AGENCY FINANCIAL REPORT

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Fiscal Year
2010

An Overview of the Agency Financial Report

The Department of Housing and Urban Development (HUD) has chosen to produce an Agency Financial Report (AFR) and Annual Performance Report (APR). HUD will include its fiscal year (FY) 2010 APR with its Congressional Budget Justification and will post it on the Department's Web site at www.hud.gov by February 7, 2011.

This report 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 2010 results, and includes the following categories:

- Mission, Organizations and Major Program Activities, and Strategic Plan;
- Priority Goals, including 3rd quarter FY 2010 year-to-date program results; and a look at the future; *Transform the Way HUD Does Business;* and the American Recovery and Reinvestment Act of 2009 (Recovery Act);
- Analysis of Financial Condition and Results for FY 2010; and
- Management Assurances concerning compliance with laws and regulations.

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 in February 2011.

Section II – Financial Information. This section presents HUD's consolidated financial statements and accompanying notes for FY 2010 and the independent auditor's report on those financial statements. This section also contains Required Supplementary Stewardship Information, Required Supplementary Information, the Secretary's Audit Resolution Report, and the Delinquent Debt Collection Report.

Section III – Other Accompanying Information. This section presents other required or Agency deemed important information such as Improper Payments Information Act (IPIA) reporting 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 preceded by an "E").

TABLE OF CONTENTS

Message from the Secretary

November 15, 2010

I am honored to present the U.S. Department of Housing and Urban Development's Agency Financial Report for Fiscal Year (FY) 2010, an alternative to the Performance and Accountability Report, in accordance with OMB Circular A-136. This report describes our financial results during a year of struggle for our Nation. Helping our families and our communities recover from this economic crisis has been, and continues to be, the focus of the Department's efforts.

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 early in this report. From there, we identified and designated four Priority Goals that are essential to achieving our mission for this and the coming fiscal years. Those goals and our results through June 30, 2010 (year-to-date through the third quarter) were as follows:

- HUD assisted 1.55 million homeowners at risk of losing their homes due to foreclosure and is on target to reach the goal to assist 3.1 million homeowners by the end of FY 2011;
- HUD served 5.30 million families, in meeting the growing need for affordable rental homes. HUD is on target to reach its Priority Goal that, by the end of FY 2011, HUD will serve a total of 5.46 million families, 207,000 more than in FY 2009;
- HUD and the Department of Veterans Affairs have worked to reduce the number of homeless veterans by 19,028. The two Departments are on target to reach our shared goal to reduce the number of homeless veterans to 59,000 by June 2012; and
- HUD completed cost-effective energy and green retrofits of 19,199 public, assisted, and other HUD-supported affordable homes. We expect to meet our goal to complete 159,000 retrofits by the end of FY 2011.

This report takes a high-level look at activities and results related to each of these goals. Details for these goals will be included in the Annual Performance Report published in February 2011.

As part of HUD's efforts to assure a stable and sustainable housing market and a healthy national economy, we have also taken steps to begin developing a comprehensive, balanced national housing policy that supports sustainable homeownership and affordable rental housing. By partnering with private and "Third Sector" actors from the philanthropic and nonprofit communities, by helping cities and suburbs share solutions at the regional level to tackle challenges like economic development, access to jobs, and traffic congestion – and by using data to enhance performance and craft policy – we have begun to create a culture at HUD that rewards results and nurtures local innovation.

This year, HUD endorsed 1,661,917 single family and 1,011 multifamily mortgages and provided rental assistance to 5.3 million residential units. As a result of HUD's initiatives, and those of the Department of the Treasury and the private sector, since April 2009 families have received more than 3.5 million mortgage modifications – nearly triple the number of foreclosures that occurred during that time.

At the center of many of these efforts has been the Federal Housing Administration (FHA). When the housing market began its slow collapse 3 years ago, FHA comprised only about 2 to 3 percent of the housing market. But when private capital vanished at the end of 2008, it was the FHA that stepped in – insuring approximately 30 percent of purchases and 20 percent of refinances in the housing market. Since January 2009, the agency has helped nearly 3 million Americans either purchase a home, or refinance into more stable, affordable mortgages. In the same period, FHA helped more than a half million families at risk of foreclosure through 760,000 loss mitigation actions.

In November 2009, HUD reported to Congress that FHA's secondary reserves had fallen below the required 2 percent level. The Administration has taken very seriously its responsibility to ensure that FHA is operating on sound financial footing while minimizing risk to taxpayers – announcing and implementing the most sweeping combination of reforms to FHA credit policy, risk management, lender enforcement, and consumer protections in its history. These reforms have strengthened FHA's financial condition and minimized risk to taxpayers as it continues to fulfill the Department's mission to serve communities nationwide.

