regional Development	7,368	(6)	7,362
Income Security	47,596	(22)	47,574
Administration of Justice	51	-	51
Other Multiple Functions	509	(5)	504
TOTAL:	**$ 61,148**	**$ (3,537)**	**$ 57,611**

The following shows HUD's total cost and earned revenue by budget functional classification for FY 2010 (dollars in millions):

Budget Functional Classification	Gross Cost	Earned Revenue	Net Cost
Intragovernmental:			
Commerce and Housing Credit	$ 308	$ (3,031)	$ (2,723)
Community and Regional Development	33	(6)	27
Income Security	600	(3)	597
Other Multiple Functions	$ 3	$ (11)	$ (8)
Total Intragovernmental	944	(3,051)	(2,107)
With the Public:			
Commerce and Housing Credit	$ 1,717	$ (1,296)	$ 421
Community and Regional Development	7,371	-	7,371
Income Security	46,056	(24)	46,032
Administration of Justice	51	-	51
Other Multiple Functions	536	-	536
Total with the Public	$ 55,731	$ (1,320)	$ 54,411
Not Assigned to Programs:			
Income Security	191	-	191
Total with the Public	$ 191	$ -	$ 191
TOTAL:			
Commerce and Housing Credit	$ 2,025	$ (4,327)	$ (2,302)
Community and Regional Development	7,404	(6)	7,398
Income Security	46,847	(27)	46,820
Administration of Justice	51	-	51
Other Multiple Functions	539	(11)	528
TOTAL:	**$ 56,866**	**$ (4,371)**	**$ 52,495**

Note 20: Net Costs of HUD's Cross-Cutting Programs

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

The following table shows the Department's cross-cutting costs among its major program areas (dollars in millions):

HUD's Cross-Cutting Programs	Public and Indian Housing	Housing	Community Planning and Development	Other	Consolidated
Section 8					
Intragovernmental Gross Costs	$ 44	$ 46	$ -	$ -	$ 90
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	$ 44	$ 46	$ -	$ -	$ 90
Gross Costs with the Public	$ 18,858	$ 9,634	$ 69	$ 2	$ 28,563
Earned Revenues	-	-	-	-	-
Net Costs with the Public	$ 18,858	$ 9,634	$ 69	$ 2	28,563
Net Program Costs	**$ 18,902**	**$ 9,680**	**$ 69**	**$ 2**	**$ 28,653**
CDBG					
Intragovernmental Gross Costs	$ -	$ -	$ 23	$ -	$ 23
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	$ -	$ -	$ 23	$ -	$ 23
Gross Costs with the Public	$ 67	$ -	$ 6,994	$ 9	$ 7,070
Earned Revenues	-	-	-	-	-
Net Costs with the Public	$ 67	$ -	$ 6,994	$ 9	$ 7,070
Net Program Costs	**$ 67**	**$ -**	**$ 7,017**	**$ 9**	**$ 7,093**
Housing for the Elderly and Disabled					
Intragovernmental Gross Costs	$ -	$ 30	$ -	$ -	$ 30
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	$ -	$ 30	$ -	$ -	$ 30
Gross Costs with the Public	$ -	$ 1,282	$ -	$ -	$ 1,282
Earned Revenues	-	-	-	(262)	(262)
Net Costs with the Public	$ -	$ 1,282	$ -	$ (262)	$ 1,020
Net Program Costs	**$ -**	**$ 1,312**	**$ -**	**$ (262)**	**$ 1,050**
Other					
Intragovernmental Gross Costs	$ 68	$ 188	$ 57	$ 1	$ 314
Intragovernmental Earned Revenues	-	-	-	(19)	(19)
Intragovernmental Net Costs	$ 68	$ 188	$ 57	$ (18)	$ 295
Gross Costs with the Public	$ 403	$ 873	$ 3,973	$ 38	$ 5,287
Earned Revenues	-	(1)	-	(14)	(15)
Net Costs with the Public	$ 403	$ 872	$ 3,973	$ 24	$ 5,272
Direct Program Costs	**$ 471**	**$ 1,060**	**$ 4,030**	**$ 6**	**$ 5,567**
Costs Not Assigned to Programs	$ 59	$ 80	$ 31	$ -	$ 170
Net Program Costs (including indirect costs)	**$ 530**	**$ 1,140**	**$ 4,061**	**$ 6**	**$ 5,737**

The following table shows the cross-cutting of HUD's major program areas that incur costs that cross multiple program areas for FY 2010 (dollars in millions):

HUD's Cross-Cutting Programs	Public and Indian Housing	Housing	Community Planning and Development	Other	Consolidated
Section 8					
Intragovernmental Gross Costs	$ 47	$ 45	$ -	$ -	$ 92
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	$ 47	$ 45	$ -	$ -	$ 92
Gross Costs with the Public	$ 18,365	$ 9,279	$ 59	$ -	$ 27,703
Earned Revenues	-	-	-	-	-
Net Costs with the Public	$ 18,365	$ 9,279	$ 59	$ -	27,703
Net Program Costs	**$ 18,412**	**$ 9,324**	**$ 59**	**$ -**	**$ 27,795**
Community Development Block Grant					
Intragovernmental Gross Costs	$ -	$ -	$ 22	$ -	$ 22
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	$ -	$ -	$ 22	$ -	$ 22
Gross Costs with the Public	$ 75	$ -	$ 7,024	$ 4	$ 7,103
Earned Revenues	-	-	-	-	-
Net Costs with the Public	$ 75	$ -	$ 7,024	$ 4	$ 7,103
Net Program Costs	**$ 75**	**$ -**	**$ 7,046**	**$ 4**	**$ 7,125**
HOME					
Intragovernmental Gross Costs	$ -	$ -	$ 12	$ -	$ 12
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	$ -	$ -	$ 12	$ -	$ 12
Gross Costs with the Public	$ -	$ 16	$ 2,823	$ -	$ 2,839
Earned Revenues	-	-	-	-	-
Net Costs with the Public	$ -	$ 16	$ 2,823	$ -	$ 2,839
Net Program Costs	**$ -**	**$ 16**	**$ 2,835**	**$ -**	**$ 2,851**
Other					
Intragovernmental Gross Costs	$ 63	$ 168	$ 55	$ (52)	$ 234
Intragovernmental Earned Revenues	(2)	2	(4)	(16)	(20)
Intragovernmental Net Costs	$ 61	$ 170	$ 51	$ (68)	$ 214
Gross Costs with the Public	$ 387	$ 743	$ 4,166	$ 63	$ 5,359
Earned Revenues	-	(6)	-	(22)	(28)
Net Costs with the Public	$ 387	$ 737	$ 4,166	$ 41	$ 5,331
Direct Program Costs	**$ 448**	**$ 907**	**$ 4,217**	**$ (27)**	**$ 5,545**
Costs Not Assigned to Programs	$ 64	$ 94	$ 33	$ -	$ 191
Net Program Costs (including indirect costs)	**$ 512**	**$ 1,001**	**$ 4,250**	**$ (27)**	**$ 5,736**

Note 21: FHA Net Costs

FHA organizes its operations into two overall program types: MMI/CMHI and GI/SRI. These program types are composed of four major funds. The MMI, FHA's largest fund and a mutual insurance fund, provides basic Single Family mortgage insurance 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 CMHI, another mutual fund, provides mortgage insurance for management-type cooperatives. The 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 and nonprofit hospitals. The SRI provides mortgage insurance on behalf of mortgagors eligible for interest reduction payments who otherwise would not be eligible for mortgage insurance. The H4H program was established by HUD as an additional mortgage program designed to keep borrowers in their home.

The following table shows Net Cost detail for the Federal Housing Administration (dollars in millions):

	Fiscal Year 2011				Fiscal Year 2010			
	GI/SRI Program	MMI/CMHI Program	H4H Program	Total	GI/SRI Program	MMI/CMHI Program	H4H Program	Total
Costs								
Intragovernmental Gross Costs	$ 176	$ 259	$ -	$ 435	$ 144	$ 159	$ 2	$ 305
Intragovernmental Earned Revenues	(540)	(1,565)	-	(2,105)	(412)	(2,136)	-	(2,548)
Intragovernmental Net Costs	$ (364)	$ (1,306)	$ -	$ (1,670)	$ (268)	$ (1,977)	$ 2	$ (2,243)
Gross Costs with the Public	$ (861)	$ 6,110	$ 15	$ 5,264	$ 3,359	$ (2,542)	$ 10	$ 827
Earned Revenues	(52)	(22)	-	(74)	(70)	(62)	-	(132)
Net Costs with the Public	$ (913)	$ 6,088	$ 15	$ 5,190	$ 3,289	$ (2,604)	$ 10	$ 695
Net Program Costs	**$ (1,277)**	**$ 4,782**	**$ 15**	**$ 3,520**	**$ 3,021**	**$ (4,581)**	**$ 12**	**$ (1,548)**

Note 22: Commitments under HUD's Grant, Subsidy, and Loan Programs

A. Contractual Commitments

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

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

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

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

FHA enters into long-term contracts for both program and administrative services. FHA funds these contractual obligations through appropriations, permanent indefinite authority, and offsetting collections. The appropriated funds are primarily used to support administrative contract expenses while the permanent indefinite authority and the offsetting collections are used for program services.

The following shows HUD's obligations and contractual commitments under its grant, subsidy, and loan programs as of September 30, 2011 (dollars in millions):

	Undelivered Orders				
Programs	**Unexpended Appropriations**	**Permanent Indefinite**	**Investment Authority**	**Offsetting Collections**	**Undelivered Orders - Obligations, Unpaid**
FHA	$ 170	$ 212	$ -	$ 1,541	$ 1,923
Section 8 Rental Assistance	10,438	-	-	-	10,438
Community Development Block Grants	18,109	-	-	-	18,109
HOME Partnership Investment Program	4,924	-	-	-	4,924
Operating Subsidies	1,126	-	-	-	1,126
Low Rent Public Housing Grants and Loans	6,788	-	-	-	6,788
Housing for Elderly and Disabled	3,297	-	-	-	3,297
Section 235/236	1,364	1,112	-	-	2,476
All Other	7,857	-	-	-	7,857
Total	**$ 54,073**	**$ 1,324**	**$ -**	**$ 1,541**	**$ 56,938**

Of the total Section 8 Rental Assistance contractual commitments as of September 30, 2011**,** $8.5 billion relates to project-based commitments and $1.8 billion relates to tenant-based commitments.

The following shows HUD's obligations and contractual commitments under its grant, subsidy, and loan programs as of September 30, 2010 (dollars in millions):

	Undelivered Orders				
Programs	**Unexpended Appropriations**	**Permanent Indefinite**	**Investment Authority**	**Offsetting Collections**	**Undelivered Orders - Obligations, Unpaid**
FHA	$ 146	$ -	$ 267	$ 1,181	$ 1,594
Section 8 Rental Assistance	11,166	(11)	-	-	11,155
Community Development Block Grants	20,729	-	-	-	20,729
HOME Partnership Investment Program	6,285	-	-	-	6,285
Operating Subsidies	1,333	-	-	-	1,333
Low Rent Public Housing Grants and Loans	9,104	-	-	-	9,104
Housing for Elderly and Disabled	3,914	-	-	-	3,914
Section 235/236	1,286	1,727	-	-	3,013
All Other	7,757	-	-	-	7,757
Total	**$ 61,720**	**$ 1,716**	**$ 267**	**$ 1,181**	**$ 64,884**

Of the total Section 8 Rental Assistance contractual commitments as of September 30, 2010, $9.2 billion relates to project-based commitments and $2.0 billion relates to tenant-based commitments.

B. Administrative Commitments

In addition to the above contractual commitments, HUD has entered into administrative commitments which are reservations of funds for specific projects (including those for which a contract has not yet been executed) to obligate all or part of those funds. Administrative commitments become contractual commitments upon contract execution.

The chart below shows HUD's administrative commitments as of September 30, 2011 (dollars in millions):

Programs	Unexpended Appropriations	Permanent Indefinite Appropriations	Offsetting Collections	Total Reservations
Section 8 Rental Assistance	$ 100	$ -	$ -	$ 100
Community Development Block Grants	740	-	-	740
HOME Partnership Investment Program	349	-	-	349
Low Rent Public Housing Grants and Loans	52	-	-	52
Housing for Elderly and Disabled	183	-	-	183
Section 235/236	4	-	-	4
All Other	478	-	-	478
Total	**$ 1,906**	**$ -**	**$ -**	**$ 1,906**

The following chart shows HUD's administrative commitments as of September 30, 2010 (dollars in millions):

Programs	Unexpended Appropriations	Permanent Indefinite Appropriations	Offsetting Collections	Total Reservations
Section 8 Rental Assistance	$ 101	$ 6	$ -	$ 107
Community Development Block Grants	841	-	-	841
HOME Partnership Investment Program	240	-	-	240
Low Rent Public Housing Grants and Loans	55	-	-	55
Housing for Elderly and Disabled	381	-	-	381
Section 235/236	-	4	-	4
All Other	594	-	-	594
Total	**$ 2,212**	**$ 10**	**$ -**	**$ 2,222**

Note 23: Disaster Recovery Relief Efforts

The effects of Hurricanes Katrina, Rita and Wilma in 2005 and Hurricanes Ike and Gustav in 2008 resulted in increased funding for the Department for assisting in meeting housing needs of those displaced by the disaster. In FY 2008, HUD also received additional disaster funding for the Mid West to assist communities affected by severe storms and flooding.

The following table shows the status of budgetary resources information for HUD's programs funded to support disaster relief as of September 30, 2011 (dollars in millions):

	CDBG	Tenant-Based Rental Assistance	Total
Budgetary Resources			
Unobligated Balance, beginning of period	$ 913	$ -	$ 913
Recoveries	-	4	4
Budget Authority	-	-	-
Spending Authority from Offsetting Collections	-	-	-
Permanently Not Available, Recissions	-	-	-
Total Budgetary Resources	**$ 913**	**$ 4**	**$ 917**
Status of Budgetary Resources			
Obligations Incurred	$ 713	$ 4	$ 717
Unobligated Balance, available	200	-	200
Unobligated Balance, not available	-	-	-
Total Status of Budgetary Resources	**$ 913**	**$ 4**	**$ 917**
Change in Obligated Balance			
Obligated Balance, net beginning of period	$ 9,985	$ 19	$ 10,004
Obligations Incurred	713	4	717
Gross Outlays	(2,143)	(6)	(2,149)
Recoveries	-	(4)	(4)
Obligated Balance, net end of period	**$ 8,555**	**$ 13**	**$ 8,568**
Net Outlays	**$ 2,143**	**$ 6**	**$ 2,149**

The data below displays cumulative activity for the four largest state recipients of HUD disaster assistance since the inception of the program. The obligations incurred and gross outlays shown above represent fiscal year activity (dollars are in millions).

	Obligations	Outlays	Unliquidated
Louisiana	$ 14,493	$ 11,347	$ 3,146
Mississippi	5,539	4,149	1,390
Texas	3,751	956	2,795
Florida	393	213	180
Other States	2,288	1,329	959
Total	**$ 26,464**	**$ 17,994**	**$ 8,470**

The following table shows the status of budgetary resources information for HUD's programs funded to support disaster relief as of September 30, 2010 (dollars in millions):

	CDBG	Tenant-Based Rental Assistance	Total
Budgetary Resources			
Unobligated Balance, beginning of period	$ 5,118	$ -	$ 5,118
Recoveries	-	1	1
Budget Authority	-	-	-
Spending Authority from Offsetting Collections	-	-	-
Permanently Not Available, Recissions	-	-	-
Total Budgetary Resources	**$ 5,118**	**$ 1**	**$ 5,119**
Status of Budgetary Resources			
Obligations Incurred	$ 4,305	$ 1	$ 4,306
Unobligated Balance, available	813	-	813
Unobligated Balance, not available	-	-	-
Total Status of Budgetary Resources	**$ 5,118**	**$ 1**	**$ 5,119**
Change in Obligated Balance			
Obligated Balance, net beginning of period	$ 8,097	$ 23	$ 8,120
Obligations Incurred	4,305	1	4,306
Gross Outlays	(2,417)	(3)	(2,420)
Recoveries	-	(1)	(1)
Obligated Balance, net end of period	**$ 9,985**	**$ 20**	**$ 10,005**
Net Outlays	**$ 2,417**	**$ 3**	**$ 2,420**

The data below displays cumulative activity for the four largest state recipients of HUD disaster assistance since the inception of the program. The obligations incurred and gross outlays shown above represent fiscal year activity (dollars in millions).

	Obligations	Outlays	Unliquidated
Louisiana	$ 14,158	$ 10,458	$ 3,700
Mississippi	5,534	3,686	1,848
Texas	3,696	641	3,055
Florida	366	179	187
Other States	2,096	886	1,210
Total	**$ 25,850**	**$ 15,850**	**$ 10,000**

Note 24: Apportionment Categories of Obligations Incurred

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

HUD's categories of obligations incurred were as follows (dollars in millions):

	Category A	Category B	Total
2011			
Direct	$ 1,224	$ 86,086	$ 87,310
Reimbursable	-	5,067	5,067
Total	**$ 1,224**	**$ 91,153**	**$ 92,377**

	Category A	Category B	Total
2010			
Direct	$ 907	$ 83,962	$ 84,869
Reimbursable	-	8,017	8,017
Total	**$ 907**	**$ 91,979**	**$ 92,886**

Note 25: Explanation of Differences between the Statement of Budgetary Resources and the Budget of the United States Government

The President's Budget containing actual FY 2011 data is not available for comparison to the Statement of Budgetary Resources. Actual FY 2011 data will be available in the Appendix to the Budget of the United States Government, FY 2013.

For FY 2010, an analysis to compare HUD's Statement of Budgetary Resources to the President's Budget of the United States was performed to identify any differences.

The following shows the difference between Budgetary Resources reported in the Statement of Budgetary Resources and the President's Budget for FY 2010 (dollars in millions):

	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	$ 151,260	$ 92,887	$ (1,718)	$ 59,564
Difference #1 - Resources related to HUD's expired accounts not reported in the President's Budget	(383)	(25)	-	-
Difference #2 - Rounding	(2)	(4)	2	-
Difference #3 - Reclassification of Ginnie Mae's offsetting receipts as a negative outlay reported in account 86-0186-0-1-371	-	-	991	(991)
Difference #4 - FY 2010 activity not included in the President's Budget related to the General Fund receipts account	-	-	-	-
United States Budget	**$ 150,875**	**$ 92,858**	**$ (725)**	**$ 58,573**

Note 26: 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 periods ending September 30, 2011 and 2010 (in millions).