Through the Recovery Act, HUD has helped renovate more than 315,000 homes, with nearly 3,000 developed – many to green standards with energy efficiency improvements, saving money for residents and owners alike. The Homeless Prevention and Rapid Re-Housing Program (HPRP) has prevented homelessness for well over a half million people. Just as importantly, as the U.S. Conference of Mayors reports, HPRP is fundamentally changing the way communities respond to homelessness at the local level, keeping people in their homes rather than waiting for them to become homeless, and quickly returning those who do fall into homelessness to the stable, permanent housing they need. As a result of all of these efforts, in the second quarter of this year, HUD Recovery Act recipients reported that more than 26,000 jobs have been created or saved – at such an important time for our economic recovery.

As we help our communities recover, we have also made a firm commitment to providing affordable rental housing. This year we proposed our Transforming Rental Assistance (TRA) initiative, to simplify the way the Federal Government provides rental assistance to millions of our most vulnerable families – giving families more choice and responsibility. Through our Choice Neighborhoods initiative, we are building on proven public housing redevelopment strategies to transform neighborhoods of concentrated poverty into sustainable, mixed-income communities of opportunity and choice. In addition, through the $7 billion Neighborhood Stabilization Program, we are helping communities purchase and put 100,000 properties in the Nation's hardest-hit markets back into productive use. To date, grantees report that more than 36,000 of these properties are already either under construction or rehab.

HUD has played a significant role in disaster relief efforts – in states like California, Iowa, and Tennessee, and especially those along the Gulf Coast. Of the nearly 40,000 Gulf Coast families that remained on temporary government housing assistance when President Obama took office, 98 percent have moved into permanent housing. We have helped 99 percent of families who qualified for federal assistance receive it, have torn down barriers to put nearly $400 million in rebuilding dollars in the hands of low-income homeowners, and have reduced the number of blighted homes in the New Orleans metropolitan area by 14 percent since December 2008. At the same time, we are reforming the Housing Authority of New Orleans. All of the “Big Four” public housing complexes are under construction, with hundreds of families having returned to their homes, and we have provided more federally assisted housing in New Orleans than there was before the 2005 hurricanes – some 8,400 affordable homes since taking office.

Indeed, as these efforts suggest, we have begun to change the way HUD does business, as described in detail in the section on Goal 5. We have become much more place-based in the way we collect data and make decisions – delegating decisionmaking to the field wherever possible, and thinking more holistically about how to best connect our work in communities nationwide to the availability of health services, transportation, employment, and educational facilities. Through our Transformation Initiative (TI), we are taking long-overdue steps to upgrade and modernize our Department – helping us replace computer programs written in the 1980s, build the capacity of communities, and demonstrate what works and what doesn’t. TI has also begun to provide us with the flexibility we need to create crosscutting initiatives. We are reforming our hiring process to ensure that we are employing, training, and retaining high quality talent for performing our work and have already reduced the average length of our hiring process by more than 8 weeks, to 79 days. We are creating upward mobility programs to provide opportunities for our dedicated HUD staff and are reviewing HUD rules and reports in order to simplify or eliminate them. HUD’s transformation is a long-term effort, and the activities started in FY 2010 are just the beginning, with much work to be done.

Through all this, we continue to demonstrate our commitment to sound financial management, having obtained a “clean” opinion on our financial statements from independent auditors for the 11th consecutive year with no material weaknesses for the 3rd consecutive year. I can provide reasonable assurance that the performance data in this report is reliable and complete. Any data limitations are documented in the report. The Department’s financial management systems and controls provide reasonable assurance that the objectives of the Federal Managers’ Financial Integrity Act (FMFIA) are being met.

Together with other executive agencies, our Nation’s legislators, and many stakeholders in the housing community, we are reorienting HUD to meet the challenges of the 21st century – and seizing this unique moment in our history to build the strong, sustainable, inclusive communities America needs to succeed in the decades to come.

Shaun Donovan
Secretary

Management's Discussion and Analysis

Mission, Organizations and Major Program Activities, and Strategic Plan

Our Mission

Create strong, sustainable, inclusive communities

and quality, affordable homes for all.

HUD's mission stems from a directive in the Housing Act of 1949 to create "a decent home and suitable living environment for every American family." This founding mandate is the groundwork for which we continue to develop and preserve quality, healthy, and affordable homes.

The core focus of HUD's mission is one in which housing and communities result in a better quality of life and the fulfillment of the promise that America holds for all people. Moreover, it prioritizes responsible decisions about owning or renting that are financially appropriate for the individual or family. HUD is committed in its mission to serve its residents, partners, employees, and the communities. 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 strengthening 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.

Success in delivering services to the nation's residents and partners is dependent on HUD's employees. Therefore, HUD's focus will be to invoke a work environment that is mission driven, results oriented, innovative, and collaborative.

Organizations and Major Program Activities

HUD accomplishes its mission through component organizations (outlined on the following pages) and offices that administer place-based programs that collaboratively seek to meet the mission of the Department. Place-based programs leverage investments by focusing resources in targeted places and drawing on the compounding effect of well-coordinated action. Effective place-based programs can influence how rural and metropolitan areas develop, how well they function as places to live, work, operate a business, preserve heritage, and more. A new vigorous effort is underway in collaborating with other Federal agencies to meld the

Department's coordinated interests and strengths to pursue better results. Such policies can also streamline otherwise redundant and disconnected programs.

As part of reinventing the Department and to better meet its mission, HUD established an Office of the Chief Operating Officer (OCOO) to provide leadership and a comprehensive strategy for HUD's current operations of procurement, human resources, and information technology. The OCOO will provide a way to coordinate these interdependent functions in order to facilitate decision making and ensure accountability. Within the OCOO, a new Office of Disaster Management and National Security was also established to develop, coordinate, and implement HUD's response to disasters, as well as lead the agency in its disaster and emergency preparedness, protective services, and intra- and interagency disaster recovery efforts. In addition, the Office of Sustainable Housing and Communities was created to support HUD's energy efficiency and green building efforts, and administer HUD's FY 2010 Sustainable Communities Initiative. This initiative promotes pedestrian-friendly, public transit-oriented, mixed-income and mixed-use communities in order to substantially reduce transportation costs, to create energy savings (by reducing vehicle-miles traveled), and enhance access to employment and educational opportunities. In FY 2010, the Office of Strategic Planning and Management (OSPM) was created to develop and implement the Strategic Plan, and to track agency performance against quantitative outcome goals and help drive the agency's transformation effort.

HUD's programs 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 HUD's local offices.[E1] HUD's major organizations include:

- The Office of Housing[E2] provides vital public services through its nationally administered programs. It oversees the Federal Housing Administration (FHA), the largest mortgage insurer in the world, as well as regulates housing industry business. Within the Office of Housing are six business areas:
    - Single Family Housing[E3]—HUD's Single Family programs include mortgage insurance on loans to purchase new or existing homes, condominiums, manufactured housing, houses needing rehabilitation, and for reverse equity mortgages to elderly homeowners. In FY 2010, Single Family programs endorsed 1,661,917 loans and carried nearly a $1 trillion of Insurance-In-Force.
    - Housing Counseling Program[E4]—HUD's housing counseling program provided support and training to 2,743 counseling agencies, of which 2,252 were authorized to provide mortgage delinquency and default resolution counseling. In FY 2010, about half of the citizens participating in the program received foreclosure prevention counseling, and of those completing that counseling and for whom results are known, almost half received a mortgage modification and another 15 percent entered into a forbearance agreement or repayment plan.