	2011	2010
Budgetary Resources Obligated		
Obligations Incurred	$ 92,377	$ 92,886
Spending Authority from Offsetting Collections and Recoveries	(38,335)	(36,908)
Obligations Net of Offsetting Collections	$ 54,042	$ 55,978
Offsetting Receipts	(1,921)	(1,718)
Net Obligations	$ 52,121	$ 54,260
Other Resources		
Transfers In/Out Without Reimbursement	$ (2,316)	$ (158)
Imputed Financing from Costs Absorbed by Others	91	100
Other Resources	17	7
Net Other Resources Used to Finance Activities	$ (2,208)	$ (51)
Total Resources Used to Finance Activities	$ 49,913	$ 54,209
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Change in Budgetary Resources Obligated for Goods/Services/Benefits	$ -	$ (670)
Services Ordered but Not Yet Provided	7,993	3,998
Credit Program Resources not Included in Net Cost (Surplus) of Operations	35,495	30,771
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	(141)	(5,299)
Other Changes to Net Obligated Resources Not Affecting Net Cost of Operations	(23,775)	(32,493)
Total Resources Used to Finance Items Not Part of Net Cost of Operations	$ 19,572	$ (3,693)
Total Resources Used to Finance the Net Cost of Operations	$ 69,485	$ 50,516
Components of Net Cost of Operations Not Requiring/Generating Resources in the Current Period		
Upward/Downward Re-estimates of Credit Subsidy Expense	$ 10,459	$ 2,289
Increase in Exchange Revenue Receivable from the Public	(274)	(358)
Change in Loan Loss Reserve	(28)	(84)
Revaluation of Assets or Liabilities	103	(138)
Changes in Bad Debt Expenses Related to Credit Reform Receivables	(159)	(349)
Reduction of Credit Subsidy Expense from Guarantee Endorsements and Modifications	(7,228)	(3,100)
Increase in Annual Leave Liability	4	-
Other	(14,751)	3,719
Total Components of Net Cost of Operations Not Requiring/Generating Resources in the Current Period	$ (11,874)	$ 1,979
Net Cost of Operations	**$ 57,611**	**$ 52,495**

Required Supplementary Stewardship Information

Introduction

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

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

- Community Planning and Development (CPD),
- Public and Indian Housing (PIH),
- Policy Development and Research (PD&R), and
- Office of Healthy Homes and Lead Hazard Control (OHHLHC).

Overview of HUD's Major Programs

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

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

- **Disaster Recovery Assistance is a CDBG program that** helps state and local governments recover from major natural disasters. A portion of these funds can be used to acquire, rehabilitate, construct, or demolish physical property.
- **The HOME Investment Partnerships Program (HOME)** provides formula grants to states and localities (used often in partnership with local nonprofit groups) to fund a wide range of activities that build, buy, and/or rehabilitate affordable housing for low-income persons.
- **The Homeless – Continuum of Care** provides grants for new construction, acquisition, rehabilitation or leasing of buildings to provide transitional or permanent housing, as well as supportive services to homeless individuals and families.
- **The Neighborhood Stabilization Program (NSP)** stabilizes communities that have suffered from foreclosures and abandonment. Through the purchase and redevelopment of foreclosed and abandoned homes and residential properties, the goal of the program is being realized.
- **The Housing Opportunities for People with HIV/AIDS (HOPWA)** provides education assistance and an array of housing subsidy assistance and supportive services to assist low-income families and individuals who are living with the challenges of HIV/AIDS and risks of homelessness.
- **The Youthbuild program,** which assists young individuals in obtaining education, skills, and meaningful work experience, was transferred to the Department of Labor, but it is reported here in order to show prior year results.
- **Emergency Solutions Grants (ESG)** provide formula funding to local units of government for homelessness prevention and to improve the number and quality of emergency and transitional shelters for homeless individuals and families.

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

- **The Public Housing (PH) Capital Fund** provides grants to PHAs to improve the physical conditions and to upgrade the management and operation of existing public housing.
- **HOPE VI Revitalization Grants (HOPE VI)** provide support for the improvement of the living environment of public housing residents in distressed public housing units. Some investments support the acquisition, construction or rehabilitation of property owned by the PHA, state or local governments, while others help to provide education and job training to residents of the communities targeted for rehabilitation.

- **Indian Housing Block Grants (IHBG)** provide funds needed to allow tribal housing organizations to maintain existing units and to begin development of new units to meet their critical long-term housing needs.
- **Indian Community Development Block Grants (ICDBG)** provide funds to Indian organizations to develop viable communities, including decent housing, a suitable living environment, and economic opportunities, principally for low and moderate-income recipients.
- The **Native Hawaiian Housing Block Grant (NHHBG)** program provides an annual block grant to the Department of Hawaiian Home Lands (DHHL) for a range of affordable housing activities to benefit low-income Native Hawaiians eligible to reside on the Hawaiian home lands. The DHHL has the authority under the NHHBG program to develop new and innovative affordable housing initiatives and programs based on local needs, including down payment and other mortgage assistance programs, transitional housing, domestic abuse shelters, and revolving loan funds.

PD&R's stewardship responsibilities include maintaining current information to monitor housing needs and housing market conditions, and to support and conduct research on priority housing and community development issues.

In prior years HUD made stewardship investments through the Community Development Work Study (CDWS) and the Partnership for Advancing Technology in Housing (PATH) programs.

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

- **The Lead Technical Assistance Division,** in support of the Departmental Lead Hazard Control program, supports technical assistance and the conducting of technical studies and demonstrations to identify innovative methods to create lead-safe housing at reduced cost. In addition, these programs are designed to increase the awareness of lead professionals, parents, building owners, housing and public health professionals, and others with respect to lead-based paint and related property-based health issues.
- **Lead Hazard Control Grants** help state and local governments and private organizations and firms control lead-based paint hazards in low-income, privately owned rental, and owner-occupied housing. The grants build program and local capacity and generate training opportunities and contracts for low-income residents and businesses in targeted areas.

RSSI Reporting – HUD's Major Programs

Non-Federal Physical Property

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

Investments in Non-Federal Physical Property
Fiscal Year 2007 – 2011
(Dollars in millions)

Program	2007	2008	2009	2010	2011
CPD					
CDBG	$1,262	$1,284	$1,180	$1,083	$1,132
Disaster Grants	$120	$169	$144	$358	$314
HOME	$38	$54	$18	$36	$21
SHP - Homeless	$21	$17	$14	$20	$17
NSP [1]	N/A	N/A	N/A	$10	$24
PIH					
ICDBG	$58	$56	$61	$62	$122
NHHBG	$8	$9	$10	$13	$13
IHBG [2]	$263	$276	$304	$186	$146
HOPE VI	$95	$97	$104	$114	$240
PH Capital Fund [3]	$2,117	$2,005	$2,310	$3,783	$3,610
TOTAL	**$3,982**	**$3,967**	**$4,145**	**$5,665**	**$5,639**

Notes:

1. *Neighborhood Stabilization Program was reported for the first time in FY 2010.*
2. *Historical amounts were updated to reflect corrections made since the last report.*
3. *Current and historical amounts were derived from data in the Line Of Credit Control System and differ from prior year reports.*

Human Capital

Investment in Human Capital: Human Capital investments support education and training programs that are intended to increase or maintain national economic productive capacity. These investments support HUD's strategic goals, which are to promote self-sufficiency and asset development of families and individuals; improve community quality of life and economic vitality; and ensure public trust in HUD. The table below summarizes material program investments in Human Capital, for fiscal years 2007 through 2011.

Investments in Human Capital
Fiscal Year 2007 – 2011
(Dollars in millions)

Program	2007	2008	2009	2010	2011
CPD					
CDBG	$23	$32	$29	$28	$26
SHP - Homeless	$41	$18	$16	$28	$32
HOPWA [1]	N/A	N/A	$1	$1	$1
Youthbuild [2]	$23	$19	$0	$0	$0
NSP TA [3]	N/A	N/A	N/A	N/A	$2
Disaster Grants [4]	N/A	N/A	N/A	N/A	$7
ESG	$0	$0	$0	$2	$3
PIH					
HOPE VI	$8	$8	$9	$10	$42
NHHBG	$0	$0	$0	$1	$1
IHBG	$1	$1	$1	$1	$1
PD&R					
CDWS [5]	$2	$0	$0	$0	$0
OHHLHC					
Lead Technical Assistance	$0	$0	$0	$0	$1
TOTAL	**$98**	**$78**	**$56**	**$71**	**$116**

Notes:

1. *FY 2009 was the first year of reporting HOPWA's investment in human capital in the RSSI. Historical investment amounts were corrected to exclude employment assistance.*
2. *Youthbuild was transferred to the Department of Labor. The history is reported for the sake of consistency.*
3. *FY 2011 is the first year of reporting NSP TA's investment in human capital in the RSSI.*
4. *FY 2011 is the first year of reporting Disaster Grant's investment in human capital in the RSSI.*
5. *Congress has not funded the CDWS since 2005. Only outlays are being reported as grantees request reimbursement of costs.*

Results of Human Capital Investments: The following table presents the results (number of people trained) of human capital investments made by HUD's CPD, PIH, PD&R, and OHHLHC programs:

Results of Investments in Human Capital
Number of People Trained
Fiscal Year 2007 – 2011

Program	2007	2008	2009	2010	2011
CPD					
CDBG	52,277	60,498	47,578	97,349	303,416
SHP - Homeless [1]	17.0%	22.8%	21.9%	21.6%	17.8%
HOPWA [2]	N/A	N/A	N/A	2,614	1,662
NSP TA [3]	N/A	N/A	N/A	N/A	332
Youthbuild [4]	3,103	2,987	N/A	N/A	N/A
PIH					
ICDBG [5]	N/A	N/A	15	0	122
NHHBG [5]	N/A	N/A	160	210	116
IHBG [5]	N/A	N/A	485	1,474	1,550
HOPE VI (*see table on next page*)					
OHHLHC					
Lead Technical Assistance [6]	0	400	1,200	0	3,000
TOTAL	**55,380**	**63,885**	**49,438**	**101,647**	**310,198**

Notes:
1. *SHP results are expressed in terms of percentage of persons exiting the programs having employment income. Prior years' information is continually being updated as grantees submit project level data.*
2. *FY 2010 was the first year HOPWA's results of investments in human capital were tracked for reporting in the RSSI. Consequently, FY 2009 results previously reported have been removed from the RSSI.*
3. *FY 2011 is the first year of reporting NSP TA's results of investments in human capital in the RSSI.*
4. *Youthbuild was transferred to the Department of Labor. The history is reported for the sake of consistency.*
5. *Amounts for ICDBG, NHHBG, and IHBG were not reported prior to FY 2009.*
6. *Congress did not fund the Lead Technical Assistance program in FY 2010. FY 2008 and FY 2009 funding was $0.2 million.*

HOPE VI Results of Investments in Human Capital: Since the inception of the HOPE VI program in FY 1993, the program has made significant investments in Human Capital related initiatives (i.e., education and training). The following table presents HOPE VI's key cumulative performance information for fiscal years 2009, 2010, and 2011, since the program's inception.

Key Results of HOPE VI Program Activities
Fiscal Years 2009, 2010 and 2011

HOPE VI Service	2009 Enrolled	2009 Completed	% Completed	2010 Enrolled	2010 Completed	% Completed	2011 Enrolled	2011 Completed	% Completed
Employment Preparation, Placement, & Retention [1]	75,991	N/A	N/A	78,818	N/A	N/A	80,435	N/A	N/A
Job Skills Training Programs	31,079	16,490	53%	31,932	16,936	53%	32,597	17,267	53%
High School Equivalent Education	16,453	4,760	29%	17,036	4,989	29%	17,305	5,053	29%
Entrepreneurship Training	3,496	1,505	43%	3,528	1,534	43%	3,608	1,570	44%
Homeownership Counseling	15,259	6,506	43%	15,727	6,752	43%	15,864	6,858	43%

Note:
1. *Completion data is not applicable, as all who enroll are considered recipients of the training. Historical completion data has been removed from the report.*

Research and Development

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

The following table summarizes HUD's research and development investments.

Investments in Research and Development
Fiscal Year 2007 – 2011
(Dollars in millions)

Program	2007	2008	2009	2010	2011
CPD					
Disaster Grants	$0	$0	$0	$0	$6
PIH					
IHBG	$0	$0	$1	$0	$0
PD&R					
PATH [1]	$5	$2	$1	$0	$0
OHHLHC					
Lead Hazard Control	$5	$4	$3	$5	$1
TOTAL	**$10**	**$6**	**$5**	**$5**	**$7**

Note:
1. *The program has not received a new appropriation since FY 2007.*

Results of Investments in Research and Development: In support of HUD's lead hazard control initiatives, the OHHLHC program has conducted various studies. Such studies have contributed to an overall reduction in the per-housing unit cost of lead hazard evaluation and control efforts over the last decade. More recently, as indicated in the following table, the studies have contributed to a relatively flat per-housing unit cost, as adjusted for nominal inflation and cost of construction increases. The per-housing unit cost varies by geographic location and the grantees' level of participation in control activities. These studies have also lead to the identification of the prevalence of related hazards.

Per-Housing Unit Cost of Lead Hazard Evaluation and Control
Fiscal Year 2007 – 2011

Program	2007	2008	2009	2010	2011
OHHLHC					
Lead Hazard Control	$4,900	$5,570	$5,554	$5,901	$6,247
TOTAL	**$4,900**	**$5,570**	**$5,554**	**$5,901**	**$6,247**

Required Supplementary Information

Introduction

Presented on the following pages are additional disaggregated financial statements broken out by HUD's major lines of business (i.e., responsibility segments) to supplement the financial statements shown earlier in this section.

Department of Housing and Urban Development
Consolidating Balance Sheet
As of September 2011
(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Consolidating
ASSETS										
Intragovernmental										
Fund Balance with Treasury (Note 4)	$ 42,005	$ 7,210	$ 10,794	$ 19,194	$ 5,290	$ 1,328	$ 6,986	$ 4,464	$ 13,883	$ 111,154
Investments (Note 5)	4,135	2,139	-	-	-	-	-	-	-	6,273
Other Assets (Note 9)	3	-	-	1	-	-	-	-	24	29
Total Intragovernmental Assets	46,143	9,349	10,794	19,195	5,290	1,328	6,986	4,464	13,908	117,456
Investments (Note 5)	63	-	-	-	-	-	-	-	-	63
Accounts Receivable (Note 6)	32	146	36	4	-	-	-	-	11	230
Credit Program Receivables and Related Foreclosed Property (Note 7)	5,460	-	-	-	-	-	-	2,867	87	8,414
General Property Plant and Equipment (Note 8)	-	31	-	-	-	-	-	-	270	301
Other Assets (Note 9)	69	9,324	-	-	-	-	-	-	(1)	9,392
TOTAL ASSETS	**$ 51,768**	**$ 18,851**	**$ 10,830**	**$ 19,199**	**$ 5,290**	**$ 1,328**	**$ 6,986**	**$ 7,330**	**$ 14,274**	**$ 135,856**
LIABILITIES										
Intragovernmental Liabilities										
Accounts Payable (Note 10)	-	-	-	3	-	-	-	-	6	8
Debt (Note 11)	6,032	-	-	-	-	-	-	-	59	6,091
Other Intragovernmental Liabilities (Note 14)	3,051	-	42	2	1	2	1	1	648	3,748
Total Intragovernmental Liabilities	9,083	-	42	5	1	2	1	1	712	9,847
Accounts Payable (Note 10)	723	365	5	24	8	187	15	2	35	1,365
Loan Guarantees (Note 7)	36,103	-	-	-	-	-	-	-	111	36,214
Debt Held by the Public (Note 11)	11	-	-	-	-	-	142	-	-	153
Federal Employee and Veterans' Benefits (Note 12)	-	-	6	6	2	5	1	1	55	76
Loss Reserves (Note 13)	-	396	-	-	-	-	-	-	-	396
Other Governmental Liabilities (Note 14)	430	2,328	12	8	4	8	4	9	162	2,964
TOTAL LIABILITIES	**$ 46,349**	**$ 3,089**	**$ 65**	**$ 43**	**$ 16**	**$ 202**	**$ 163**	**$ 13**	**$ 1,076**	**$ 51,015**
	-	-	-	-	-	-	-	-	-	-
NET POSITION										
Unexpended Appropriations - Earmarked Funds (Note 17)	-	2	-	1,593	164	-	395	-	59	2,213
Unexpended Appropriations - Other	850	-	10,765	17,563	5,110	1,126	6,576	4,470	12,369	58,829
Cumulative Results of Operations - Earmarked Funds (Note 17)	-	15,760	-	-	-	-	-	-	674	16,434
Cumulative Results of Operations - Other	4,569	-	-	-	-	-	(148)	2,847	96	7,365
TOTAL NET POSITION	5,418	15,762	10,765	19,156	5,274	1,126	6,823	7,318	13,198	84,841
TOTAL LIABILITIES AND NET POSITION	**$ 51,768**	**$ 18,851**	**$ 10,830**	**$ 19,199**	**$ 5,290**	**$ 1,328**	**$ 6,986**	**$ 7,330**	**$ 14,274**	**$ 135,856**

Figures may not add to totals because of rounding.

Department of Housing and Urban Development
Consolidating Balance Sheet
As of September 2010
(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Consolidating
ASSETS										
Intragovernmental										
Fund Balance with Treasury (Note 4)	$ 39,078	$ 6,650	$ 11,610	$ 22,783	$ 6,564	$ 1,346	$ 9,427	$ 5,266	$ 13,182	$ 115,907
Investments (Note 5)	4,150	3,572	-	-	-	-	-	-	-	7,721
Other Assets (Note 9)	5	-	-	2	1	-	1	-	31	39
Total Intragovernmental Assets	43,233	10,222	11,610	22,784	6,564	1,346	9,428	5,266	13,213	123,667
Investments (Note 5)	136	-	-	-	-	-	-	-	-	136
Accounts Receivable (Note 6)	16	236	51	-	-	-	-	-	19	322
Credit Program Receivables and Related Foreclosed Property (Note 7)	6,136	-	-	-	-	-	-	3,211	85	9,432
General Property Plant and Equipment (Note 8)	-	36	-	-	-	-	-	-	222	258
Other Assets (Note 9)	76	6,569	-	-	-	-	-	-	1	6,647
TOTAL ASSETS	**$ 49,597**	**$ 17,063**	**$ 11,660**	**$ 22,784**	**$ 6,565**	**$ 1,346**	**$ 9,428**	**$ 8,477**	**$ 13,541**	**$ 140,462**
LIABILITIES										
Intragovernmental Liabilities										
Accounts Payable (Note 10)	-	-	-	3	-	-	-	-	4	6
Debt (Note 11)	4,749	-	-	-	-	-	-	-	26	4,775
Other Intragovernmental Liabilities (Note 14)	1,165	-	51	2	1	2	1	1	99	1,323
Total Intragovernmental Liabilities	5,914	-	51	5	1	2	1	1	130	6,104
Accounts Payable (Note 10)	647	261	4	32	15	5	22	3	61	1,050
Loan Guarantees (Note 7)	34,958	-	-	-	-	-	-	-	115	35,073
Debt Held by the Public (Note 11)	10	-	-	-	-	-	282	-	-	292
Federal Employee and Veterans' Benefits (Note 12)	-	-	6	6	2	5	1	1	51	72
Loss Reserves (Note 13)	-	1,005	-	-	-	-	-	-	-	1,005
Other Governmental Liabilities (Note 14)	427	1,219	12	8	4	8	4	7	154	1,842
TOTAL LIABILITIES	**$ 41,956**	**$ 2,486**	**$ 72**	**$ 51**	**$ 22**	**$ 19**	**$ 309**	**$ 12**	**$ 502**	**$ 45,438**
	-	-	-	-	-	-	-	-	-	-
NET POSITION										
Unexpended Appropriations - Earmarked Funds (Note 17)	-	-	15	2,457	1,220	-	2,171	-	955	6,817
Unexpended Appropriations	880	-	11,574	20,276	5,322	1,327	7,233	5,253	11,366	63,231
Cumulative Results of Operations - Earmarked Funds (Note 17)	-	14,578	-	-	-	-	-	-	642	15,220
Cumulative Results of Operations	6,761	-	-	-	-	-	(285)	3,212	68	9,756
TOTAL NET POSITION	7,641	14,578	11,588	22,733	6,542	1,327	9,118	8,465	13,031	95,024
TOTAL LIABILITIES AND NET POSITION	**$ 49,597**	**$ 17,063**	**$ 11,660**	**$ 22,784**	**$ 6,565**	**$ 1,346**	**$ 9,428**	**$ 8,477**	**$ 13,531**	**$ 140,462**

Figures may not add to totals because of rounding.