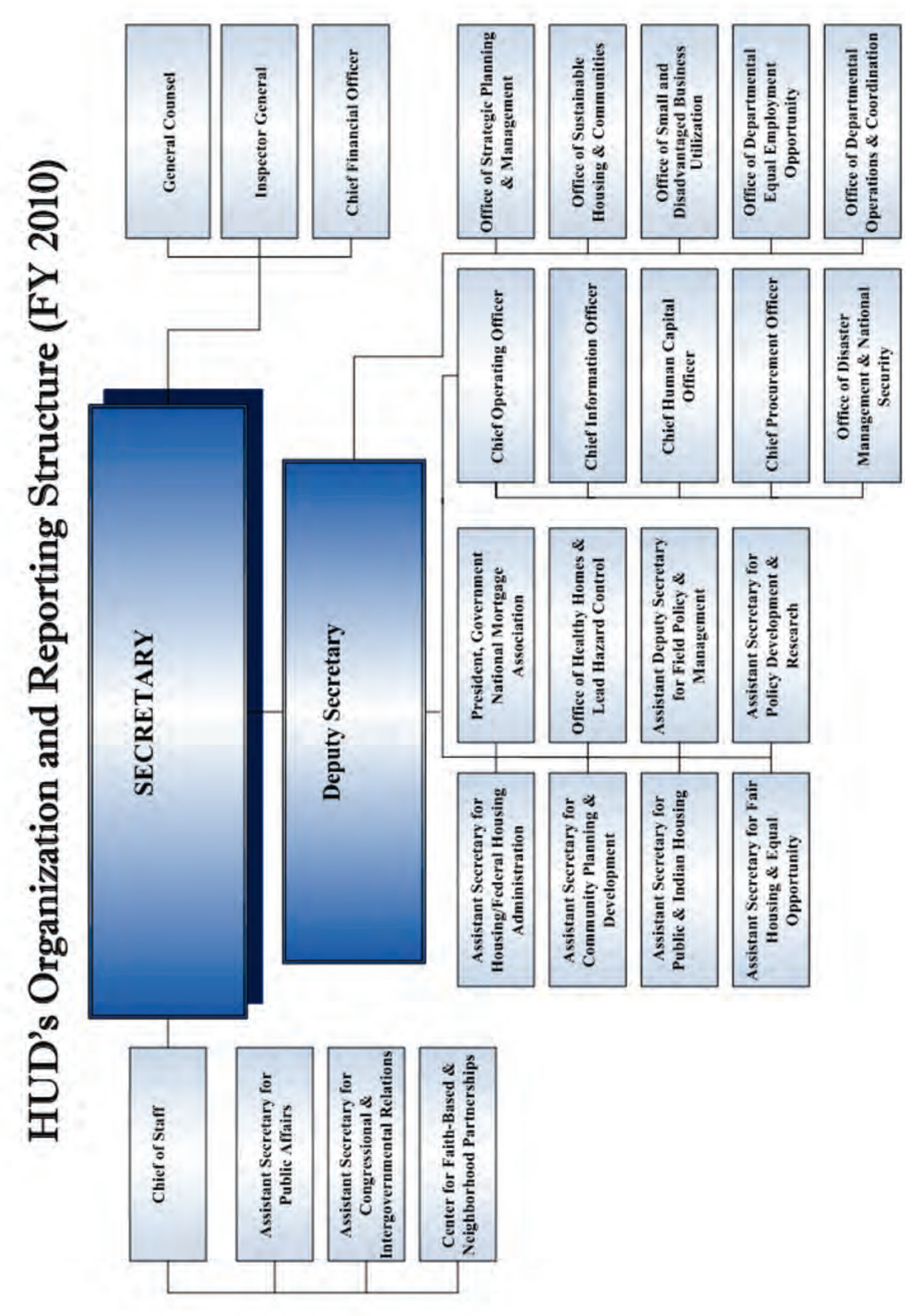
  - Multifamily Housing[E5]—HUD's Multifamily programs provide mortgage insurance to HUD-approved lenders to facilitate the construction, substantial rehabilitation, purchase, and refinancing of multifamily housing projects and healthcare facilities. In FY 2010, HUD's portfolio of insured Multifamily mortgages totaled 12,519 mortgages that covered 1.5 million units. Multifamily's Project-Based Rental Assistance (PBRA) program assists approximately 1.4 million low- and very low-income households in obtaining decent, safe, and sanitary housing in privately owned rental housing.
  - Healthcare Programs[E6]—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 2,602 loans, of which 326 loans were added this year.
  - Regulatory Programs[E7]—HUD's Regulatory programs are designed to protect homeowners and homebuyers, while regulating real estate transactions.
- The Government National Mortgage Association[E8] (Ginnie Mae) channels global capital into the U.S. housing market, providing liquidity and stability in support of affordable homeownership and rental housing at no cost to the U.S. Government. The Ginnie Mae guaranty ensures available funding, strong pricing and favorable spreads, which translate into lower interest rates to borrowers. In FY 2010, the Ginnie Mae program provided funding for $413 billion in funding for federal housing programs, financing approximately 99 percent of all government-insured or guaranteed mortgage loans. Ginnie Mae is ending the fiscal year with $1.05 trillion in Mortgage-Backed Securities (MBS) outstanding, this represents private market capital in use to finance housing for over 6.9 million households.
- The Office of Public and Indian Housing[E9] (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; ensure fiscal integrity by all program participants; and support mixed income developments to replace distressed public housing. More than 4,100 PHAs provide affordable housing opportunities for 3.2 million low-income families. In order to facilitate this mission, PIH has 11 major offices within Headquarters, 46 field offices, more than 1,500 staff, and six area offices for Native American programs. PIH administers a budget of more than $26 billion, which represents approximately 56 percent of HUD's budget. Within the Office of Public and Indian Housing are two major business areas:
  - The Office of Public Housing[E10] and Voucher [E11] Programs provides affordable housing to 1.1 million households through the Low Rent Public Housing program, and 2.1 million households receive assistance through the Housing Choice Voucher program.

  - The Office of Native American Programs[E12] (ONAP) provides safe, decent, and affordable housing for low-income families through more than 550 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, Indian Community Development 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[E13] (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[E14] (FHEO) administers and enforces federal laws and establishes policies that ensure equal access to housing and housing-related services in the United States. FHEO and its partners in the Fair Housing Assistance Program (FHAP) investigated 10,120 filed cases in FY 2010 including referrals from its partners in the Fair Housing Initiatives Program (FHIP). Of these FHIP referrals, 61 percent resulted in positive outcomes (conciliated, resolved, or charged) that benefitted the complainants.
- The Office of Healthy Homes and Lead Hazard Control[E15] (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 2010, as a result of grants executed in prior years, the OHHLHC's grant programs eliminated lead-based paint and other housing-related environmental health hazards in over 12,000 low-income housing units. In addition, the OHHLHC awarded 67 new grants totaling $129.6 million to help communities address these hazards.
- The Office of Sustainable Housing and Communities[E16] helps provide communities with the support they need to ensure that housing, transportation, water, energy, and "green" building investments are working together to build strong, healthy, and inclusive neighborhoods. 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[E17] oversees the development and implementation of the Department's FY 2010 - 2015 Strategic Plan and is responsible for oversight of performance management.
- The Office of Policy Development and Research[E18] (PD&R) is responsible for maintaining a repository of resources on housing needs, market conditions, and existing

programs, as well as conducting research on priority housing and community development issues. The Office also provides objective program evaluation, data, and analysis to inform policy decisions and improve program results.

- The Center for Faith-Based and Neighborhood Partnerships[E19] plays a critical role in special event planning and execution, programs and projects that are cross-programmatic and at times inter-Departmental, and outreach to constituents for Secretarial priorities. The Center disseminates information of great timeliness and necessity for leaders of faith-based and secular neighborhood organizations addressing crises or emergencies in their community. For instance, regarding foreclosure prevention, the Center convened 125 faith-based and non-profit leaders, in Atlanta to meet with Secretary Donovan about "Making Home Affordable" and FHA loss mitigation options, as well as First Look,[E20] a program to accelerate restoration of neighborhoods damaged by foreclosures.

The organization chart found on the following page reflects the principal lines of authority for the Department.


HUD's Organization and Reporting Structure (FY 2010)
SECRETARY
Deputy Secretary
General Counsel
Inspector General
Chief Financial Officer
Chief of Staff
Assistant Secretary for Public Affairs
Assistant Secretary for Congressional & Intergovernmental Relations
Center for Faith-Based & Neighborhood Partnerships
Office of Strategic Planning & Management
Office of Sustainable Housing & Communities
Office of Small and Disadvantaged Business Utilization
Office of Departmental Equal Employment Opportunity
Office of Departmental Operations & Coordination
Chief Operating Officer
Chief Information Officer
Chief Human Capital Officer
Chief Procurement Officer
Office of Disaster Management & National Security
President, Government National Mortgage Association
Office of Healthy Homes & Lead Hazard Control
Assistant Deputy Secretary for Field Policy & Management
Assistant Secretary for Policy Development & Research
Assistant Secretary for Housing/Federal Housing Administration
Assistant Secretary for Community Planning & Development
Assistant Secretary for Public & Indian Housing
Assistant Secretary for Fair Housing & Equal Opportunity

HUD's Strategic Plan

On May 5, 2010, HUD updated and published its Strategic Plan[E21] to address the economic, financial, and community development issues confronting the nation. As a result, the Department created five overarching Strategic Goals that are guiding the transformation of HUD into a cutting edge, streamlined 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 home the foundation of stability and opportunity. An introduction to these goals is provided below, followed by the Department's Strategic Framework found on the following page.

Goal 1: *Strengthen The Nation's Housing Market To Bolster The Economy And Protect Consumers* [E22] will focus on rebuilding the nation's housing market and economy to ensure long-term stability and success.

Goal 2: *Meet The Need For Quality Affordable Rental Homes*[E23] discusses the need to balance support for sustainable homeownership with affordable homes, in order for housing markets to return to stability.

Goal 3: *Utilize Housing As A Platform For Improving Quality Of Life*[E24] emphasizes the basis of stable housing as an ideal platform to deliver a wide variety of health and social services to improve the education, health, economic security, and safety of its residents.

Goal 4: *Build Inclusive And Sustainable Communities Free From Discrimination*[E25] charts a course for HUD to catalyze economic development and job creation; promote energy efficiency and location efficiency in buildings; and facilitate disaster preparedness, recovery, and resiliency in healthy, affordable and diverse communities.

Goal 5: *Transform The Way HUD Does Business*[E26] is the foundation of the Department's Strategic Goals and aims to transform HUD into a responsive partner to build capacity within the Department; improve performance management and accountability; decentralize decision making to empower staff; and simplify programs, rules, and regulations.

HUD's Strategic Framework

HUD'S FY 2010-2015 STRATEGIC FRAMEWORK Our Mission: Create Strong, Sustainable, Inclusive Communities and Quality, Affordable Homes For All			
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.**
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.
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.
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.
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.
		3E. Utilize HUD assistance to improve public safety.	4E. Build the capacity of local, state, and regional public and private organizations.
Goal 5. **Transform the way HUD does business.**			
Sub-Goals			
5A. Build capacity ─ Create a flexible and high performing learning organization with a motivated, skilled workforce.			
5B. Focus on results ─ Create an empowered organization that is customer centered, place-based, collaborative, and responsive to employee and stakeholder feedback.			
5C. Bureaucracy busting ─ Create flexible, modern rules and systems that promote responsiveness, openness, and transparency.			
5D. Culture change ─ Create a healthy, open, flexible work environment that reflects the values of HUD's mission.			