Department of Housing and Urban Development
Consolidating Statement of Changes in Net Position
For the Year Ended September 2011
(Dollars in Millions)

	Cumulative Results of Operations									
	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Consolidating
Net Position - Beginning of Period										
Earmarked Funds	$ -	$ 14,576	$ -	$ -	$ -	$ -	$ -	$ -	$ 642	$ 15,218
All Other Funds	6,761	-	-	-	-	-	(285)	3,212	68	9,756
Beginning Balances	6,761	14,576	-	-	-	-	(285)	3,212	710	24,974
Adjustments										
Corrections of Errors										
Earmarked Funds	-	-	-	-	-	-	-	-	-	-
All Other Funds	-	-	-	-	-	-	-	-	(1)	(1)
Beginning Balances, As Adjusted										
Earmarked Funds	-	14,576	-	-	-	-	-	-	642	15,218
All Other Funds	6,761	-	-	-	-	-	(285)	3,212	67	9,755
Total Beginning Balances, As Adjusted	6,761	14,576	-	-	-	-	(285)	3,212	709	24,973
Budgetary Financing Sources										
Other Adjustments (Rescissions, etc)										
Earmarked Funds	-	-	-	-	-	-	-	-	-	-
All Other Funds	3	-	-	-	-	-	-	-	-	3
Appropriations Used										
Earmarked Funds	-	-	14	864	1,050	-	1,758	-	892	4,578
All Other Funds	3,244	-	28,425	6,162	1,796	4,803	3,262	1,243	5,969	54,905
Donations/Forfeitures-Cash and Cash Equivalents										
Earmarked Funds	-	-	-	-	-	-	-	-	2	2
All Other Funds	-	-	-	-	-	-	-	-	-	-
Transfers In/Out Without Reimbursement										
Earmarked Funds	-	-	-	-	-	-	-	-	9	9
All Other Funds	(492)	-	-	-	-	-	-	(609)	600	(501)
Other Budgetary Financing Sources										
Earmarked Funds	-	-	-	-	-	-	-	-	-	-
All Other Funds	-	-	213	67	33	63	113	52	(541)	-
Other Financing Sources:										
Transfers In/Out Without Reimbursement										
Earmarked Funds	-	-	-	-	-	-	-	-	-	-
All Other Funds	(1,229)	-	-	-	-	-	-	-	(596)	(1,824)
Imputed Financing From Costs Absorbed From Others										
Earmarked Funds	-	1	-	-	-	-	-	-	-	1
All Other Funds	18	-	-	-	-	-	-	-	72	90
Other										
Earmarked Funds	-	-	-	-	-	-	-	-	-	-
All Other Funds	(217)	-	-	-	-	-	-	-	(609)	(826)
Total Financing Sources										
Earmarked Funds	-	1	14	864	1,050	-	1,758	-	903	4,590
All Other Funds	1,327	-	28,639	6,229	1,829	4,866	3,375	687	4,895	51,847
Total Financing Sources	1,327	1	28,653	7,093	2,879	4,866	5,133	687	5,798	56,437
Net Cost of Operations										
Earmarked Funds	-	1,183	(14)	(864)	(1,050)	-	(1,758)	-	(871)	(3,374)
All Other Funds	(3,519)	-	(28,639)	(6,229)	(1,829)	(4,866)	(3,238)	(1,051)	(4,866)	(54,237)
Net Change										
Earmarked Funds	-	1,184	-	-	-	-	-	-	32	1,216
All Other Funds	(2,192)	-	-	-	-	-	138	(364)	30	(2,390)
Total All Funds										
Earmarked Funds	-	15,760	-	-	-	-	-	-	674	16,434
All Other Funds	4,569	-	-	-	-	-	(148)	2,847	96	7,365
Total All Funds	**$ 4,569**	**$ 15,760**	**$ -**	**$ -**	**$ -**	**$ -**	**$ (148)**	**$ 2,847**	**$ 771**	**$ 23,799**

Department of Housing and Urban Development
Consolidating Statement of Changes in Net Position
For the Year Ended September 2011
(Dollars in Millions)

					Unexpended Appropriations					
	Federal Housing Administration	**Government National Mortgage Association**	**Section 8 Rental Assistance**	**Community Development Block Grants**	**HOME**	**Operating Subsidies**	**Public and Indian Housing Loans and Grants**	**Housing for the Elderly and Disabled**	**All Other**	**Consolidating**
Net Position - Beginning of Period										
Earmarked Funds	$ -	$ 2	$ 15	$ 2,457	$ 1,220	$ -	$ 2,171	$ -	$ 955	$ 6,819
All Other Funds	880	-	11,574	20,276	5,322	1,327	7,233	5,253	11,366	63,231
Beginning Balances	880	2	11,588	22,733	6,542	1,327	9,404	5,253	12,321	70,050
Adjustments										
Corrections of Errors										
Earmarked Funds	-	-	-	-	-	-	-	-	-	-
All Other Funds	-	-	-	-	-	-	-	-	1	1
Beginning Balances, As Adjusted										
Earmarked Funds	-	2	15	2,457	1,220	-	2,171	-	955	6,819
All Other Funds	880	-	11,574	20,276	5,322	1,327	7,233	5,253	11,367	63,232
Total Beginning Balances, As Adjusted	880	2	11,588	22,733	6,542	1,327	9,404	5,253	12,322	70,051
Budgetary Financing Sources										
Appropriations Received										
Earmarked Funds	-	-	-	-	-	-	-	-	-	-
All Other Funds	3,311	-	27,771	3,508	1,610	4,626	2,692	550	7,054	51,123
Appropriations Transfers In/Out										
Earmarked Funds	-	1	-	-	-	-	-	-	-	1
All Other Funds	(72)	-	(6)	(35)	(16)	(15)	-	(5)	149	(1)
Other Adjustments (Rescissions, etc)										
Earmarked Funds	-	-	-	-	(6)	-	(18)	-	(5)	(29)
All Other Funds	(26)	-	(149)	(24)	(10)	(10)	(87)	(84)	(231)	(620)
Appropriations Used										
Earmarked Funds	-	-	(14)	(864)	(1,050)	-	(1,758)	-	(892)	(4,578)
All Other Funds	(3,244)	-	(28,425)	(6,162)	(1,796)	(4,803)	(3,262)	(1,243)	(5,969)	(54,905)
Other Financing Sources:										
Total Financing Sources										
Earmarked Funds	-	1	(15)	(864)	(1,056)	-	(1,776)	-	(896)	(4,606)
All Other Funds	(30)	-	(809)	(2,713)	(212)	(202)	(657)	(783)	1,003	(4,403)
Total Financing Sources	(30)	1	(823)	(3,577)	(1,268)	(202)	(2,432)	(783)	107	(9,009)
Net Change										
Earmarked Funds	-	2	-	1,593	164	-	395	-	59	2,213
All Other Funds	850	-	10,765	17,563	5,110	1,126	6,576	4,470	12,369	58,829
Total Unexpended Appropriations	**850**	**2**	**10,765**	**19,156**	**5,274**	**1,126**	**6,971**	**4,470**	**12,428**	**61,042**
Total All Funds										
Earmarked Funds	-	15,762	-	1,593	164	-	395	-	733	18,647
All Other Funds	5,418	-	10,765	17,563	5,110	1,126	6,428	7,318	12,466	66,194
Net Position	**$ 5,418**	**$ 15,762**	**$ 10,765**	**$ 19,156**	**$ 5,274**	**$ 1,126**	**$ 6,823**	**$ 7,318**	**$ 13,199**	**$ 84,841**

Figures may not add to totals because of rounding.

Department of Housing and Urban Development
Consolidating Statement of Changes in Net Position
For the Year Ended September 2010
(Dollars in Millions)

Cumulative Results of Operations

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Consolidating
Net Position - Beginning of Period										
Earmarked Funds	$ -	$ 14,036	$ -	$ -	$ -	$ -	$ -	$ -	$ 589	$ 14,625
All Other Funds	3,261	-	-	-	-	-	(1,050)	3,543	45	5,799
Beginning Balances	3,261	14,036	-	-	-	-	(1,050)	3,543	633	20,424
Adjustments										
Beginning Balances, As Adjusted										
Earmarked Funds	-	14,036	-	-	-	-	-	-	589	14,625
All Other Funds	3,261	-	-	-	-	-	(1,050)	3,543	45	5,799
Total Beginning Balances, As Adjusted	3,261	14,036	-	-	-	-	(1,050)	3,543	633	20,424
Budgetary Financing Sources										
Other Adjustments (Rescissions, etc)										
Earmarked Funds	-	-	-	-	-	-	-	-	-	-
All Other Funds	7	-	-	-	-	-	-	-	-	7
Appropriations Used										
Earmarked Funds	-	-	758	505	1,028	-	2,031	-	581	4,902
All Other Funds	981	-	26,801	6,548	1,786	4,445	4,105	1,289	6,241	52,196
Transfers In/Out Without Reimbursement										
Earmarked Funds	-	-	-	-	-	-	-	-	10	10
All Other Funds	(559)	-	-	-	-	-	-	(602)	(9)	(1,170)
Other Budgetary Financing Sources										
Earmarked Funds	-	-	-	-	-	-	-	-	-	-
All Other Funds	-	-	236	71	37	70	109	62	(585)	-
Other Financing Sources:										
Transfers In/Out Without Reimbursement										
Earmarked Funds	-	-	-	-	-	-	-	-	-	-
All Other Funds	1,504	-	-	-	-	-	-	-	(502)	1,002
Imputed Financing From Costs Absorbed From Others										
Earmarked Funds	-	1	-	-	-	-	-	-	-	1
All Other Funds	19	-	-	-	-	-	-	-	80	99
Total Financing Sources										
Earmarked Funds	-	1	758	505	1,028	-	2,031	-	590	4,913
All Other Funds	1,952	-	27,037	6,620	1,823	4,515	4,214	750	5,223	52,134
Total Financing Sources	1,952	1	27,795	7,125	2,851	4,515	6,245	750	5,813	57,047
Net Cost of Operations										
Earmarked Funds	-	541	(758)	(505)	(1,028)	-	(2,031)	-	(537)	(4,318)
All Other Funds	1,548	-	(27,037)	(6,620)	(1,823)	(4,515)	(3,450)	(1,081)	(5,200)	(48,177)
Net Change										
Earmarked Funds	-	541	-	-	-	-	-	-	54	595
All Other Funds	3,500	-	-	-	-	-	765	(332)	24	3,957
Total All Funds										
Earmarked Funds	-	14,578	-	-	-	-	-	-	642	15,220
All Other Funds	6,761	-	-	-	-	-	(285)	3,212	68	9,756
Total All Funds	**$ 6,761**	**$ 14,578**	**$ -**	**$ -**	**$ -**	**$ -**	**$ (285)**	**$ 3,212**	**$ 710**	**$ 24,976**

Department of Housing and Urban Development
Consolidating Statement of Changes in Net Position
For the Year Ended September 2010
(Dollars in Millions)

					Unexpended Appropriations					
	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Consolidating
Net Position - Beginning of Period										
Earmarked Funds	$ -	$ -	$ 773	$ 2,963	$ 2,248	$ -	$ 4,201	$ -	$ 1,534	$ 11,719
All Other Funds	832	-	10,881	22,333	5,308	1,013	8,176	5,428	12,232	66,204
Beginning Balances	832	-	11,654	25,295	7,556	1,013	12,378	5,428	13,767	77,923
Adjustments										
Changes in Accounting Principles										
Earmarked Funds	-	-	-	-	-	-	-	-	-	-
All Other Funds	-	-	-	-	-	-	-	-	-	-
Corrections of Errors										
Earmarked Funds	-	-	-	-	-	-	-	-	-	-
All Other Funds	-	-	-	-	-	-	-	-	-	-
Beginning Balances, As Adjusted										
Earmarked Funds	-	-	773	2,963	2,248	-	4,201	-	1,534	11,719
All Other Funds	832	-	10,881	22,333	5,308	1,013	8,176	5,428	12,232	66,204
Total Beginning Balances, As Adjusted	832	-	11,654	25,295	7,556	1,013	12,378	5,428	13,767	77,923
Budgetary Financing Sources										
Appropriations Received										
Earmarked Funds	-	1	-	-	-	-	-	-	-	1
All Other Funds	1,231	-	27,769	4,550	1,825	4,775	3,198	1,125	5,346	49,819
Appropriations Transfers In/Out										
Earmarked Funds	-	-	-	-	-	-	-	-	-	-
All Other Funds	(155)	-	(100)	(45)	(18)	(15)	(25)	(11)	285	(82)
Other Adjustments (Rescissions, etc)										
Earmarked Funds	-	(1)	-	-	-	-	-	-	-	(1)
All Other Funds	(48)	-	(175)	(14)	(7)	-	(11)	-	(259)	(514)
Appropriations Used										
Earmarked Funds	-	-	(758)	(505)	(1,028)	-	(2,031)	-	(580)	(4,902)
All Other Funds	(981)	-	(26,801)	(6,548)	(1,786)	(4,445)	(4,105)	(1,288)	(6,241)	(52,196)
Other Financing Sources:										
Total Financing Sources										
Earmarked Funds	-	-	(758)	(505)	(1,028)	-	(2,031)	-	(580)	(4,902)
All Other Funds	47	-	693	(2,057)	14	314	(943)	(175)	(866)	(2,973)
Total Financing Sources	47	-	(65)	(2,562)	(1,014)	314	(2,974)	(175)	(1,446)	(7,875)
Net Change										
Earmarked Funds	-	-	15	2,457	1,220	-	2,171	-	954	6,817
All Other Funds	880	-	11,574	20,276	5,322	1,327	7,233	5,253	11,366	63,231
Total Unexpended Appropriations	**$ 880**	**$ -**	**$ 11,589**	**$ 22,733**	**$ 6,542**	**$ 1,327**	**$ 9,404**	**$ 5,253**	**$ 12,320**	**$ 70,048**
Total All Funds										
Earmarked Funds	-	14,578	15	2,457	1,220	-	2,171	-	1,596	22,037
All Other Funds	7,641	-	11,574	20,276	5,322	1,327	6,948	8,465	11,434	72,987
Net Position	**$ 7,641**	**$ 14,578**	**$ 11,589**	**$ 22,733**	**$ 6,542**	**$ 1,327**	**$ 9,119**	**$ 8,465**	**$ 13,030**	**$ 95,024**

Figures may not add to totals because of rounding.

Department of Housing and Urban Development
Combining Statement of Budgetary Resources
For the Year Ended September 2011
(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME	Operating Subsidies	Public and Indian Housing Loans & Grants	Housing for the Elderly and Disabled	All Other	Budgetary Total	Federal Housing Administration Non Budgetary	Other NonBudgetary Credit Program Accounts	Total NonBudgetary Credit Program Financing Accounts	Total
Budgetary Resources:														
Unobligated Balance, Brought Forward	$ 5,257	$ 9,840	$ 449	$ 2,020	$ 264	$ 10	$ 297	$ 1,349	$ 4,078	$ 23,564	$ 34,649	$ 160	$ 34,809	$ 58,373
Recoveries of Prior Year Unpaid Obligations	84	-	239	16	10	3	72	32	367	823	26	-	26	849
Budget Authority														
Appropriation	3,311	11	27,771	3,508	1,610	4,626	2,692	550	7,068	51,148	3	-	3	51,151
Borrowing Authority	-	-	-	-	-	-	-	-	22	22	3,838	32	3,870	3,892
Spending Authority from Offsetting Collections														
Earned														
Collected	8,169	4,069	-	-	-	-	1	601	74	12,914	27,869	36	27,905	40,819
Change in Receivable from Fed Sources	(5)	(9)	-	-	-	-	-	-	-	(15)	-	-	-	(15)
Change in Unfilled Customer Orders														
Advanced Received	-	-	-	-	-	-	-	-	(8)	(8)	-	-	-	(8)
W/O Advance from Federal Sources	1	-	-	-	-	-	-	-	183	184	1	-	1	185
Subtotal	11,476	4,071	27,771	3,508	1,610	4,626	2,693	1,151	7,338	64,245	31,711	68	31,779	96,025
Non Expenditure Transfers, Net	(72)	(10)	(6)	(35)	(16)	(15)	-	(5)	149	(11)	-	-	-	(11)
Permanently not available	(228)	-	(148)	(24)	(16)	(10)	(105)	(702)	(858)	(2,091)	(2,569)	(10)	(2,579)	(4,671)
Total Budgetary Resources	**$ 16,517**	**$ 13,901**	**$ 28,304**	**$ 5,485**	**$ 1,853**	**$ 4,615**	**$ 2,956**	**$ 1,824**	**$ 11,074**	**$ 86,530**	**$ 63,817**	**$ 219**	**$ 64,035**	**$ 150,565**
Status of Budgetary Resources:														
Obligations Incurred														
Direct	10,953	12	27,957	4,425	1,495	4,600	2,775	659	6,826	59,703	27,567	39	27,607	87,310
Reimbursable	-	5,063	-	-	-	-	-	-	4	5,067	-	-	-	5,067
Subtotal	10,953	5,076	27,957	4,425	1,495	4,600	2,775	659	6,830	64,770	27,567	39	27,607	92,377
Unobligated Balances														
Apportioned	222	1	297	1,042	355	2	139	1,125	3,175	6,357	13,170	28	13,198	19,554
Subtotal	222	1	297	1,042	355	2	139	1,125	3,175	6,357	13,170	28	13,198	19,555
Unobligated Balances Not Available	5,343	8,824	50	18	3	13	42	40	1,068	15,403	23,079	151	23,230	38,633
Total Status of Budgetary Resources	**$ 16,517**	**$ 13,901**	**$ 28,304**	**$ 5,485**	**$ 1,853**	**$ 4,615**	**$ 2,956**	**$ 1,824**	**$ 11,074**	**$ 86,530**	**$ 63,817**	**$ 219**	**$ 64,035**	**$ 150,565**
Change in Obligated Balance														
Obligated Balance, Net														
Unpaid Obligations, Brought Forward	772	378	11,156	20,763	6,300	1,336	9,131	3,916	10,910	64,662	1,891	-	1,891	66,553
Less: Uncollected Customer Payments from Federal Sources	(24)	(23)	-	-	-	-	-	-	(27)	(74)	-	(15)	(15)	(90)
Total Unpaid Obligated Balance, Net	748	355	11,156	20,763	6,300	1,336	9,131	3,916	10,883	64,588	1,891	(15)	1,876	66,464
Obligations Incurred, Net	10,953	5,076	27,957	4,425	1,495	4,600	2,775	659	6,830	64,770	27,568	39	27,607	92,378
Less: Gross Outlays	(10,904)	(4,935)	(28,435)	(7,037)	(2,853)	(4,621)	(5,030)	(1,245)	(6,917)	(71,976)	(27,113)	(38)	(27,151)	(99,127)
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(84)	-	(239)	(16)	(10)	(3)	(72)	(32)	(367)	(823)	(26)	-	(26)	(849)
Change in Uncollected Customer Payments from Federal Sources	4	9	-	-	-	-	-	-	(183)	(169)	(1)	-	(1)	(171)
Obligated Balance, Net - End of Period														
Unpaid Obligations	737	519	10,441	18,135	4,932	1,312	6,805	3,299	10,456	56,634	2,320	1	2,321	58,955
Less: Uncollected Customer Payments from Federal Sources	(20)	(14)	-	-	-	-	-	-	(210)	(244)	-	(16)	(16)	(260)
Total Obligated Balance, Net - End of Period	717	504	10,441	18,135	4,932	1,312	6,805	3,299	10,246	56,390	2,320	(15)	2,305	58,695
Net Outlays														
Gross Outlays	10,904	4,935	28,435	7,037	2,853	4,621	5,030	1,245	6,917	71,976	27,113	38	27,151	99,127
Less: Offsetting Collections	(8,169)	(3,228)	-	-	-	-	(1)	(601)	(65)	(12,066)	(27,869)	(36)	(27,904)	(39,970)
Less: Distributed Offsetting Receipts	(1,033)	(841)	(12)	-	-	-	-	-	(35)	(1,921)	-	-	-	(1,921)
Net Outlays	**$ 1,702**	**$ 865**	**$ 28,423**	**$ 7,037**	**$ 2,853**	**$ 4,621**	**$ 5,029**	**$ 644**	**$ 6,816**	**$ 57,989**	**$ (756)**	**$ 3**	**$ (753)**	**$ 57,236**

Figures may not add to totals because of rounding.