FY 2010 Performance Overview

Due to the timing of the publication of the Department's Strategic Plan and a compressed timeframe to gather performance data on the new goals, FY 2010 is considered a transition year from the old Strategic Plan to the new. The results reported in this FY 2010 Agency Financial Report are through the end of the third quarter, June 30, 2010. Because the results reported are not for a full year, a trend comparison for the Department is not included in this report. Complete FY 2010 performance results and trend information will be reported in HUD's Annual Performance Report that will be published in February 2011 . The transition also impacts the ability to provide net costs by the new strategic goals by any other means but estimation.

The actual net cost (dollars and staff) and FY 2010 appropriations are allocated to HUD's strategic goals as reflected below:

Costs By Strategic Goal* and FY 2010 Appropriations

GOAL 1
Strengthen The Nation's Housing Market To Bolster The Economy And Protect Consumers

- Expenditure $3,674 million
- Staffing 619
- FY 2010 Appropriation $3,112 million

GOAL 2
Meet The Need For Quality Affordable Rental Homes

- Expenditure $37,000 million
- Staffing 6,242
- FY 2010 Appropriation $31,346 million

GOAL 3
Utilize Housing As A Platform For Improving The Quality Of Life

- Expenditure $2,960 million
- Staffing 499
- FY 2010 Appropriation $2,508 million

GOAL 4
Build Inclusive And Sustainable Communities Free From Discrimination

- Expenditure $11,068 million
- Staffing 1,867
- FY 2010 Appropriation $9,377 million

GOAL 5
Transform The Way HUD Does Business

- Expenditure $1,972 million
- Staffing 332
- FY 2010 Appropriation $1,671 million

**The expenditures reflected in the above chart represent prorated gross costs, less unassigned costs of $191 million, as reported on the Consolidated Statement of New Cost found in Section II of this report.*

Concurrent with the development of the strategic plan, the Administration initiated its own performance management improvement strategies, including having agencies establish, as part of their performance metrics, four priority performance goals that represent challenging, near-term performance improvements under existing legislative and budgetary authority. HUD's four priority goals are:

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

(2) Serve 207,000 more families with its rental assistance programs;

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

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

The priority goals are discussed on the following pages.

Priority Goal 1: Foreclosure Prevention

Overview

Over the past several years, the nation has experienced rapidly declining property values, lost home equity, increased foreclosures, and sharp blows to the financial system. A decade of the aggressive and sometimes abusive mortgage lending left many borrowers with debt they could not repay, financial institutions with mounting losses, and the economy in disarray. From their peak, home prices fell by more than 30 percent nationally, with even deeper declines occurring in the hardest hit communities. With sales of new and existing home falling rapidly, by December of 2008, the economy was losing nearly 700,000 jobs a month and the nation was caught in what would turn out to be the deepest and longest recession in memory. The near collapse of the housing and housing finance markets caused American families to lose over $6 trillion in housing wealth, damaged the integrity of neighborhoods, and threatened the financial viability of major financial institutions including the FHA.

In response, as part of its FY 2010 – 2015 Strategic Plan,[E1] HUD established an aggressive goal to assist the mounting number of borrowers at risk of losing their homes to foreclosure, while at the same time restoring the ability of FHA to play its historical countercyclical role of promoting widespread access to mortgage capital to those families traditionally not well served by the private marketplace. Goal 1 seeks to "Strengthen the Nation's Housing Market to Bolster the Economy and Protect Consumers." To accomplish this goal, HUD will work with other federal agencies and private sector partners to stabilize the housing market in the short term, while implementing programs that protect consumers and prevent the crisis from happening again. Key components include:

1) Assist 3.1 million homeowners who are at risk of losing their homes due to foreclosure by the end of FY 2011:
   - 400,000 homeowners will be assisted through FHA early delinquency intervention;
   - 300,000 homeowners will be assisted through FHA loss mitigation programs;
   - 2.4 million homeowners will be assisted through joint HUD/Treasury programs; and
   - Achieve a Consolidated Claim Workout (CCW) Ratio of 75 percent for FHA borrowers that receive loss mitigation assistance, and achieve a 6 month re-default rate of 20 percent or less for those receiving a CCW.
2) Restore FHA's excess capital reserve ratio to the Congressionally mandated 2 percent level by 2014.

Contributing Programs

FHA Single Family Mortgage Insurance

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 the tools to assist homeowners to stay in their home. To accomplish these activities, FHA must be financially strong, operate in an effective and efficient manner, and adhere to congressionally mandated capital reserve requirements.

Housing Counseling Assistance

HUD's housing counseling program helps consumers make well-informed decisions concerning home buying and mortgage finance. As the scope of the recent crisis grew, HUD's housing counseling efforts were redirected toward foreclosure prevention. HUD provides grants to housing counseling agencies with which these organizations provide comprehensive advice and assistance to households in making appropriate housing choices. Services provided free of charge by HUD-approved housing counseling agencies include Homebuyer Education Programs, Mortgage Delinquency and Default Resolution Counseling, Predatory Lending Avoidance, Renters Assistance, and Services for Homeless.

Fair Lending Initiative

The Office of Fair Housing and Equal Opportunity (FHEO), in partnership with state and local fair housing agencies participating in the Fair Housing Assistance Program, enforce the fair lending provisions of the Fair Housing Act. These provisions provide protections when communities or neighborhoods are targeted for mortgage fraud or discrimination because of the personal characteristics of residents, including race, color, religion, national origin, sex, disability or familial status. FHEO does this directly and through the Fair Housing Initiatives Program, which provides some grants specifically to address discriminatory mortgage rescue schemes. In addition to enforcement, FHEO provides education and outreach to homeowners on fair lending and foreclosure prevention. FHEO also ensures that mortgage rescue programs are available to all people regardless of race, color, religion, national origin, sex, disability or familial status.

Activities and Measures

FHA has developed a comprehensive set of tools to support struggling homeowners, which are described below.

Loss Mitigation Programs

This performance measure allows HUD to track progress toward achieving the goal of assisting 300,000 homeowners through FHA loss mitigation. FHA's set of loss mitigation products includes special forbearance agreements, mortgage modifications, partial claims, pre-foreclosure sales, deeds-in-lieu (the borrower turns over the deed to the lender without going through the formal foreclosure process), and short sales.

> A borrower from Milwaukee, Wisconsin, in default due to unemployment, called the National Servicing Center (NSC) in December 2009. She was working part time and waiting for disability income. Her disabled son and elderly father also lived with her. The NSC representative explained the loss mitigation retention options to her. After reviewing her financial information and the financial information from her son and father, who were also contributing to the household income, the representative advised the mortgagor about how to submit her information to the lender for loss mitigation review. The NSC representative also contacted the lender on her behalf and faxed over the information she had provided. The lender reviewed the information and qualified the mortgagor for a partial claim, allowing her to keep her home and to continue to provide a place to live for her disabled son and elderly father.

Consolidated Claim Workout (CCW) Ratio

CCW combine FHA partial claims, loan modifications, and new Making Home Affordable[E2] (MHA) modifications but exclude less affordable forbearance programs (an agreement between a lender and a borrower that allows the borrower to catch up and become current on his or her mortgage after experiencing a temporary setback). The CCW ratio presents this aggregation of claims types as a share of all FHA borrowers that become 30 days late and are at risk of foreclosure. Historically, the CCW ratio has been in the mid 60 percent range. HUD's goal is to raise this ratio to 75 percent and is strongly encouraging lender partners to further deploy more affordable loss mitigation solutions to achieve this.

Re-default Rate

This measure allows HUD to track progress toward achieving the goal of reducing the 6-month re-default rate to 20 percent or less for those homeowners receiving a CCW. Since most re-defaults tend to occur in the first six months after the workout, the 6-month period was selected to allow measurement of goal performance within a given year.

Early Delinquency Intervention

To achieve the goal of assisting 400,000 homeowners avoid foreclosure, FHA has developed a comprehensive set of tools to support struggling homeowners. Early delinquency intervention – the type of assistance most commonly offered by loan servicers to homeowners struggling to pay their mortgages – includes cases where lenders and borrowers enter into formal forbearance agreements (non-incentive repayment plans).

Joint HUD-Treasury Programs

Through these programs, 2.4 million homeowners will be assisted jointly by HUD and the Department of the Treasury through the MHA program which provides opportunities to modify or refinance mortgages to more affordable levels. In March 2010, the initial suite of MHA program offerings was expanded to include a new FHA refinance product designed to assist under water borrowers (borrowers owing more on their home mortgage than their property is worth) to avoid foreclosure.

Restore FHA Excess Capital Reserve Ratio

As reported in the FY 2009 actuarial review, the severe decline in home prices, the sluggish performance of the economy, and the abusive behavior of some lending partners drove the excess capital reserve ratio to below the Congressionally mandated level of 2 percent. A strong FHA is critical to the recovery of the housing market and our economy at large, and FHA is working to better identify and manage risk, hold lenders to the highest standards of conduct and recoup losses from lenders who abuse the privilege of participating in FHA programs. In addition, FHA implemented a new mortgage insurance premium structure (put in place in September 2010) and revised underwriting standards to more properly price risk. Finally, the Department conducted servicer visits which involve a high level review of a servicer's process from collections through foreclosure.

Accomplishments

As of June 30, 2010, and as shown in the program details below, HUD has assisted a total of 1.55 million homeowners to avoid foreclosure, which is half of the two year goal of assisting 3.1 million.

Loss Mitigation Programs

During the first three quarters of FY 2010 (through June 30, 2010), HUD assisted 133,099 new homeowners (44.0 percent of the Department's two-year goal of assisting 300,000) with FHA loss mitigation initiatives.