Department of Housing and Urban Development
Combining Statement of Budgetary Resources
For the Year Ended September 2010
(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME	Operating Subsidies	Public and Indian Housing Loans & Grants	Housing for the Elderly and Disabled	All Other	Budgetary Total	Federal Housing Administration Non Budgetary	Other NonBudgetary Credit Program Accounts	Total NonBudgetary Credit Program Financing Accounts	Total
Budgetary Resources:														
Unobligated Balance, Brought Forward	$ 11,401	$ 14,334	$ 581	$ 7,986	$ 293	$ 4	$ 297	$ 1,018	$ 4,431	$ 40,344	$ 26,799	$ 169	$ 26,968	$ 67,312
Recoveries of Prior Year Unpaid Obligations	58	-	312	15	29	1	152	25	305	896	70	-	70	966
Budget Authority														
Appropriation	1,231	12	27,769	4,550	1,825	4,775	3,198	1,125	5,358	49,842	7	-	7	49,849
Borrowing Authority	10	-	-	-	-	-	-	-	26	36	791	5	796	832
Spending Authority from Offsetting Collections														
Earned														
Collected	3,970	3,535	-	-	-	-	589	592	122	8,808	28,185	28	28,213	37,021
Change in Receivable from Fed Sources	(62)	(23)	-	-	-	-	-	-	-	(84)	(3)	-	(3)	(87)
Change in Unfilled Customer Orders														
Advanced Received	-	-	-	-		-	-	-	(11)	(11)	-	-	-	(11)
W/O Advance from Federal Sources	-	-	-	-	-	-	-	-	18	18	(1)	(4)	(5)	13
Subtotal	5,149	3,525	27,769	4,550	1,825	4,775	3,787	1,717	5,513	58,609	28,978	30	29,008	87,617
Non Expenditure Transfers, Net	(72)	-	(100)	(45)	(18)	(15)	(25)	(11)	286	-	-	-	-	-
Permanently not available	(261)	(1)	(1,049)	(14)	(7)	-	(666)	(601)	(1,587)	(4,186)	(449)	-	(449)	(4,635)
Total Budgetary Resources	**16,274**	**17,858**	**27,512**	**12,492**	**2,122**	**4,765**	**3,544**	**2,148**	**8,948**	**95,663**	**55,398**	**198**	**55,597**	**151,260**
Status of Budgetary Resources:														
Obligations Incurred														
Direct	11,017	10	27,064	10,472	1,857	4,754	3,247	799	4,861	64,082	20,749	38	20,787	84,869
Reimbursable	-	8,008	-	-	-	-	-	-	9	8,017	-	-	-	8,017
Subtotal	11,017	8,018	27,064	10,472	1,857	4,754	3,247	799	4,871	72,099	20,749	38	20,787	92,886
Unobligated Balances														
Apportioned	513	2	441	1,903	244	6	215	1,234	3,246	7,804	4,064	10	4,074	11,878
Subtotal	513	2	441	1,903	244	6	215	1,234	3,246	7,804	4,064	10	4,074	11,878
Unobligated Balances Not Available	4,744	9,838	8	117	20	5	82	115	832	15,760	30,585	151	30,736	46,496
Total Status of Budgetary Resources	**16,274**	**17,858**	**27,512**	**12,492**	**2,122**	**4,765**	**3,544**	**2,148**	**8,948**	**95,663**	**55,398**	**198**	**55,597**	**151,260**
Change in Obligated Balance														
Obligated Balance, Net														
Unpaid Obligations, Brought Forward	840	176	11,965	17,348	7,282	1,185	12,250	4,432	13,272	68,751	1,464	-	1,464	70,215
Less: Uncollected Customer Payments from Federal Sources	(85)	(46)	-	-	-	-	-	-	(9)	(141)	(4)	(19)	(23)	(164)
Total Unpaid Obligated Balance, Net	755	130	11,965	17,348	7,282	1,185	12,250	4,432	13,263	68,610	1,460	(19)	1,441	70,051
Obligations Incurred, Net	11,017	8,018	27,064	10,472	1,857	4,754	3,247	799	4,871	72,099	20,749	38	20,787	92,886
Less: Gross Outlays	(11,027)	(7,816)	(27,561)	(7,043)	(2,811)	(4,603)	(6,215)	(1,289)	(6,928)	(75,292)	(20,252)	(38)	(20,290)	(95,582)
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(58)	-	(312)	(15)	(29)	(1)	(152)	(25)	(305)	(896)	(70)	-	(70)	(966)
Change in Uncollected Customer Payments from Federal Sources	61	23	-	-	-	-	-	-	(18)	66	4	4	7	73
Obligated Balance, Net - End of Period														
Unpaid Obligations	772	378	11,156	20,763	6,300	1,336	9,131	3,916	10,910	64,662	1,891	-	1,891	66,553
Less: Uncollected Customer Payments from Federal Sources	(24)	(23)	-	-	-	-	-	-	(27)	(74)	-	(15)	(15)	(89)
Total Obligated Balance, Net - End of Period	748	355	11,156	20,763	6,300	1,336	9,131	3,916	10,883	64,588	1,891	(15)	1,876	66,464
Net Outlays														
Gross Outlays	11,027	7,816	27,561	7,043	2,811	4,603	6,215	1,289	6,928	75,292	20,252	38	20,290	95,582
Less: Offsetting Collections	(3,970)	(2,543)	-	-	-	-	(589)	(592)	(111)	(7,805)	(28,185)	(28)	(28,213)	(36,018)
Less: Distributed Offsetting Receipts	(619)	(993)	(10)	-	-	-	-	-	(97)	(1,718)	-	-	-	(1,718)
Net Outlays	**$ 6,438**	**$ 4,280**	**$ 27,551**	**$ 7,043**	**$ 2,811**	**$ 4,603**	**$ 5,626**	**$ 697**	**$ 6,720**	**$ 65,769**	**$ (7,933)**	**$ 10**	**$ (7,923)**	**$ 57,846**

Figures may not add to totals because of rounding.

Independent Auditor's Report

U.S. Department of Housing and Urban Development
Office of Inspector General
451 7th St., S.W.
Washington, D.C. 20410-4500

INDEPENDENT AUDITOR'S REPORT[1]

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

In accordance with the Chief Financial Officers Act of 1990, the U.S. Department of Housing and Urban Development (HUD) has prepared the accompanying consolidated balance sheets of HUD 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 for the fiscal years then ended. We are required by the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994 and implemented by Office of Management and Budget (OMB) Bulletin 07-04, Audit Requirements for Federal Financial Statements, to audit HUD's principal financial statements or select an independent auditor to do so. The objective of our audit was to express an opinion on the fair presentation of these principal financial statements.

With respect to the fiscal years 2011 and 2010 financial statements, we did not audit the financial statements of the Federal Housing Administration (FHA) and the Government National Mortgage Association (Ginnie Mae) for the periods ending September 30, 2011 and 2010, which reflected total assets constituting 52 and 47 percent, respectively, of the related consolidated totals. Other independent auditors, whose reports have been furnished to us, audited those statements, and our opinion on the fiscal year 2011 and 2010 financial statements, insofar as it relates to the amounts included for FHA and Ginnie Mae as of September 30, 2011 and 2010, is based solely on the reports of the other auditors. In connection with our audit, we also considered HUD's internal control over financial reporting and tested HUD's compliance with certain provisions of applicable laws, regulations, governmentwide policy requirements, and certain provisions of contracts and grant agreements that could have a direct and material effect on its principal financial statements. These considerations are an integral part of an audit conducted in accordance with Government Auditing Standards and are important for assessing the results of the audit.

[1] This report is supplemented by a separate report issued by the HUD Office of Inspector General (OIG) to provide a more detailed discussion of the internal control and compliance issues and to provide specific recommendations to HUD management. The report is available at the HUD OIG Internet site at http://www.hud.gov/oig/oigindex.html and is entitled Additional Details to Supplement Our Report on HUD's Fiscal Years 2011 and 2010 Financial Statements (2012-FO-0003, dated November 15, 2011).

Opinion on the Fiscal Years 2011 and 2010 Financial Statements

In our opinion, based on our audit and the reports of other auditors, for the accompanying fiscal years 2011 and 2010, the principal financial statements and accompanying notes present fairly, in all material respects, the financial position of HUD as of September 30, 2011 and 2010 and its net costs, changes in net position, and budgetary resources for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

The other auditors' and our audit also disclosed the following significant deficiencies in internal controls related to the need to:

- Have financial management systems comply with the Federal financial management system;
- Continue improvements in the processes for reviewing obligation balances;
- Continue improvements in the oversight and monitoring of subsidy calculations, intermediaries' program performance, and use of Housing Choice Voucher and Operating Subsidy program funds;
- Establish internal controls over Office of Community Planning and Development (CPD) grantees' compliance with program requirements;
- Improve administrative control of funds;
- Further strengthen controls over HUD's computing environment;
- Improve personnel security practices for access to HUD's critical financial systems;
- Improve compliance control to ensure the safety, completeness, and validity of collateral loan files;
- Strengthen internal control over risk-based issuer and document custodian reviews to improve the effectiveness of counterparty monitoring and oversight; and
- Effectively analyze and resolve identified Information Technology Security Control Deficiencies

Most of these control weaknesses were reported in prior efforts to audit HUD's financial statements, and some represent long-standing challenges. Our findings also include the following instances of noncompliance with applicable laws and regulations, governmentwide policy requirements, and provisions of contract and grant agreements that are required to be reported herein under Government Auditing Standards or OMB Bulletin 07-04:

- HUD did not substantially comply with the Federal Financial Management Improvement Act (FFMIA) regarding system requirements;
- HUD did not substantially comply with the Antideficiency Act (ADA);
- HUD did not substantially comply with laws and regulations governing claims of the United States Government;
- FHA's Mutual Mortgage Insurance Fund capitalization was not maintained at a minimum capital ratio of 2 percent, which is required under the Cranston-Gonzalez National Affordable Housing Act of 1990; and
- FHA did not substantially comply with the Federal Financial Management Improvement Act (FFMIA) regarding system limitations to effectively and efficiently operate.

In addition, our audit disclosed another matter, in which HUD did not obligate all of the funds appropriated for the Emergency Homeowners' Loan Program.

The audit also identified $80.7 million in excess obligations recorded in HUD's records. We are also recommending that the Department request a congressional recission of $471.8 million in funding originally appropriated for the Emergency Homeowners' Loan Program but not obligated by the required obligation date. Lastly, we are recommending that HUD seek legislative authority to implement offsets of $820 million against public housing agencies' (PHA) excess Section 8 funding held in net restricted assets accounts at the PHAs and $1 billion in the Operating Subsidy account. These amounts represent funds that HUD could put to better use.

Required Supplementary Information

In its Fiscal Year 2011 Agency Financial Report, HUD presents "required supplemental stewardship information" and "required supplementary information." The required supplemental stewardship information presents information on investments in non-Federal physical property and human capital and investments in research and development. In the required supplementary information, HUD presents a "management discussion and analysis of operations" and combining statements of budgetary resources. This information is not a required part of the basic financial statements but is supplementary information required by the Federal Accounting Standards Advisory Board and OMB Circular A-136. We did not audit and do not express an opinion on this information; however, we applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. HUD also elected to present consolidating balance sheets and related consolidating statements of changes in net position as required supplementary information. The consolidating information is presented for purposes of additional analysis of the financial statements rather than to present the financial position and changes in net position of HUD's major activities.

Additional details on the other auditors' and our findings regarding HUD's internal controls are summarized below and were provided in separate reports to HUD management. These additional details also augment the discussions of instances in which HUD had not complied with applicable laws and regulations; the information regarding our audit objectives, scope, and methodology; and recommendations to HUD management resulting from our audit.

Significant Deficiencies

HUD's Financial Management Systems Did Not Fully Comply With Federal Financial Management System Requirements
As reported in prior years, HUD's financial management systems were not in full compliance with Federal financial management system requirements. HUD did not develop an adequate agencywide financial management systems plan. Additionally, HUD had not completed development of an adequate integrated financial management system. HUD's financial systems, many of which were developed and implemented before the issue date of current standards, were not designed to provide the range of financial and performance data currently required. As a result, HUD, on a departmentwide basis, did not have integrated financial management systems that complied with current Federal requirements or provided HUD the information needed to effectively manage its operations on a daily basis. This situation could negatively impact management's ability to perform required financial management functions; efficiently manage the financial operations of the agency; and report, on a timely basis, the agency's financial results, performance measures, and cost information. Additionally, CPD's grants management systems had weaknesses in internal control and were also noncompliant with OMB A-127 Federal financial management systems requirements, Federal accounting standards, and application of the U.S. Standard General Ledger at the transactions level.

HUD's Processes for Reviewing Its Obligation Had Improved, but Deficiencies Still Existed
HUD had made progress over the past several years in improving its processes for reviewing its outstanding obligations and recapturing amounts no longer needed to fund them. However, deficiencies still existed that allowed invalid obligations to remain in HUD's accounting records. This

condition occurred because of a lack of resources and inadequate procedures. This has been a long-standing weakness. We evaluated HUD's internal controls for monitoring obligated balances and found that HUD had continued its progress in implementing improved procedures and information systems. However, additional improvements are needed. Our review of the fiscal year 2011 yearend obligation balances showed that timely reviews and recaptures of unexpended obligations for the CPD Supportive Housing Program, Section 202 and 811 programs, and HUD's administrative and other program obligations were not always performed. As a result, $157.3 million in excess funds had not been recaptured.

CPD Needs To Establish an Adequate System of Internal Controls To Properly Monitor Grantees' Compliance With Program Requirements

Based upon our review of CPD's programs and internal controls implemented to monitor grantee compliance with program regulations, we noted control deficiencies regarding the programs' timely action and follow-up with noncompliant grantees, as well as inadequate procedures to identify noncompliant grantees. The combination of the control deficiencies noted during our audit adversely affected the organization's ability to meet its internal control objectives, which are to not only determine grantee compliance with applicable laws and regulations, but also to identify deficiencies in a timely manner and design and implement corrective actions to improve or reinforce program participant performance.

HUD Needs To Improve Administrative Control of Funds

HUD needs to improve its accounting and administrative controls of funds to ensure that (1) all programs that incurred obligations or disbursements have acceptable funds control plans and (2) the funds control plans are complete, accurate, updated, and complied with by the program offices. During our review, we identified a number of program codes that did not have funds control plans. Additionally, we noticed that funds control plans were not always updated to reflect all program codes and did not always include the correct appropriations. We also noted that the Office of the Chief Financial Officer (OCFO) had not ensured the effective administrative control of funds process required by HUD's Policies Handbook 1830.2. Incomplete implementation of administrative control of funds has been a long-standing issue and has been previously reported, since fiscal year 2005, in our audit reports and management letters.

HUD Management Must Continue To Improve Oversight and Monitoring of Subsidy Calculations, Intermediaries' Program Performance, and Use of Housing Choice Voucher and Operating Subsidy Program Funds.

Since 1996, we have reported on weaknesses with the monitoring of the housing assistance programs' delivery and the verification of subsidy payments. We focused on the impact these weaknesses had on HUD's ability to (1) ensure that intermediaries correctly calculated housing subsidies and (2) verify tenant income and billings for subsidies. During the past several years, HUD has made progress in correcting this deficiency. In fiscal year 2011, HUD began implementing plans to comply with the Improper Payments Elimination and Recovery Act of 2010 and Presidential Executive Order 13520, Reducing Improper Payments of 2009. In consultation with OMB, HUD developed six supplemental measures for the Office of Public and Indian Housing and four supplemental measures for the Office of Multifamily Housing to track and report on intermediaries' efforts for addressing improper payments.

The Department had demonstrated improvements in its internal control structure to address the significant risk that HUD's intermediaries were not properly carrying out their responsibility to administer assisted housing programs in accordance with HUD requirements. HUD's increased and improved monitoring resulted in a significant decline in improper payment estimates over the last several years. However, HUD needs to continue to place emphasis on its onsite monitoring and technical assistance to ensure that acceptable levels of performance and compliance are achieved and periodically assess the accuracy of intermediaries' rent determinations, tenant income verifications, and billings.

Controls Over HUD's Computing Environment Can Be Further Strengthened.
HUD's computing environment, data centers, networks, and servers provide critical support to all facets of the Department's programs, mortgage insurance, servicing, and administrative operations. In prior years, we reported on various weaknesses with general system controls and controls over certain applications, as well as weak security management. These deficiencies increase risks associated with safeguarding funds, property, and assets from waste, loss, unauthorized use, or misappropriation. We evaluated selected information system general controls of HUD's computer systems on which HUD financial systems reside. Our review found information systems control weaknesses that could negatively affect the integrity, confidentiality, and availability of computerized data.

Weak Personnel Security Practices Continued To Pose Risks of Unauthorized Access to HUD's Critical Financial Systems.
For several years, HUD's personnel security practices regarding access to its systems and applications had been inadequate. Deficiencies in HUD's information technology personnel security program were found and recommendations were made to correct the problems. However, the risk of unauthorized access to HUD's financial systems remained a critical issue. We followed up on previously reported information technology personnel security weaknesses and deficiencies and found that deficiencies still existed.

Improve compliance control to ensure the safety, completeness, and validity of collateral loan files.
Ginnie Mae defaulted and extinguished one of its largest issuer's interests and rights in the pooled mortgages and contracted with a financial institution to be its master sub-servicer. The master sub-servicer began servicing Ginnie Mae's guarantee to MBS investors in August 2009. Ginnie Mae's master sub-servicer contracted with an independent document custodian to ensure the safety and completeness of the mortgage collateral documentation. The current custodian has not been able to provide a final certification within 12 months from transfer of the portfolio from the predecessor custodian as required. A significant portion could not be final certified due to the poor condition of the collateral loan files. The delays in the review process caused by the poor condition of the loan files will delay the processing of the loan modifications, prepayments, initiating foreclosures, and filing claims with the federal insuring agencies.

Strengthen internal control over risk-based issuer and document custodian reviews to improve the effectiveness of counterparty monitoring and oversight.
Ginnie Mae has significant reliance on outside consultant to perform field reviews and monitoring of issuers and of its document custodians to determine compliance with the Ginnie Mae policy and their implementation of internal control. The IPA found that the Work papers for the completed reviews were incomplete in terms of documentation, meeting tests objectives, and performing required procedures. As a result, these reviews may be insufficient for Ginnie Mae to rely upon. Additionally, the last comprehensive update to Ginnie Mae's monitoring guide was made on December 1, 2005. Ginnie Mae has changed and implemented numerous policies and procedures in response to the current financial crisis which started in 2008, which are not reflected in the guide.

FHA's Identified Information Technology Security Control Deficiencies are not Effectively Analyzed and Resolved.
FHA's financial management systems are owned by the Office of Single Family Housing or the Office of Multifamily Housing. The technical infrastructure and general support of FHA 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. In prior audit reports and management letters, the IPAs have reported numerous weaknesses in security and access controls, as well as in configuration management and contingency planning. FHA tracks actions to improve controls using corrective action

plans and plans of action and milestones. While these plans often result in improvements to the specific application weaknesses reported, such remediation does not always occur. However, the same type of weaknesses are found when different applications are reviewed. This indicates that the root causes of the deficiencies are not being effectively addressed or resolved.

Compliance With Laws and Regulations

HUD Did Not Substantially Comply With the Federal Financial Management Improvement Act

During fiscal year 2010, we found that CPD's Integrated Disbursement and Information System was determined to be noncompliant with FFMIA due to deficiencies in internal controls over financial reporting and its ability to process transactions that would follow Federal generally accepted accounting principles. HUD, on an entitywide basis, made limited progress as it attempted to address its financial management deficiencies to bring the agency's financial management systems into compliance with FFMIA. Deficiencies remained as HUD's financial management systems continued to not meet current requirements and were not operated in an integrated fashion and linked electronically to efficiently and effectively provide agencywide financial system support necessary to carry out the agency's mission and support the agency's financial management needs. Additionally, HUD did not fully comply with OMB Circular A-127. We determined that HUD's financial management systems plan document for fiscal year 2011 did not meet the requirements specified in the circular.

We continue to report as a significant deficiency that HUD's financial management systems need to comply with Federal financial management systems requirements. The significant deficiency addresses how HUD's financial management systems remained substantially noncompliant with Federal financial management requirements.

We also continue to report as significant deficiencies that (1) controls over HUD's computing environment can be further strengthened and (2) weak personnel security practices continued to pose risks of unauthorized access to the Department's critical financial systems. These significant deficiencies discuss how weaknesses with general controls and certain application controls and weak security management increase risks associated with safeguarding funds, property, and assets from waste, loss, unauthorized use, or misappropriation.

HUD Did Not Substantially Comply With the Antideficiency Act (ADA)

Our fiscal year 2011 audit found that HUD had not improved its process for conducting, completing, reporting, and closing the investigation of potential ADA, 31 U.S.C. (United States Code) 1351.1517(b), violations. Our review found that none of the six cases identified as a potential deficiency in fiscal year 2009 were reported to the President through OMB, Congress, or the U.S. Government Accountability Office (GAO) as required or determined not to be a violation. Of the six cases in which OCFO was notified of a potential violation, two case files were opened in fiscal year 2003, two cases were opened in fiscal year 2004, one case file was opened in fiscal year 2005, and the remaining case was opened in fiscal year 2008. In all six of the cases, OCFO had not completed its review to report the violations to the President through OMB, Congress, or GAO as required. Additionally, in four of the six cases, the Appropriation Law Division had not completed its review as required. Therefore, we did not find any improvement in HUD's conducting, completing, reporting, or closing potential ADA violation investigations.

HUD Did Not Substantially Comply With Laws and Regulations Governing Claims of the United States Government

Our review found that HUD did not comply with 31 CFR (Code of Federal Regulations) Part 901, Standards for the Administration of Claims. While the Department had made progress, our review of the Section 202 delinquent loans determined that inadequate collection efforts continued. Additionally, as noted in our prior-year audit, the delinquent status of debt due to HUD remained unreported to credit bureaus as required by 31 U.S.C. 3711. As a result, the delinquent status of debt due was not available to other Federal credit agencies.

FHA Did Not Comply With the Cranston-Gonzalez National Affordable Housing Act of 1990

The Cranston-Gonzalez National Affordable Housing Act of 1990 requires FHA's Mutual Mortgage Insurance Fund to maintain a minimum capital ratio of 2 percent and conduct an annual independent actuarial study to calculate this ratio. In fiscal year 2010, the independent actuarial review reported that this ratio remained below the minimum 2 percent. As of the date of our audit report for fiscal year 2011, this report had not been submitted; however, FHA data indicated that this ratio remained below the required 2 percent through fiscal year 2011.

FHA Did Not Substantially Comply With the Federal Financial Management Improvement Act

Financial management system 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 had to implement numerous expensive and manual compensating controls to ensure the reliability of its day-to-day financial transaction processing and reporting.

Results of the Audit of FHA's Financial Statements

The independent certified public accounting firm of Clifton Gunderson LLP performed a separate audit of FHA's fiscal years 2011 and 2010 financial statements. Its report on FHA's financial statements, dated November 7, 2011,[2] includes an unqualified opinion on FHA's financial statements, along with discussion of one significant deficiency in internal controls and two instance of noncompliance with laws and regulations.

Results of the Audit of Ginnie Mae's Financial Statements

The independent certified public accounting firm of Clifton Gunderson LLP performed a separate audit of Ginnie Mae's fiscal years 2011 and 2010 financial statements. Its report on Ginnie Mae's financial statements, dated November 7, 2011,[3] includes an unqualified opinion on these financial statements, along with discussion of two significant deficiencies in internal controls.

Objectives, Scope, and Methodology

The accompanying principal financial statements are the responsibility of HUD management. Our responsibility is to express an opinion on these principal financial statements. As part of our audit, we considered HUD's internal controls over financial reporting by obtaining an understanding of the design effectiveness of internal controls, determined whether they had been placed into operation, assessed control risks, and performed tests of the reporting entity's internal controls to determine our audit procedures for the purpose of expressing our opinion on the principal financial statements. We are not providing assurance on those internal controls. Consequently, we do not provide an opinion on internal controls. We

[2] Clifton Gunderson LLP's report on FHA, Audit of Federal Housing Administration Financial Statements for Fiscal Years 2011 and 2010 (2012-FO-0002, dated November 7, 2011) was incorporated into this report.

[3] Clifton Gunderson LLP's report on Ginnie Mae, Audit of Government National Mortgage Association Financial Statements for Fiscal Years 2011 and 2010 (2012-FO-0001, dated November 7, 2011) was incorporated into this report.

conducted our audit in accordance with Government Auditing Standards and the requirements of OMB Bulletin 07-04, as amended. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion on the financial statements.

We also tested HUD's compliance with laws, regulations, governmentwide policies, and provisions of contract and grant agreements that could have a direct and material effect on the financial statements. However, our consideration of HUD's internal controls and our testing of its compliance with laws, regulations, governmentwide policies, and provisions of contract and grant agreements were not designed to and did not provide sufficient evidence to allow us to express an opinion on such matters and would not necessarily disclose all matters that might be material weaknesses; significant deficiencies; or noncompliance with laws, regulations, governmentwide policies, and provisions of contract and grant agreements. Accordingly, we do not express an opinion on HUD's internal controls or its compliance with laws, regulations, governmentwide policies, and provisions of contract and grant agreements.

With respect to internal controls related to performance measures to be reported in the management's discussion and analysis and HUD's Fiscal Year 2011 Agency Financial Report, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as described in section 230.13 of OMB Circular A-11, Preparation, Submission, and Execution of the Budget. We performed limited testing procedures as required by AU Section 558, Required Supplementary Information. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

Agency Comments and Our Evaluation

On October 31, 2011, we provided a draft of the internal control and compliance sections of our report to the Chief Financial Officer (CFO), appropriate assistant secretaries, and other departmental officials and requested that the CFO coordinate a departmentwide response. On November 2, 2011, an updated draft of the internal control and compliance sections was issued. The CFO responded in a memorandum dated

November 10, 2011, which is included in its entirety in our separate report. The Department generally disagreed with the significant deficiencies. The Department's response was considered in preparing the final version of this report.

This report is intended for the information and use of the management of HUD, OMB, GAO, and Congress and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited. In addition to a separate report detailing the internal control and compliance issues included in this report and providing specific recommendations to HUD management, we noted other matters involving internal control over financial reporting and its operation that we are reporting to HUD management in a separate "management letter."

Randy W. McGinnis
Assistant Inspector General for Audit

November 15, 2011

Other Accompanying Information

OIG Report on Management and Performance Challenges for Fiscal Year 2012 and Beyond

U.S. Department of Housing and Urban Development
Office of Inspector General
451 7th St., SW
Washington, DC 20410

October 14, 2011

MEMORANDUM FOR: Shaun Donovan, Secretary, S

John P. McCarty

FROM: John P. McCarty, Acting Deputy Inspector General, G

SUBJECT: Management and Performance Challenges for Fiscal Year 2012 and Beyond

In accordance with Section 3 of the Reports Consolidation Act of 2000, the Office of Inspector General (OIG) is submitting its annual statement to you summarizing our current assessment of the most serious management and performance challenges facing the U.S. Department of Housing and Urban Development (HUD) in fiscal year 2012. Through our audits, investigations, inspections, and evaluations, we work with departmental managers in recommending actions that best address these challenges. More details on our efforts in relation to these issues can be found in our Semiannual Report to Congress.

The Department's primary mission is to create strong, sustainable, inclusive communities and quality, affordable homes for all. HUD seeks to accomplish this mission through a wide variety of housing and community development grant, subsidy, and loan programs. Additionally, HUD assists families in obtaining housing by providing Federal Housing Administration (FHA) mortgage insurance for single-family and multifamily properties. HUD relies upon many partners for the performance and integrity of a large number of diverse programs. Among these partners are cities that manage HUD's Community Development Block Grant funds, public housing agencies that manage assisted housing funds, HUD-approved lenders that originate and service FHA-insured loans, Government National Mortgage Association mortgage-backed security issuers that provide mortgage capital, and other Federal agencies with which HUD coordinates to accomplish its goals. HUD also has a substantial responsibility for administering disaster assistance programs. HUD is also administering new mortgage assistance and grant programs in response to the Nation's financial crisis, increase in foreclosures, and declining home values.

Achieving HUD's mission continues to be an ambitious challenge for its limited staff, given the agency's diverse programs, the thousands of intermediaries assisting the Department, and the millions of beneficiaries of its housing programs. The continuing national credit and financial crisis is having a profound impact on HUD. Proposed and new program changes have introduced new risks and enforcement challenges. More specifically, the $13.6 billion American Recovery and Reinvestment Act increased the oversight responsibilities for the Department. In addition, Congress allotted another $1 billion to the Neighborhood Stabilization Program and $1 billion to the new Emergency Homeowners Loan Program to help homeowners who have become unemployed or underemployed keep their homes. HUD is also a key to the Nation's housing industry in that FHA-insured mortgages finance 15 percent of all home purchases in the United States. The attachment discusses these and other challenges facing HUD.

Attachment

HUD Management and Performance Challenges
Fiscal Year 2012 and Beyond

Single-family programs. The Federal Housing Administration's (FHA) single-family mortgage insurance programs enable millions of first-time borrowers and minority, low-income, elderly, and other underserved households realize the benefits of home ownership. The U.S. Department of Housing and Urban Development (HUD) manages a growing portfolio exceeding $1 trillion in single-family insured mortgages. Effective management of this portfolio represents a continuing challenge for the Department.

HUD has sustained significant losses in its single-family program and is taking on additional risk. The number of FHA mortgages has risen dramatically. The increased mortgage endorsement volume is accompanied by increases in defaults, claims, and loss mitigation. FHA's Mutual Mortgage Insurance (MMI) fund has fallen below the legally required 2 percent capitalization ratio. Recent legislation gave the HUD Secretary more flexibility regarding premiums charged for mortgage insurance. As a result, HUD has raised the annual premium and lowered the upfront premium to aid in returning the MMI fund to congressionally mandated levels without disruption to the marketplace.

FHA plays a major role in supporting the housing market. The current degree of FHA predominance in the market is unparalleled. It is clear that the Department is committed to positioning FHA as rapidly as possible to deal with the changing dynamics. For the first time, FHA has imposed a minimum credit score to be eligible for FHA financing and set loan-to-value ceilings dependent on credit scoring. We have expressed concerns that the credit score threshold HUD uses is traditionally considered subprime territory in the conventional marketplace. HUD has also increased lenders' net worth requirements to a minimum of $1 million and ceased its approval of loan correspondents. Those entities, also referred to as sponsored third-party originators, must establish a sponsorship relationship with an FHA-approved mortgage lender to continue participating in FHA programs. FHA, in turn, intends to hold approved lenders responsible for ensuring that their third-party originators comply with FHA lending requirements.

By law, HUD has to pay the claim on a defaulted FHA-insured mortgage but can then go back to the lender that underwrote the loan to recover the losses incurred if it finds that the loan was ineligible for insurance. OIG has noted in past audits HUD's unnecessary exposure when paying claims on loans that were never qualified for insurance. In the early part of 2010, we conducted Operation Watchdog, an initiative that involved reviewing the underwriting of 284 mortgages underwritten by 15 direct endorsement lenders. HUD had paid claims on these loans, which resulted in or are likely to result in actual losses in excess of $11 million. Our review showed that 140 (49 percent) of the loans reviewed, a large and unacceptable percentage, never should have been insured.

FHA has introduced new loss mitigation programs. HUD and the U.S. Department of the Treasury announced enhancements to the existing Making Home Affordable Program, an FHA refinance program for homeowners that owe more on their mortgage than the value of their home. Further, the Dodd-Frank Wall Street Reform and Consumer Protection Act required HUD to develop the Emergency Homeowners Loan Program. This legislation provides up to

$50,000 to homeowners on their mortgage principal, interest, mortgage insurance, taxes, and hazard insurance for up to 24 months. Eligible homeowners are those that have become unemployed or underemployed. The assistance will be provided through a variety of State and nonprofit entities and will offer a declining balance, deferred payment, zero interest, nonrecourse bridge loan, which HUD will write off if the homeowner stays current on the mortgage for 5 years. HUD was challenged to launch the program in a timely manner and as a result, had to extend the application period twice to allow for more participants. HUD initially targeted providing assistance to 30,000 borrowers but now does not anticipate assisting that many due to issues in qualifying eligible participants. Since the funding expired on September 30, 2011, HUD was unable to use all of the allotted funding.

HUD OIG completed a recent internal review highlighting FHA's lack of authority to prevent corporate officers of noncompliant lenders from reentering the FHA program. Specifically, the review identified instances in which corporate officers were participating in the FHA program even though they had previously left other FHA-approved lending institutions that did not honor their indemnification agreements. While FHA has the authority to prevent an FHA lender (company) that does not honor indemnification agreements from conducting future FHA business, it does not have the authority to prevent the lender's corporate officers from reentering the FHA program. Unless an officer is found to have been personally responsible for the lender's failure to make good on its indemnification payments, there is no legal mechanism to prevent such officers from joining other lenders as corporate officers and transacting business in precisely the same manner as they did at the prior lender. As a result, OIG recommended that HUD seek legislative and program rule changes to prevent lenders and their corporate officers with unsatisfied indemnification agreements from reentering the FHA program as an officer with the same or new lender.

We remain concerned that increases in demand to the FHA program are having collateral implications for the integrity of the Government National Mortgage Association (Ginnie Mae) mortgage-backed securities (MBS) program including the potential for increases in fraud in that program. Like FHA, Ginnie Mae has seen an augmentation in its market share (in some recent months, it has even surpassed Fannie Mae and Freddie Mac), guaranteed $350 billion in outstanding mortgage-backed securities during fiscal year 2011, and now has more than $1.2 trillion in outstanding mortgage-backed securities. HUD needs to consider the downstream risks to investors and financial institutions of Ginnie Mae's eventual securitization of a large portion of FHA's insured mortgages. Ginnie Mae securities are the only MBS to carry the full faith and credit guaranty of the United States. If an issuer fails to make the required pass-through payment of principal and interest to MBS investors, Ginnie Mae is required to assume responsibility for it. Typically, Ginnie Mae defaults the issuer and assumes control of the issuer's MBS pools.

Oversight of American Recovery and Reinvestment Act funds. Congress allocated $13.6 billion in funding to HUD programs under the American Recovery and Reinvestment Act of 2009. This allocation added significant funding to the Public Housing Capital Fund, Community Development Block Grants, the Neighborhood Stabilization Program, the Homelessness Prevention and Rapid Rehousing Program, and other HUD programs to modernize and "green" the public and assisted housing inventory, support the low-income housing tax credit market, stabilize neighborhoods hit by foreclosures, and prevent homelessness. Carrying out the goals of the Recovery Act, while dealing with increased mortgage activity and conducting normal operations, is a significant challenge for HUD.

In general, the Recovery Act directs HUD to ensure that the $13.6 billion is awarded and distributed in a prompt, fair, and reasonable manner; that the recipients' use of funds is transparent to the public; that the funds are used for only authorized activities; that recipients avoid unnecessary delays and cost overruns; and that program goals are achieved, including specific program outcomes and improved results on broader economic indicators. This oversight role is a challenge. Further, HUD must assist all of its recipients in reporting their use of funds on the Recovery Act Web site. HUD also has to ensure that the data the recipients report are accurate. This type of reporting is unprecedented.

During the last 3 fiscal years, we started and completed 171 audits and reviews of Recovery Act-related activities. These audits and reviews addressed the administrative capacity of selected Recovery Act grantees to meet their responsibility to properly administer these funds. We also assessed HUD's efforts to assess the risks associated with Recovery Act funding along with the Department's plans to mitigate those risks. Using risk assessments, we also identified grantees, performed audits of Recovery Act expenditures, and evaluated recipient reporting to ensure that the data the recipients report are accurate.

HUD must ensure that recipients have the administrative capacity to effectively administer Recovery Act funds. For example, HUD decided to provide Recovery Act public housing capital funding to authorities it deemed "troubled." There were 174 troubled authorities that received allocations totaling $350 million in Recovery Act funds, and members of Congress raised concerns about these authorities' abilities to effectively administer Recovery Act funding. HUD developed a strategy in which it assigned each troubled public housing agency (PHA) a risk level of low, medium, or high, followed by technical assistance, monitoring, and oversight based on these risk levels. Last fiscal year, we reviewed the capacity of 19 authorities, noting that 11 had significant capacity issues. We remain concerned about grantees' capability to effectively administer the large influx of funds. This fiscal year, we performed 33 audits related to grantees' administration of Recovery Act capital funds, noting that 25 grantees were noncompliant with the requirements. Examples of noncompliance included improper procurements, ineligible expenditures, unsupported expenditures, and inaccurate reporting on the Federal reporting Web site.

The Recovery Act added $2 billion to the Neighborhood Stabilization Program that Congress created as part of the Housing and Economic Recovery Act of 2008, and recent legislation added another $1 billion. HUD administers the now nearly $7 billion program to redevelop abandoned and foreclosed-upon homes. The Recovery Act also added $3.5 billion for block grant and homelessness prevention programs administered by HUD's Office of Community Planning and Development. We issued reports on seven Community Development Block Grant Recovery Act grantees and reported that five were noncompliant with the requirements. We found that grantees did not report accurate data on the Federal reporting Web site, used funds to support an activity prohibited by the Recovery Act, and did not adequately monitor subrecipients. We also reviewed eight Neighborhood Stabilization Program Recovery Act grantees and found that four did not administer funds in accordance with HUD requirements. For example, we noted inadequate support for administrative expenditures, improper procurements, ineligible expenditures, lack of adequate policies and procedures, and insufficient documentation to support the number of jobs reported as created or retained. Our 17 reviews of Homelessness Prevention and Rapid Rehousing program grantees found that 16 did not always comply with Recovery Act requirements. There were occurrences of services being paid for ineligible Participants, inadequate support to determine participant eligibility, inadequate monitoring of subrecipients and inaccurate reporting of jobs created or retained.

In addition to HUD's challenge with overseeing external entities, we found that HUD can improve its Oversight of Recovery Act obligation and expenditure requirements. Our review determined that $1.6 million in Public Housing Capital Fund and Native American Housing Block Grant funds, recaptured after July 21, 2010, needed to be returned to the U.S. Treasury under the provisions of the Pay It Back Act. Additionally, we found that Recovery Act monitoring and oversight could be better documented in HUD's funds control plans.

Another internal audit found that HUD met the initial expenditure for five of the six Recovery Act programs under review and the remaining program was on track to meet its initial expenditure requirement by its specific expenditure deadline. However, HUD had $20.85 million in recaptured Recovery Act funds that, while properly identified for recapture, needed to be returned to the U.S. Treasury's general fund. Additionally, $6.2 million available funds, which were recaptured before the Pay It Back Act, had not been reallocated and should have been returned to the U.S. Treasury. We also found that the grant closeout process for two of the six programs increased the risk for noncompliance with the Recovery Act by allowing disbursement of funding after the final expenditure deadline or allowing grantees to retain a percentage of Recovery Act funds from subgrantees. We also found that funds control plans for the selected programs had not been modified to include Pay It Back Act requirements or modifications had not been reviewed and approved by HUD's Chief Financial Officer.

Lastly, during an audit of HUD's Office of Healthy Homes and Lead Hazard Control's (OHHLHC) monitoring of its grantees, we noted that OHHLHC did not maintain documentation in accordance with its requirements to support payments to four recipients totaling more than $4.2 million of the nearly $5 million in grant awards. Additionally, OHHLHC did not review the voucher requests for payments in a timely manner.

Human capital management. In 2001, the U.S. Government Accountability Office (GAO) reported that a consistent approach to the government's management of its people was the critical missing link in reforming and modernizing the Federal Government's management practices. For many years, one of the Department's major challenges has been to effectively manage its limited staff to accomplish its primary mission. HUD lacks a valid basis for assessing its human resource needs and allocating staff within program offices, as evidenced in OIG's September 2008 audit pertaining to HUD's management of human resources.

As noted in GAO's February 2011 High Risk series, the Federal Government has made substantial progress in addressing its human capital challenges. To address its human capital challenge, HUD began a "Human Capital Transformation" initiative, which noted that the 2008 Federal Human Capital Survey ranked HUD 24th out of the 30 large agencies in the "Best Places to Work Federal Government" report. HUD has since slipped to next to last place in the 2010 rankings (31 of 32). The Department contracted with the National Academy of Public Administration (NAPA) to consult on the problem. The Academy noted HUD did not engage in any short- or long-term planning to determine staffing needs. It noted the absence of a clear workforce planning strategy, which is impeding the Department's efforts to address its workforce needs in a strategic, systemic manner.

NAPA recommended that the Department establish an interagency team of senior officials from the Chief Financial Officer, Chief Human Capital Officer, and the administrative and budget officials from major program offices to assess the causes of its erratic resource management practices and develop a more timely and predictable staffing process. NAPA recommended that this team lay the groundwork for creating ongoing; agency wide workforce analysis and planning that is tied to HUD's strategic plan and enhances longer range capability to recruit and sustain a high quality workforce.

GAO has narrowed the scope of strategic human capital management to focus on the most significant challenges that remain to close current and emerging critical skill gaps. These challenges must be addressed for agencies to effectively and efficiently accomplish their missions.

In response, HUD included a strategic goal in its Fiscal Year 2010 – 2015 Strategic Plan to transform the way HUD does business. This goal addresses HUD's history viewed by both its employees and external partners as lacking in its ability to provide the support needed to fully deliver on its mission. HUD has developed specific subgoals to (1) build capacity, (2) focus on results, (3) reduce bureaucracy, and (4) change its culture. HUD will measure its progress by its success in increasing satisfaction ratings from internal and external parties, increased delegation to field offices, reduced number of burdensome regulations and reports, and reduced end-to-end hiring time.

Financial management systems. Since fiscal year 1991, OIG has annually reported on the lack of an integrated financial management system, including the need to enhance FHA's management controls over its portfolio of integrated insurance and financial systems. During the past several years, HUD has made progress by partially implementing new core financial systems at FHA and Ginnie Mae and addressing most of the previous weaknesses that OIG identified. These improvements enabled OIG to reclassify the weakness in financial management system requirements from a material weakness to a significant deficiency.

The contract to modernize HUD's financial management systems, HUD Integrated Financial Management Improvement Project (HIFMIP), was awarded on September 23, 2010. The original scope of HIFMIP was to encompass all of HUD's financial systems, including those supporting FHA and Ginnie Mae. However, the inclusion of the FHA and Ginnie Mae portions has been put on hold as a result of review by OMB. HIFMIP was launched in fiscal year 2003 and was to have begun implementation of HUD's core financial system in fiscal year 2006. With the recent award of the contract, HUD anticipates implementation of phase one of the project in time to have all of the fiscal year 2012 financial data within the new system. However, we remain concerned about the successful execution and completion of HIFMIP. The Deputy Chief Financial Officer informed us that he expected a 2-month schedule slip due to the project requirements not having been updated. We are also concerned that completion of the first phase of HIFMIP will still not result in a truly integrated core financial system. We have reported the lack of an integrated core financial system as a significant deficiency in our financial statement audits for the past several years. HUD uses five separate financial management systems to accomplish the core financial system functions. However, the first phase of HIFMIP will only replace two of these systems, resulting in the creation of the new Integrated Financial System. It is not clear how this new system will lessen the dependency on and integrate with the other three core financial systems, nor is it clear how completion of this phase will reduce or eliminate the manual processing necessary to generate HUD's consolidated financial statements. In the meantime, we continue to note the following weaknesses with HUD's financial management systems:

- HUD requires extensive compensating procedures to prepare financial statement and other financial information.

- HUD has limited availability of information to assist management in effectively managing operations on an ongoing basis.

FHA's business has increased dramatically over the past 4 years as a result of the mortgage crisis. FHA's insured portfolio of more than 7.2 million forward and one-half million reverse single-family mortgages is worth well over $1 trillion. The shortcomings of the current information technology (IT) systems and the lack of systems capabilities and automation in critical areas of the business are challenging FHA's ability to respond to changes in the market and to its business processes. In August 2009, FHA completed the IT Strategy and Improvement Plan, which identifies FHA's priorities for IT transformation. The plan identifies 25 initiatives to address specific FHA lines of business needs. Initiatives are prioritized, with the top five being single-family related. The plan also calls for FHA to create a program management office to facilitate coordination and communication, track and report progress, provide support to managers, and support organizational change management activities. HUD has since awarded several contracts under this initiative. However, budget constraints are limiting progress, and roadmaps with notional timelines are still being put forth as opposed to project plans with actual delivery dates.

Another information technology concern is the ability to replace the antiquated infrastructure on which HUD and FHA applications reside in a timely manner. Workloads have dramatically increased and are processing on systems that are 15 to 30 years old, which cannot effectively support the current market conditions and volume of workloads. The use of aging hardware and software can result in poor performance and high maintenance costs. If the IT infrastructure is not modernized, it will become increasingly difficult to maintain operations, make legislative system modifications, and develop or maintain required interfaces to other IT systems, leaving the system environment at risk.

We continue to report weaknesses in internal controls and security regarding HUD's general data processing operations and specific applications. The effect of these weaknesses is that HUD cannot be reasonably assured that system information will remain confidential, safeguarded, and available to those who need it without interruption. Of particular concern is the Integrated Disbursement and Information System (IDIS), which supports HUD's Office of Community Planning and Development's formula grant programs, including the Community Development Block Grant and HOME programs. HUD's design and implementation of IDIS is not in compliance with Federal financial management system requirements. The system arbitrarily liquidates obligations on a "first-in-first-out" basis, irrespective of the budget fiscal year funding source and intentionally decreases the amounts that HUD would be required to return to the U.S. Treasury after the programs' fixed-year appropriations expire. In addition, incompatible functions such as system administration and security administration are not adequately separated, and there is no formal user recertification process to ensure that all users are properly recertified. Moreover, Grantees and subgrantees are able to update, change, cancel, reopen, and increase or decrease project funding without review by HUD and self-report on their accomplishments. We have found data integrity issues with the information within IDIS as reported by the grantees and subgrantees, including unsupported contracts, inflated contract amounts, and underreporting of program income.

As part of our annual IT security review mandated by the Federal Information Security Management Act, we found that although HUD continued to make improvements to its security Program, challenges remained. HUD did not (1) fully develop and implement a continuous monitoring and configuration management program to include conducting vulnerability scans of its network, (2) require that those with significant information system responsibilities complete applicable training courses. (3) ensure that remote access procedures complied with regulations, (4) ensure that it could identify all users who access HUD systems, and (5) ensure that interconnection security agreements were in place for contractor systems and for those that it owns and operates.

Public and assisted housing program administration. HUD provides housing assistance funds under various grant and subsidy programs to multifamily project owners (both nonprofit and for profit) and PHAs. These intermediaries, in turn, provide housing assistance to benefit primarily low-income households. The Office of Public and Indian Housing provides funding for rent subsidies through its public housing operating subsidies and tenant-based Section 8 rental assistance programs. These programs are administered by more than 4,100 PHAs and provide affordable housing for 1.1 million households through the low-rent public housing program and 2.1 million households through the Housing Choice Voucher program.

HUD has the challenge of ensuring that adequate funding is available to support the Housing Choice Voucher program. The program continues to face funding shortfalls due to (1) the difficulty in predicting program requirements, (2) the continued decline in tenant incomes due to the job losses or underemployment, thereby driving up voucher costs in many regions of the country, and (3) the average cost of vouchers continuing to increase corresponding with shortages in available rental housing. As a proactive measure, HUD established the shortfall prevention team to ensure that assisted families would not be terminated from the program. HUD provides technical assistance to PHAs to identify cost saving measures to maximize the use of funding and prevent the termination of families receiving rental assistance. We reported deficiencies in HUD’s efforts to monitor PHA’s fund utilization. We recommended HUD strengthen their methodology for monitoring and estimating the Section 8 accumulated excess reserves and seek Congressional authority to perform budgetary funding offsets. As of June 30, 2011, the estimated excess reserves exceeded $1 billion. HUD needs to aggressively pursue efforts at reducing PHA’s excess program funds in order to make scarce funding available to cover shortfalls, minimize losses from errors and mismanagement, and reduce the opportunity for fraud.

The Office of Housing administers a variety of assisted housing programs including parts of the Section 8 program and the Sections 202 and 811 programs. The subsidies provided through these programs are called “project-based” subsidies because they are tied to particular properties. Therefore, tenants who move from such properties may lose their rental assistance. For this fiscal year, HUD requested $9.4 billion for Section 8 project-based rental assistance. The subsidies are paid to property owners mainly through project-based contract administrators (PBCA) who also monitor the project owners’ performance. We previously reported that HUD did not obtain the best value for the nearly $300 million spent in 2008 on the PBCA contracts. HUD has been slow in restructuring these contracts and recently was forced to recompete most of the contracts after many of the bidders protested the manner in which HUD evaluated the proposals. The current contracts are not cost effective and do not allow HUD to stop paying for services that it no longer requires of the PBCAs.

HUD has made improvements in the area of erroneous payments, but more are needed. To continue its efforts in the reduction, it needs to enhance its disclosures of administrative errors made by intermediaries in performance reports, improve its methodology documentation, and enhance oversight of controls over monitoring of improper payments. HUD is developing system improvements that should enhance internal controls over subsidy payments.

Oversight can be particularly challenging for PHAs participating in "Moving to Work," which is a demonstration program for PHAs that provides them the opportunity to design and test innovative, locally developed strategies that are designed to use Federal dollars more efficiently, help residents become self-sufficient, and increase housing choices for low-income families. The demonstration program gives PHAs exemptions from many existing public housing rules and more flexibility with how they use their Federal funds. HUD can terminate any participant from the Moving to Work program for defaulting on its agreement. OIG has identified numerous deviations from the Moving to Work agreement by participating PHAs. HUD needs to establish a formal quantified process for terminating participants from the demonstration program for failure to comply with the agreement.

Administering programs directed toward victims of natural disasters. As a result of HUD's continuing role in addressing natural disasters, the Department faces a significant management challenge in monitoring disaster program funds provided to various States, cities, and local governments under its purview. This challenge is particularly pressing for HUD because of limited resources to perform the oversight, the broad nature of HUD projects, and the length of time needed to complete some of these projects. HUD must ensure that the grantees complete their projects in a timely manner and ensure the use of funds for intended purposes. Since HUD disaster assistance may fund a variety of recovery activities, HUD can help communities and neighborhoods that otherwise might not recover due to limited resources. However, oversight of these projects is made more difficult based on the broad nature of HUD projects and due to the fact that some construction projects may take between 5 and 10 years to complete. HUD must be diligent in its oversight duties to ensure that grantees have identified project timelines and are keeping up with them. HUD also must ensure that grantee goals are being met and that expectations are achieved.

In response to disasters, Congress may appropriate additional funding to rebuild the affected areas and provide crucial seed money to start the recovery process. Although disasters occur at various times, funding to assist the affected communities is subject to the availability of supplemental appropriations. Community Development Block Grant disaster recovery funds are made available to States, units of general local governments, Indian tribes, and insular areas designated by the President as disaster areas. These communities must have significant unmet recovery needs and the capacity to carry out a disaster recovery program.

Our disaster oversight audit work has pointed out the need for HUD to be diligent in its oversight efforts of its program grantees. In our recent fiscal year 2011 audit efforts, the Office of Audit provided recommendations for management improvements related to the need for monitoring efforts, to include ensuring that grantees follow HUD rules, establish performance measures, and employ proper project management services.

Keeping up with communities in the recovery process can be taxing for HUD. HUD funding over the past several years has exceeded $29 billion. These active disaster grants nationwide have approximately $26 billion in obligations and $20 billion in disbursements. Of the Gulf Coast funding of $19.6 billion for Hurricanes Katrina, Rita, and Wilma, $16.3 billion, or 83 percent has been disbursed through September 30, 2011. Although many years have passed since some of the specific disasters have occurred, significant disaster funds remain unexpended. HUD must maintain its oversight efforts to ensure that funds are expended as intended.

Agency Response to the OIG Report on Management and Performance Challenges

The Department's management and the OIG have worked in a close, collaborative manner during the past year, recognizing the challenges facing the Department and the country. Management agrees with the OIG's assessment of major challenges facing the Department. Management updates concerning the Department's progress in addressing each challenge are detailed below.

Single Family Programs

FHA began its Transformation Initiative with the goal of implementing a modern "off-the shelf" Financial Industry Standard Platform. The new platform is expected to provide the ability to aggregate loan transaction data, determine trends and patterns to help identify lending risks, and improve data quality. It will enable risk detection and fraud prevention by capturing critical data points at the front-end of the loan lifecycle, and will leverage the right set of risk and fraud tools, rules based technology, and transactional controls to minimize exposure to FHA's insurance funds. The system will allow FHA to implement a case management business model that addresses the loan lifecycle (e.g., initial data submission, endorsement, servicing, etc.) and a risk analytics platform to better understand dynamic market trends.

Oversight of American Recovery and Reinvestment Act Funds

HUD's Recovery Team

Through Fiscal Year 2011, HUD's Recovery Team continued to meet monthly with the OIG to discuss issues of priority concern, including ongoing and recently issued audits. As in the previous year, when OIG identifies matters of concern, program staff continues to respond with plans to address those concerns, and HUD staff members work with the recipients to address and resolve the identified concerns. The Recovery Team believes HUD's Recovery Act data quality and compliance monitoring, combining regular meetings with program managers, automated data review and flagging of potential errors with manual review, and follow-up by program staff is both effective and cost-efficient. In the October 2011 reporting period, 98.19 percent of recipients (2545 of 2592) successfully reported in the Federal Register.

Capital Fund Grants

PIH remains committed to ensuring the proper administration of the Recovery Act Capital Fund grants. To date over 6,500 separate Recovery Act grant reviews have been conducted, of which over 1,250 involved an onsite evaluation. As of the end of FY 2011, over 93 percent of the total Capital Fund Recovery Formula grant funds and over 80 percent of Capital Fund Recovery Competition Funds were expended. In addition, PIH plans to build on its intensive monitoring and technical assistance efforts with roughly 4,000 Recovery Act reviews for the next fiscal year and beyond. Furthermore, the office will continue to focus on providing technical assistance and additional monitoring to the troubled housing authorities with Recovery Act Capital Fund grants. As part of our PIH's Recovery Act Monitoring Strategy, 54 additional onsite reviews of troubled PHAs that had open Recovery Act grants as of May 2011 will be performed.

Human Capital Management

OCHCO's progress to meet this challenge includes:

- Decreased agency hiring time to 79 days; published several tools to assist managers in the Hiring Process; and established partnerships with Program Offices and Regional Support Managers;
- Initiated an Inter-Agency Agreement with the Office of Personnel Management to secure licenses for the Workforce Analysis and Support System (WASS) and the Civilian Forecasting System (CIVFORS). Both systems are tools to support the workforce planning pilot;
- Implemented a new program, the HUD Managers Training Program, offered to all HUD supervisors and managers with at least two years of supervisory experience. In FY 2011, the Office of Training piloted the program with 41 HUD supervisors and managers from across the Department.
- Coordinated the New Employee Orientation (NEO) presentation that is delivered every two weeks for new hires at HUD Headquarters. This program broadens new employees' knowledge of HUD programs and policies, and equips them with pertinent information necessary to become well informed and effective HUD employees. Participants increased and strengthened their understanding of: Health Benefits, Human Resources policies, Knowledge and function of the Program Areas, Ethics, and other HUD products and services; and
- Delivered seven sessions of Customer Service training to 231 CHCO employees in response to an initiative from the Chief Human Capital Officer. This course focused on interactions that OCHCO employees have with their internal and external customers.

Financial Management Systems

OCHCO and OCFO Partnership

OCHCO's Personnel Security Division (PSD) partnered with OCFO to improve and successfully streamline the security process for employees requiring access to financial systems and to ensure all personnel requiring access to HUD financial systems have the appropriate background investigation level prior to being granted systems access. In addition, the PSD dedicated a sole resource to process background investigation upgrades for financial systems access. The OCFO also made significant internal organizational changes to improve the process which contributed to an 88 percent reduction in request time. OCHCO will continue to strengthen the partnership between OCHCO and OCFO to ensure standard operating procedures are maintained and followed by all program offices with a need for their employees to have access to HUD financial systems.

HIFMIP

Large IT projects are being developed in manageable segments. HUD is replacing HUDCAPS and the Program Accounting System resulting in the creation of the new Integrated Core Financial System for OCFO.

IDIS

The internal control weakness in IDIS's general control processing data identified by the OIG is based on CPD's use of cumulative accounting and the FIFO method for grants processing. The system does not "arbitrarily" process grant payments and OIG has not been able to quantify the data integrity issues that they suggest.

On June 10, 2010, the HUD Office of General Counsel (OGC) and CFO sent a joint memorandum to the HUD Inspector General that addressed a disagreement about CPD's use of cumulative accounting and the "first-in-first-out" (FIFO) method. OGC and CFO fully support CPD's use of the FIFO method of processing accounting transactions. Further, CPD issued a contract to Leon Snead & Company to assess and determine if the IDIS FIFO methodology was compliant with Federal financial systems requirements. On June 30, 2010, Leon Snead & Company issued a final report concluding that the FIFO method employed by IDIS was compliant with FMFIA.

However, as of June 2011, OIG is seeking a formal legal opinion from GAO regarding the use of FIFO. Upon CPD's receipt of GAO's legal opinion, if necessary, CPD will begin preparing revised management decisions and provide these revised management decisions to OIG within 60 days of the receipt of the opinion. If the Department's position prevails, CPD will request for concurrent closure. Currently, CPD is awaiting a legal opinion from GAO.

Public and Assisted Housing Program Administration

HCV Funding

Department progress in addressing the challenge of ensuring that adequate funding is available to support the HCV program includes:

- During FY 2010 and 2011, HUD completed 2,340 PHAs reconciliations between HUD's records and the PHA's Net Restricted Asset (NRA) balances.
- In FY 2011, the Department developed the methodology by which voucher funding is distributed to one based on actual spending behavior, which will help avoid accumulation of NRA at the PHA level.
- In the FY 2012 budget request, HUD requested authority from Congress to offset and reallocate excess NRA balances to other PHAs.

- HUD has also developed and implemented a utilization optimization tool. The tool assists PHAs to make more informed programmatic decisions impacting their leasing and costs on an ongoing basis. During Calendar Year 2010 and 2011, over 3,000 PHA and 300 HUD staff were trained on this financial management tool.
- The HUD Shortfall Prevention Team has provided technical assistance to 476 PHAs to prevent lease terminations. Since the initiative was put in place, the possible loss of subsidy for over 28,000 families has been averted.

Moving to Work (MTW) Agreement

HUD currently has a formal, quantified process for when PHAs fail to comply with the agreement. Section VIII of the Standard Moving to Work (MTW) Agreement establishes the requirements and procedures for Termination and Default of the Agreement. Upon written notice of a default, the MTW agency is provided an opportunity to cure deficiencies noted by HUD or to demonstrate acceptable progress towards a cure. If an agency fails to cure the default, the agreement provides a listing of various remedies, up to and including termination of the MTW agreement. In some instances, HUD has noted issues that do reflect a default of the MTW Agreement and has engaged the respective agency to ensure that the respective issue is remedied. Although these provisions exist, HUD agrees they may not be uniformly applied when deficiencies are observed. During FY 2012, the Moving to Work Office will work with the Office of Field Operations to implement procedures to ensure consistent application of the agreement’s provisions.

Administering Programs Directed Toward Victims of Natural Disasters

As part of HUD’s efforts to improve monitoring of disaster program funds and oversight of projects, CPD has developed a *Disaster Recovery Policy and Procedures* manual to ensure consistency in program review requirements for both headquarters and field staff. CPD Disaster Recovery (DR) staff has also issued new risk management guidance for the field as part of the CPD Risk Analysis process that will specifically include a separate examination of disaster recovery grants. The CDBG-DR risk analysis worksheets will be incorporated into the Grants Management Process system for the FY 2012 risk analysis. In addition, CPD will be updating the *CPD Monitoring* handbook that will include CDBG-DR specific monitoring checklists.

Summary of Financial Statement Audit and Management Assurances

For FY 2011, no material internal control weaknesses were identified for the Department. The following tables provide a summary of financial audit findings with regard to audit opinion and management assurances. The first table is a summary of the results of the independent audit of HUD's consolidated financial statements, as well as information reported by HUD's auditors in connection with the FY 2011 Financial Statement Audit.

Summary of Financial Statement Audit

Audit Opinion	Unqualified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
None /Name of material Weakness	0	0	0	0	0
Total Material Weaknesses	0	0	0	0	0

The following table is a summary of management assurances related to the effectiveness of internal control over HUD's financial reporting and operations, and its conformance with financial management system requirements under Sections 2 and 4, respectively, of the Federal Managers' Financial Integrity Act (FMFIA). The last portion of this table is a summary of HUD's compliance with the Federal Financial Management Improvement Act (FFMIA).

Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None/Name of material Weakness	0	0	0	0	0	0
Total Material Weaknesses	0	0	0	0	0	0

Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None/Name of material Weakness	0	0	0	0	0	0
Total Material Weaknesses	0	0	0	0	0	0
Conformance with Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	Systems conform to financial management system requirements.					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None/name of non-conformance	0	0	0	0	0	0
Total non-conformances	0	0	0	0	0	0
Compliance with Federal Financial Management Improvement Act (FFMIA)						
	Agency			Auditor		
Overall Substantial Compliance	Yes			No		
1. System Requirements	Yes*					
2. Accounting Standards	Yes					
3. USSGL at Transaction Level	Yes					

*Represents Management's opinion.

The OIG is also responsible for conducting a variety of other audits and reviews in all HUD program areas. Further information on the OIG's audit activities can be found in their *Semiannual Report to Congress*.[E1] The full FY 2011 financial statement audit containing the Department's response to the audit, as well as additional OIG reports and publications are located online at http://www.hudoig.gov/reports/index.php.[E2]

Status of Significant Deficiencies

The table below identifies the anticipated resolution dates for SDs identified by the OIG in this year's financial statement audit.

Significant Deficiencies	**Expected Resolution Date**
Have financial management systems comply with the Federal Financial Management Improvement Act (FFMIA) of 1996;	Mid-year 2012
Continue Improvements in the processes for reviewing obligation balances;	June 2012

Significant Deficiencies	Expected Resolution Date
Continue improvements in the oversight and monitoring of subsidy calculations, intermediaries program performance, and use of Housing Choice Voucher and Operating Subsidy program funds;	December 2011
Establish internal controls over Office of Community Planning and Development (CPD) grantees' compliance with program requirements;	February 2012
Improve administrative control of funds;	December 2012
Further strengthen controls over HUD's computing environment;	December 2011
Improve personnel security practices for access to the Department's critical financial systems;	December 2012
Effectively monitor FHA modernization efforts and existing systems to mitigate near term financial reporting risks;	Closed
Mitigate increased risks to FHA management's Loan Guarantee Liability credit reform estimates caused by economic conditions and inherent model design;	Closed
Improve compliance control to ensure the safety, completeness, and validity of collateral loan files;	New—To Be Determined
Strengthen internal control over risk-based issuer and document custodian reviews to improve the effectiveness of counterparty monitoring and oversight; and	New—To Be Determined
Effectively analyze and resolve identified information technology security control deficiencies.	New—To Be Determined

Non-compliance with Laws and Regulations

The table below identifies the anticipated resolution dates for the Department's non-compliance with laws and regulations identified by the OIG in this year's financial statement audit.

Non-compliance with Laws and Regulations	Expected Resolution Date
HUD did not substantially comply with the FFMIA.	Mid-year 2012

Non-compliance with Laws and Regulations	Expected Resolution Date
HUD did not substantially comply with the Anti-deficiency Act.	Ongoing
HUD did not comply with laws and regulations governing claims of the United States government.	March 2012
FHA does not comply with Cranston-Gonzalez National Affordable Housing Act of 1990.	FY 2014
FHA did not substantially comply with the FFMIA regarding system limitations to effectively and efficiently operate.	New—To Be Determined

Secretary's Audit Resolution Report To Congress

This information on the Department of Housing and Urban Development's audit resolution and follow-up activity covers the period October 1, 2010, through September 30, 2011. It is required by Section 106 of the Inspector General Act Amendments (Public law 100-504), and provides information on the status of audit recommendations with management decisions, but no final action. The report also furnishes statistics on the total number of audit report and dollar value of disallowed costs for FY 2011, and statistics on the total number of audit reports and dollar value of recommendations that funds be put to better use.

Audit Resolution Highlights

Overall the Department achieved 940 approved management decisions and successfully implemented 888 recommendations. The Department also made good progress in reducing its inventory of significantly overdue final actions, which are those recommendations which could potentially be significantly overdue on September 30, 2011. This inventory was successfully addressed and the Department resolved 152 recommendations in this category, which was a reduction of 71.7 percent.

Summary of Management Decisions On Audit Recommendations

Opening Inventory Requiring Decisions	346
New Audit Recommendations Requiring Decisions	1,062
Management Decisions Already Made[1]	(940)
Audit Recommendations Still Requiring Decisions[2]	468
Recommendations Beyond Statutory Resolution Period[2]	4

[1]*Management decisions were made on a total of 940 recommendations (173 audits of which 103 had final management decisions). Of these, 346 recommendations were in the opening inventory.*

[2]*This reporting period ended with 468 recommendations without management decisions. Of these, 4 recommendations (3 audits) are over 6 months old.*

Summary of Recommendations With Management Decisions And No Final Action

Opening Inventory – Final Actions Pending[1]	1,190
Management Decisions Made During Report Period	940
Sub-Total Final Actions Pending	2,130
Final Actions Taken[2]	(888)
Audit Recommendations Reopened During Period (Without Final Actions)	0
Total Audit Recommendations Still Requiring Final Actions[3]	1,242

[1]The opening inventory was reduced from 1195 by 5 recommendations that were retroactively closed by the OIG.

[2]Final Action was taken on a total of 888 recommendations (274 audits of which 150 had final actions taken, thus closing the audits). The number of recommendations where a management decision and final action were concurrent was 233 in 104 audits.

[3]Of the 205 audits remaining (and in the appendix), 49.3 percent or 101 are under repayment plans.

Management Report on Final Action On Audits With Disallowed Costs

Audit Reports	Number of Audit Reports	Questioned Costs
A. Audit Reports with management decisions on which final action had not been taken at the beginning of the period.[1]	244	$566,688,139
B. Audit Reports on which management decisions were made during the period.	105	213,661,981
C. Total audit reports pending final action during period (total of A and B)	349	$780,350,120
D. Audit Reports on which final action was taken during the period		
1. Recoveries[2]	55	$29,329,666
(a) Collections and offsets	47	14,628,195
(b) Property	0	0
(c) Other	11	14,701,471
2. Write-offs	36	135,397,176
3. Total of 1 and 2[3]	67	$164,726,842
E. Audit Reports needing final action at the end of the period (Subtract D3 from C)[4]	282	615,623,278
F. Open Recommendations (with disallowed costs)[5]	(541)	($485,286,678)

[Please note that the Inspector General Act requires reporting at the audit report level versus the individual recommendation level. At the audit report level, total disallowed costs in the report are reported as open until all recommendations in a report are closed.]

[1] *The opening inventory total has been reduced from 245 to 244 due to a retroactive entry by the OIG.*

[2] *Audit Reports are duplicated in D.1.(a), D.1.(b) and D.1.(c); thus the total is reduced by 3.*

[3] *Audit Reports are duplicated in both D.1 and D.2; thus the total is reduced by 24.*

[4] *Litigation, legislation, or investigation is pending for 26 audit reports with costs totaling $71,505,155.*

[5] *The figures in brackets represent data at the recommendation level as compared to the report level.*

Management Report on Final Action On Audits With Recommendations That Funds Be Put To Better Use

Audit Reports	Number of Audit Reports	Funds to be Put to Better Use
A. Audit Reports with management decisions on which final action had not been taken at the beginning of the period.[1]	161	$2,935,999,252
B. Audit Reports on which management decisions were made during the period.	52	907,570,484
C. Total audit reports pending final action during period (total of A and B)	213	$3,843,569,736
D. Audit Reports on which final action was taken during the period		
1. Value of Audit Reports implemented (completed)	47	$199,831,149
2. Value of Audit Reports that management concluded should not or could not be implemented	13	57,982,705
3. Total of 1 and 2[2]	55	$257,813,854
E. Audit Reports needing final action at the end of the period (Subtract D3 from C)[3]	158	$3,585,755,882
F. Open Recommendations (with funds put to better use)[4]	(107)	($748,187,061)

[Please note that the Inspector General Act requires reporting at the audit report level versus the individual recommendation level. At the audit report level, total disallowed costs in the report are reported as open until all recommendations in a report are closed.]

[1] *The opening inventory total was reduced by 2 audits due retroactive entries.*

[2] *Audit Reports are duplicated in both D.1 and D.2; thus the total is reduced by 5.*

[3] *Litigation, legislation, or investigation is pending for 17 audit reports with costs totaling $30,907,881.*

[4] *The figures in brackets represent data at the recommendation level as compared to the report level.*

Improper Payments Elimination and Recovery Act Reporting Details

The Requirements

The Improper Payments Elimination and Recovery Act (IPERA), Public Law 111-204, signed into law by the President on July 22, 2010, amends the Improper Payments Information Act (IPIA) of 2002 (Public Law 107-300), and repeals the Recovery Auditing Act (Section 831 of the FY 2002 Defense Authorization Act, Public Law 107-107). Under the IPERA and OMB implementing guidance in Appendix C of Circular No. A-123, agencies are to assess all programs and activities they administer and identify those that may be susceptible to significant improper payments. Where the risk of improper payments is assessed as potentially significant, agencies are required to estimate the annual amount of improper payments and report the estimates in their annual report (PAR or AFR) to OMB, along with plans and targets to reduce improper payments.

The statute defines a “significant” level of improper payments as annual improper payments exceeding 1) both 2.5 percent of program outlays and $10 million or 2) $100 million (regardless of the improper payment percentage of total program outlays).

An “improper payment” is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts consist of overpayments and underpayments (including inappropriate denials of payment or service). Improper payments also include:

- Any payment that was made to an ineligible recipient or for an ineligible good or service;
- Duplicate payments;
- Payments for goods or services not received;
- Payments that do not account for applicable discounts; and
- Payments for which there is insufficient or lack of documentation to determine whether it was proper.

In addition to identifying substantive errors that might warrant repayment, HUD’s statistical sampling of support for payments also identified “process” errors that increase the risk of substantive payment errors, which are included in HUD’s improper payment estimate.

HUD’s Commitment

At the time of implementation of the IPIA, the Secretary designated the Chief Financial Officer as the lead official for directing and overseeing HUD actions to address improper payment issues and bring HUD into compliance with requirements of the IPIA and OMB implementing guidance. The Office of the Chief Financial Officer (OCFO) implemented the IPIA requirements and continues to address improper payment issues under the IPERA. HUD's plans, goals, and results for identifying and reducing improper payments are tracked and reported in the annual AFR. Additionally, managers are held accountable for achieving improper payment reduction targets via goals established for their program.

On November 20, 2009, the President signed Executive Order (EO) 13520: *Reducing Improper Payments and Eliminating Waste in Federal Programs*. The purpose of the EO is to reduce improper payments by boosting transparency, holding agencies accountable for reducing improper payments, examining the creation of incentives for states and other entities to reduce improper payments, and increasing penalties for contractors who fail to timely disclose improper payments. HUD is in compliance with all requirements of the EO and the OMB implementing guidance in Circular A-123, Appendix C, Part III. As such, HUD has established and reported supplemental measures for reducing improper payments in its designated high-priority program, the Rental Housing Assistance Program. HUD has also submitted an Accountable Official Annual Report to the Inspector General detailing HUD's methodology for identifying and measuring improper payments in the high-priority program, plans for meeting reduction targets, and plans for ensuring that initiatives undertaken pursuant to the EO do not unduly burden program access and participation by eligible beneficiaries.

HUD's Process

The HUD process for complying with the IPERA consists of four steps:

1) Conduct a survey of all program and administrative activities for potential indicators of significant improper payments. (Under IPIA, the first annual assessment was conducted in FY 2004, based on the $52.9 billion in payments made during FY 2003 in support of over 200 programs and administrative activities.)
2) Perform a detailed risk assessment of program activities identified in the first step with annual expenditures in excess of $40 million[1]. (Under the initial IPIA assessment, HUD identified 10 activities, representing 57 percent of all payments, as potentially "at risk" of a significant improper payment level.)
3) Test a statistical sample of payments in program activities determined to be susceptible to a significant improper payment level. (Under IPIA, statistical sampling and analysis performed by independent reviewers during the initial assessment determined that only 5 of the 10 activities actually had a significant improper payment problem).

[1] The OCFO determined that programs with expenditures of less than $40 million would not be included in the risk assessment. OMB Circular A-123, Appendix C, Part 1, defines "significant erroneous payments" as annual erroneous payments in the program exceeding 1) both 2.5 percent of program payments and $10 million or 2) $100 million, regardless of the improper payments percentage of total program outlays. Based on the Office of the Chief Financial Officer's (OCFO's) analysis of the programs and their funds control activities, OCFO concluded that no program was susceptible to having an error rate in excess of 25 percent (i.e., 25 percent of $40 million = $10 million).

4) Establish, execute, and monitor corrective action plans for reducing improper payments in the programs identified as at-risk.

Summary of HUD Results to Date

Prior to enactment of the IPIA and IPERA, OMB requested agency input on improper payments in select programs, including the CDBG Entitlement and State and Small Cities Programs. These CDBG programs were identified through statistical sampling in HUD's initial annual risk assessment to be at low risk of improper payments and not warrant reporting. OMB subsequently revised its guidance to clarify that agencies should continue to report on programs until they could document a minimum of two consecutive years in which improper payments are less than $10 million annually, after which they could submit to OMB a request for relief from annual reporting.

HUD's analysis for two consecutive years determined that the CDBG Programs were below the $10 million threshold for required reporting, and on March 14, 2007, OMB approved HUD's request for relief from annual improper payment reporting for those programs. HUD will continue to conduct an annual assessment of the CDBG programs and provide results annually to OMB by March 31.

Corrective actions were developed and completed for two of the five remaining activities identified as having a significant level of improper payments, the Single Family Acquired Asset Management System and the Public Housing Capital Fund. These two activities were subsequently removed from the improper payments reporting requirement, leaving three high-risk program areas:

- Public Housing,
- Section 8 Housing Choice Vouchers and Moderate Rehabilitation, and
- Owner-administered Project-based Assistance Programs (Section 8, Section 202, and Section 811).

These programs are collectively referred to as HUD's Rental Housing Assistance Programs (RHAP). HUD has reduced the combined baseline gross improper rental housing assistance payment estimates of $3.43 billion[2] to $959 million in Fiscal Year 2010, a reduction of 72 percent.

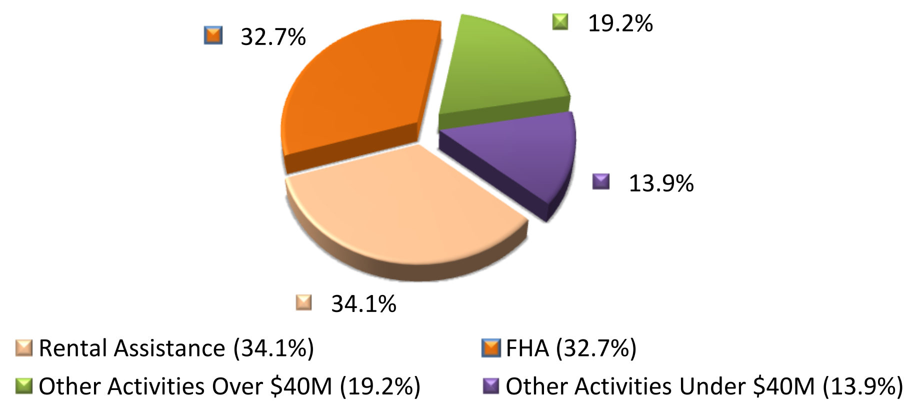
Results of Annual Risk Assessment Update and Continued Payment Testing

The FY 2011 risk assessment update was based on payment and other relevant activity that occurred during FY 2010. An inventory of approximately 200 distinct program and

[2] This figure combines the FY 2000 baseline estimate of $3.22 billion for two types of improper payments (i.e., program administrator and tenant income reporting errors), with the FY 2005 baseline estimate of $214 million, based on FY 2003 expenditures for the third type of improper payment (i.e., billing errors).

administrative payment activities was identified from all of HUD's financial management systems in FY 2010, with total payments of $95.6 billion. The payment universe consisted of the following general distribution:

HUD's $95.6 Billion Payment Universe



HUD's risk assessment update in FY 2011 did not identify any new activities as being at-risk of a significant improper payment level. Programs that previously tested below the improper payment threshold established by the IPERA were removed from HUD's at-risk inventory and are not subject to re-testing unless there is significant change in the nature of the activity, HUD's internal control structure, or operating environment.

Rental Housing Assistance Programs

HUD's RHAP had previously been assessed as being at high risk of significant improper payment levels – and continue to be reported as such – with corresponding error measurement methodologies, corrective action plans, and error reduction goals described below. These programs constituted over $32 billion, or 34 percent, of HUD's total payments in FY 2010.

In FY 2001, prior to enactment of the IPIA and IPERA, HUD established the Rental Housing Integrity Improvement Project to reduce an acknowledged improper payment problem in its rental assistance programs. This project is directed by the responsible HUD program offices, with oversight by the OCFO and statistical sampling[3] support from the Office of Policy Development and Research. HUD's RHAP are administered by over 26,000 Public Housing Agencies (PHAs) and multifamily housing owners or management agents on HUD's behalf. In general, beneficiaries pay up to 30 percent of their adjusted income as rent, and HUD payments cover the remainder of the rental cost (or the operating cost, in the case of public housing).

There are three major components of potential errors which could result in improper payments in these complex programs:

1) Program administrator error – the administrator's failure to properly apply income exclusions and deductions and correctly determine income, rent, and subsidy levels;
2) Tenant income reporting error – the tenant beneficiary's failure to properly disclose all income sources and amounts upon which subsidies are determined; and
3) Billing error – errors in the billing and payment of subsidies due between HUD and third party program administrators and/or housing providers.

From FY 2000 through FY 2010, HUD reduced the gross improper payments for the first two of these three categories of error from $3.22 billion to $853 million, a reduction of 74 percent. A baseline measurement for the third component, billing error, was completed in FY 2005, based on FY 2003 expenditures, and was estimated to be $214 million. In FY 2010, the billing error was estimated to be $106 million. This estimate was derived from the most recent billing error estimates for the Public Housing Program and the Owner-administered Project-based Assistance Programs. The following chart provides a summary for all three error components for FY 2010 as compared to FY 2009 and the baseline year (FY 2000). Actual results are not presented for FY 2011 because HUD reports on prior year data (i.e., FY 2011 studies are conducted on FY 2010 data).

[3] HUD's methodology for statistical sampling in FY 2010 was to select 600 projects that were considered to be nationally representative of the 26,000 PHAs and multifamily housing owners or management agents that administer rental housing assistance on HUD's behalf. Projects were selected with probabilities proportional to size. Projects having a size exceeding the sampling interval were selected for eight, twelve, or more households in the project and were counted as more than one project for purposes of determining the sampling size. Projects were allocated approximately equally among the three assisted program types, and four households were randomly selected from each project. Additionally, data was collected for four households in one additional PHA to ensure that, given any unexpected circumstances, the sample would include a minimum of 2,400 households. This resulted in a total of 2,404 households with representation from among the three program areas. Some large projects were selected multiple times, so that the study sample included 543 distinct projects in 58 geographic areas across the United States and Puerto Rico. The sample is designed to obtain a 95 percent likelihood that estimated aggregate national rent errors for all programs are within two percentage points of the true population rent calculation error, assuming an error of ten percent of the total rents (based on OMB criteria). Previous studies determined that a tenant sample size of 2,400 will yield an acceptable precision for estimates of the total average error.

IMPROPER RENTAL ASSISTANCE PAYMENTS
DOLLARS IN THOUSANDS

Administration/ Error Type	2010 Subsidy Over-Payments	2010 Subsidy Under-Payments	2010 Net Erroneous Payments	2010 Gross Erroneous Payments	2009 Gross Erroneous Payments	2000 Gross Erroneous Payments
Public Housing						
Administrator Error	$79,664	$61,369	$18,295	$141,033	Note (1)	$602,557
Income Reporting Error	$45,433	-	$45,433	$45,433	Note (1)	$294,000
Billing Error*	$35,000	$14,000	$21,000	$49,000	Note (1)	Not available
Subtotal:	**$160,097**	**$75,369**	**$84,728**	**$235,466**	-	**$896,557**
Section 8 Voucher						
Administrator Error	$184,993	$156,522	$28,471	$341,515	$440,288	$1,096,535
Income Reporting Error	$86,709	-	$86,709	$86,709	$121,477	$418,000
Billing Error	-	-	-	-	-	Not available
Subtotal:	**$271,702**	**$156,522**	**$115,180**	**$428,224**	**$561,765**	**$1,514,535**
Total PHA Administered						
Administrator Error	$264,657	$217,891	$46,766	$482,548	$440,288	$1,699,092
Income Reporting Error	$132,142	-	$132,142	$132,142	$121,477	$712,000
Billing Error	$35,000	$14,000	$21,000	$49,000	-	Not available
PHA Subtotal:	**$431,799**	**$231,891**	**$199,908**	**$663,690**	**$561,765**	**$2,411,092**
Total Project Based/Owner Administered						
Administrator Error	$97,713	$70,006	$27,707	$167,719	$209,455	$539,160
Income Reporting Error	$71,056	-	$71,056	$71,056	$96,326	$266,000
Billing Error*	$21,000	$36,000	($15,000)	$57,000	$57,000	Not available
Project Based Subtotal:	**$189,769**	**$106,006**	**$83,763**	**$295,775**	**$362,781**	**$805,160**
Total Improper Payments						
Administrator Error	$362,370	$287,897	$74,473	$650,267	$649,743	$2,238,252
Income Reporting Error	$203,198	-	$203,198	$203,198	$217,803	$978,000
Billing Error	$56,000	$50,000	$6,000	$106,000	$57,000	Not available
GRAND Total:	**$621,568**	**$337,897**	**$283,671**	**$959,465**	**$924,546**	**$3,216,252**
TOTAL PROGRAM PAYMENTS	-	-	-	**$32,563,693**	**$30,015,109**	**$18,800,000**
IMPROPER PAYMENT RATE	-	-	-	**2.9%**	**3.1%**	**17.1%**

**Billing error estimates are based on FY 2004 data for Public Housing and FY 2009 data for Owner Administrators.*

Percent Reductions in Improper Payments
Dollars in Billions

Error Type	Baseline Estimates	FY 2010 Estimates	Percent Reduction
Administrator Error	* $2.238	$0.650	71%
Income Reporting Error	* $0.978	$0.203	79%
Billing Error	* $0.214	$0.106	50%
Total	**$3.430**	**$0.959**	**72%**

** Administrator and Income Reporting Error Estimates are from FY 2000; the Billing Error Estimate is from FY 2005.*

Corrective Actions Taken to Reduce Improper Payments

The overall reduction in improper payments for HUD's three major types of RHAP over the past ten years has been primarily attributed to HUD's efforts to work with its housing industry partners through enhanced program guidance, training, oversight, and enforcement.

Collectively, these efforts have had a positive impact on the program administrators' ability to reduce their errors in the calculation of income, rent, and subsidies. Although the administrator error increased slightly from $649 million in FY 2009 to $650 million in FY 2010, the findings were on par with the findings from FY 2004 through FY 2009, within the statistical margin of error, and do not represent statistically significant differences.

In the Housing Choice Voucher Program, the establishment of a budget based funding methodology was implemented in FY 2005 to reduce the opportunity for billing errors.

In HUD's multifamily housing portfolio, the Department found a direct correlation in the reduction of improper payments to the number of management and occupancy reviews at multifamily housing properties. HUD also uses the Enterprise Income Verification (EIV) system to reduce the level of improper payments. The EIV system makes integrated income data available from one source for PHAs and multifamily property owners to improve income verification during income reexaminations. Increased availability and use of the EIV system by

Note (1): In the Public Housing program, significant program structure changes were implemented in the second quarter of FY 2007 to improve the efficient use of funding in the Public Housing Operating Fund. These structure changes effectively eliminated all three previously reported types of improper payments due to Administrator, Income Reporting, and Billing errors for that program. It should be noted that PHAs could still make Administrator errors, and tenants could still not report or under-report their income. However, the effect of these errors was borne by the PHA and HUD's subsidy payment remained unchanged. Nonetheless, HUD retained program oversight responsibility to ensure the proper performance and benefits of the program, and continued to focus on effective measures to reduce performance errors by PHAs.

Effective FY 2010, these program structure changes expired. As a result, the effect of the improper payments associated with the Administrator, Income Reporting, and Billing errors in the Public Housing program are now borne by HUD. The results are reported in the chart on the previous page.

PHAs, owners, management agents, and contract administrators for HUD's rental assistance programs have a direct correlation to the reduction of improper payments associated with income reporting errors. Use of EIV by PHAs, owners, management agents, and contract administrators became mandatory effective January 31, 2010.

PIH implemented a "Do Not Pay List" within the EIV system. This feature identifies individuals who currently have outstanding debts with PHAs nationwide. PHAs are required to use this feature to screen applicants. The feature alerts PHAs of current assisted families when there is a report of an outstanding debt to another PHA so that the current PHA can terminate the family's assistance and prevent subsequent improper payments.

During FY 2011, HUD formed an Improper Payments Assessment Team to monitor PHAs reporting of information to the Public and Indian Housing Information Center (PIC). The intended outcome of this monitoring effort is to confirm PHA compliance with PIC reporting and effective use of the EIV system to reduce improper payments within PIH RHAP.

HUD also implemented reporting in the EIV system to aid PHAs in recovering payment errors at the local level. One of these reports is the Deceased Tenant Report which measures the number of deceased single member households within a public housing agency's jurisdiction. The measure helps public housing agencies reduce improper payments made on behalf of deceased beneficiaries. In the first year of monitoring the Deceased Tenants Report, $3.5 million in improper payments were recovered.

HUD's Improper Payment Reduction Forecast

HUD will continue to take aggressive steps to address the causes of improper rental housing assistance payments to ensure that the right benefits go to the right people. Based on the above results for the three types of rental housing assistance errors, as well as plans to address known causes and levels of improper payments, HUD provides the statistical results for FY 2010 and the outlook for improper payment percentages on a combined program basis from FY 2011 – FY 2013, as follows:

Rental Assistance Improper Payment Reduction Outlook
FY 2011-FY 2013

(Dollars shown in billions)

Activity	FY 2009 Payments	FY 2009 IP	FY 2009 IP% Goal/Actual	FY 2010 Payments	FY 2010 IP	FY 2010 IP% Goal/Actual	FY 2011 IP% Goal	FY 2012 IP% Goal	FY 2013 IP% Goal
Rental Assistance	$30.015	$0.925	3.3/3.1	$32.564	$0.959	3.0/2.9	2.8	2.8	2.8
Estimated Payments							$34	$34	$34

The annual Improper Payment calculation is based on prior year data. Accordingly, the FY 2011, FY 2012, and FY 2013 results will be reported in the FY 2012, FY 2013, and FY 2014 AFRs respectively.

HUD has made progress in reducing the improper payment rate. During FY 2009, the improper payment rate was 3.1 percent, thus exceeding HUD's FY 2009 goal of 3.3 percent. The improper payment rate for FY 2010 was 2.9 percent also surpassing HUD's FY 2010 goal of 3.0 percent.

As noted previously, HUD changed the method of reporting improper payments in FY 2010 for the Public Housing program which resulted in errors of approximately $235 million in rental subsidy. If HUD would have reported the errors associated with the Public Housing program in FY 2010 under the same method used in FY 2009, HUD's FY 2010 error rate would have been 2.2 percent, which is a significant improvement.

Actions taken to reduce improper payments included full implementation of the EIV system, establishment of a budget based funding methodology in the Housing Choice Voucher Program, and providing technical assistance and training to minimize errors. To continue to meet future goals, PHAs and Multifamily Housing owners must continue to be diligent in the mandatory use of the EIV system to further reduce income reporting errors. HUD's corrective action plans will include addressing this issue during the Management and Occupancy Reviews and Rental Integrity Monitoring Reviews. In addition, program simplification, via revised legislation, could lead to additional reductions in rental subsidy errors for HUD's RHAP.

Recovery Auditing Activity

Under the requirements of the IPERA, recovery audits of each program and activity of an agency that expends $1 million or more annually shall be conducted if performing such audits would be cost-effective. The IPERA significantly increases agency payment recapture efforts by expanding the scope of recovery audits to all programs and activities (e.g., grants, loans, benefits, and contract outlays), and lowering the threshold for conducting payment recapture audits from $500 million in annual outlays to $1 million in annual outlays. HUD, with contractor assistance, previously performed a detailed recovery auditing review. The review disclosed two contracts with potential recoveries. However, HUD's Contracting Officer and Government Technical Representative subsequently validated these payments as proper.

HUD is currently in the process of implementing the recovery audit requirements under the IPERA. Currently, HUD does not have any information to report for Tables 2-5 as displayed in OMB Circular A-136. Certain programs within HUD do not have the means to capture and report the amounts of improper payments identified and recovered. In addition, certain programs within HUD have planned to complete a cost-benefit pilot program related to implementing a recovery auditing program. HUD anticipates the pilot resulting in additional budgetary requirements to implement recovery auditing. A significant number of appropriations under RHAP are "no year money", and according to guidance in the revised Parts I and II to Appendix C of OMB Circular A-123, recovered overpayments from an appropriation that have not expired are not available to pay contingency fee contracts. As such, programs that are funded with "no year money" will be excluded. Furthermore, HUD recently hired a contractor to perform recovery auditing services on contractor payments made from administrative expense appropriations.

An initiative in Multifamily Housing is in the planning stages for the development of an electronic Error Tracking Log to be incorporated as part of the Tenant Rental Assistance Certification System (TRACS) along with the creation of the new Integrated Subsidy Error Reduction System (iSERs) for tracking the specific dollar impact of income and rent discrepancies and the corresponding resolution and/or recapture. However, it is not expected to be operational until at least FY 2013. The monthly electronic reporting will assist Multifamily Housing to target training to those areas where most errors are occurring, and to ensure that the Department continues to monitor program administrators while increasing efforts to ensure that subsidy payments are being calculated correctly.

In addition, PIH has implemented additional functionalities within EIV and has a team dedicated to monitoring PHA progress in addressing other issues (other than tenant unreported income) which may result in documenting the occurrence of improper payments and HUD's recovery of the improper payments.

The chart below displays improper payments identified and recovered through post-payment reviews outside of payment recapture audits.

Overpayments Recaptured Outside of Payment Recapture Audits

Agency Source	Amount Identified (CY)	Amount Recovered (CY)	Amount Identified (PY)*	Amount Recovered (PY)*	Cumulative Amount Identified (CY+PYs)	Cumulative Amount Recovered (CY+PYs)
PIH Post Payment Reviews	$3,498,389	$3,497,347	N/A	N/A	$3,498,389	$3,497,347
OIG Reviews	$193,365,502	$47,211,913	N/A	N/A	$193,365,502	$47,211,913
Total	$196,863,891	$50,709,260	N/A	N/A	$196,863,891	$50,709,260

* *This is the first year the data in this chart is being presented. Accordingly, data for the prior year amounts identified and recovered were not tracked and therefore are not available.*

Barriers

The principal cause of improper payments in HUD's rental assistance programs is a function of program complexity, the administrative nature of the process, and the scope of the program.

An example of the program complexity can be demonstrated by the fact that there are over 45 different types of income that should or may (depending on local options) be excluded from the subsidy calculation. Additionally, rules exist for determining a family's adjusted income that consider medical expenses, child care expenses, income of full-time students, treatment of assets, and application of earned income, disregard rules (if required) and the correlation between bedroom size, payment standard, the contract rent, and utility allowances. This increases program complexity and the probability that errors will be made.

HUD is therefore exploring several policy and legislative initiatives to reduce program complexity. Included in the FY 2012 Budget Request, are several policy proposals aimed at simplifying tenant deductions, program requirements and certifications of income. Each of these proposals would alter requirements that contribute to rental subsidy errors. Further, the Office of Public and Indian Housing has proposed a rent demonstration study that would examine different ways to simplify the public housing program through the use of alternative rent setting policies.

Appendices

Appendix A: Glossary of Acronyms

AFR	Agency Financial Report
APR	Annual Performance Report
CDBG	Community Development Block Grant
CFO	Chief Financial Officer
CMHI	Cooperative Management Housing Insurance
CPD	Office of Community Planning and Development
DOE	U.S. Department of Energy
DOL	U.S. Department of Labor
DOT	U.S. Department of Transportation
EIV	Enterprise Income Verification System
EVS	Employee Viewpoint Survey
EO	Executive Order
EPA	U.S. Environmental Protection Agency
Fannie Mae	Federal National Mortgage Association
FCRA	Federal Credit Reform Act of 1990
FERS	Federal Employees Retirement System
FFB	Federal Financing Bank
FFMIA	Federal Financial Management Improvement Act (Pub. L. No. 104-208)
FHA	Federal Housing Administration
FHEO	Office of Fair Housing and Equal Opportunity
FMFIA	Federal Managers' Financial Integrity Act (Pub. L. No. 97-255)
FMS	Department of the Treasury Financial Management Service
Freddie Mac	Federal Home Loan Mortgage Corporation
FSP	Federal Strategic Plan to Prevent and End Homelessness
FY	Fiscal Year
GI	General Insurance Fund

Ginnie Mae	Government National Mortgage Association
GPRA	Government Performance and Results Act of 1993 (Pub. L. No. 103.62)
GPRAMA	GPRA Modernization Act of 2010 (Pub. L. No. 111-352)
HCV	Housing Choice Voucher
HIFMIP	HUD Integrated Financial Management Improvement Project
HUD	U.S. Department of Housing and Urban Development
IPERA	Improper Payments Elimination and Recovery Act (Pub. L. No. 111-204)
IPIA	Improper Payments Information Act of 2002 (Pub. L. No. 107-300)
IT	Information Technology
LLG	Liability for Loan Guarantees
MBS	Mortgage-Backed Securities
MD&A	Management's Discussion and Analysis
MHA	Making Home Affordable Program
MMI	Mutual Mortgage Insurance Fund
MSR	Mortgage Servicing Rights
NAPA	National Academy of Public Administration
NSP	Neighborhood Stabilization Program
OCFO	Office of the Chief Financial Officer
OCHCO	Office of the Chief Human Capital Officer
OHHLHC	Office of Healthy Homes and Lead Hazard Control
OIG	Office of Inspector General
OMB	Office of Management and Budget
PBRA	Project-Based Rental Assistance
PD&R	Office of Policy Development and Research
PHA	Public Housing Agency
PIH	Office of Public and Indian Housing
PG	Priority Goal
Recovery Act	American Recovery and Reinvestment Act of 2009
SNAPS	Special Needs Assistance Program

SRI	Special Risk Insurance
Treasury	U.S. Department of the Treasury
USDA	U.S. Department of Agriculture
VA	U.S. Department of Veterans Affairs

Appendix B: Table of Websites

Mission, Organization, and Major Program Activities

1. http://portal.hud.gov/portal/page/portal/HUD/localoffices
2. http://portal.hud.gov/portal/page/portal/HUD/program_offices/housing
3. http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/hsgsingle
4. http://portal.hud.gov/hudportal/HUD/program_offices/housing/mfh
5. http://portal.hud.gov/hudportal/HUD?src=/federal_housing_administration/healthcare_facilities/mortgage_insurance/about_the_office_of_healthcare_programs
6. http://www.ginniemae.gov/about/about.asp?Section=About
7. http://portal.hud.gov/portal/page/portal/HUD/program_offices/public_indian_housing
8. http://portal.hud.gov/portal/page/portal/HUD/program_offices/comm_planning
9. http://portal.hud.gov/portal/page/portal/HUD/program_offices/fair_housing_equal_opp
10. http://portal.hud.gov/portal/page/portal/HUD/program_offices/healthy_homes
11. http://portal.hud.gov/hudportal/HUD?src=/program_offices/sustainable_housing_communities
12. http://portal.hud.gov/hudportal/HUD?src=/hudprograms/toc

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Recovery Act

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Summary of Financial Statement Audit and Management Assurances

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If you have any questions or comments, please call

Jerome A. Vaiana
Acting Assistant Chief Financial Officer for Financial Management
at 202-402-8106.

Written comments or suggestions for improving this report
may be submitted by mail to:

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451 7th St. SW, Room 2210
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Attention: Jerome A. Vaiana
Acting Assistant Chief Financial Officer for Financial Management

Or by e-mail to
AgencyFinancialReport@HUD.gov

To view the report on the internet, go to the following website:
http://portal.hud.gov/hudportal/documents/huddoc?id=AFR2011.pdf

This Report is Available on the Web at:
http://portal.hud.gov/hudportal/documents/huddoc?id=AFR2011.pdf

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