Consolidated Claim Workout (CCW) Ratio

Of those FHA borrowers that received loss mitigation assistance during FY 2010, the percentage that achieved a consolidated claim workout has increased slightly to 66.4 percent and is on target to reach 75 percent in FY 2011.

Re-default Rate

During the first three quarters of FY 2010 (through June 30, 2010), the percentage of six-month re-defaults decreased from 26.3 percent to 19.6 percent, meeting our goal.

Early Delinquency Intervention

As of June 30, 2010, the Department had assisted an additional 121,955 homeowners with early delinquency interventions (nearly 30 percent of the Department's two-year goal). HUD is about 15 percent behind in this target due to a lender that had been improperly reporting certain forbearance loans. The problem was corrected and HUD expects to reach the FY 2011 goal.

Joint HUD-Treasury Programs

Since May 2009, MHA has assisted nearly 1.3 million homeowners, approximately 54 percent of HUD's FY 2011 goal of assisting 2.4 million homeowners.

Restore FHA Excess Capital Reserve Ratio

In FY 2010, 1,335 formerly FHA-approved mortgagees were removed for failing to meet the Department's standards. These efforts have set the stage for HUD meeting its goal of restoring the FHA excess capital reserve ratio to 2 percent by 2014.

Data Sources and Relevance

Performance data on loan mitigation and other foreclosure prevention programs come from metatables from the Single Family Data Warehouse (SFDW). Lenders involved in preventing foreclosures provide this data through a monitored interface process. There are also internal validation routines in the SFDW that provide a check on data validity. Data for the Treasury components of the Joint HUD-Treasury programs come from the Treasury's Office of Financial Stability and its IR-2 Database. The information needed to assess progress on the excess capital reserve ratio goal is presented annually by the independently generated actuarial review of the FHA mortgage insurance funds.

Challenges

In the near term, FHA will continue 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[E3] in 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.

Looking to the Future

Over time, HUD expects FHA's role to diminish as private mortgage capital returns to the market place. Already, $1.02 trillion in aggregate home equity has been returned to the housing market since April 2009. Even so, FHA must continue to work to enhance program operations, properly price and manage the risk associated with its mortgage insurance activities, and continue to offer effective counseling for consumers seeking both FHA insured mortgages, as well as loans offered by a revitalized private mortgage market.

Priority Goal 2: Rental Assistance

Overview

HUD's rental assistance programs provide housing security to families who would otherwise face risk of instability or homelessness. The average income of such families ranges from about $9,400 to $13,600 per year.[1] Overall, only one-quarter of families who would qualify for rental assistance based on their incomes actually receive such assistance.[2] The Department's budget for rental assistance in FY 2010 was approximately $34 billion or 72 percent of the total budget.

This Agency Priority Goal reflects HUD's commitment to preserving and strengthening the nation's portfolio of affordable rental housing. Through smart investments in affordable units funded under existing programs and through a signature initiative focused on streamlining and simplifying such programs, HUD expects to be able to serve 5.46 million families by the end of FY 2011, which is 207,000 more than in 2009.

The major programs supporting this goal are described below.

Contributing Programs

Housing Choice Vouchers

The Office of Public and Indian Housing's (PIH's) Section 8 Housing Choice Voucher (HCV) program is the Federal government's largest program generally recognized as a cost-effective means for assisting families, the elderly, and the disabled to afford decent, safe, and sanitary housing in the private rental market. The HCV 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 program enables families to move from one jurisdiction to another for reasons such as the pursuit of a job or other economic opportunity or to care for an aging or sick family member. The average income of an HCV household is approximately $13,100 annually; 18 percent of such households are 62 years of age or older, and 32 percent are non-elderly disabled.[3]

Project-Based Rental Assistance

The Office of Housing's Project-Based Rental Assistance (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 owner that makes up the difference between the HUD-approved rent for the unit and the family's income-based contribution toward rent. The average income of a household assisted through the PBRA program is $11,400 annually;

---

[1] Picture of Subsidized Households, 2008 (http://www.huduser.org/portal/picture2008/index.html).
[2] The State of the Nation's Housing 2010 (http://www.jchs.harvard.edu/son/index.htm).
[3] PIC Resident Characteristics Report (http://hudatwork/po/p/systems/pic/picstats.cfm).

53 percent of PBRA-assisted households are 62 years of age or older, and 38 percent are non-elderly disabled.[4]

Public Housing

PIH's Public Housing program is comparable to project-based housing in that HUD assistance is linked to particular housing units. These units are owned and operated by Public Housing Agencies (PHAs). In order to support the management and operations of public housing, Operating and Capital funds are provided to PHAs on an annual basis. PIH's Public Housing Operating Fund assists PHAs in meeting public housing operating and management expenses for their public housing projects. The Public Housing Capital Fund, also administered by PIH, provides funds annually to approximately 3,150 PHAs for the development, financing, and modernization of the public housing stock (including energy and green retrofits) and for management improvements. The average income of a public housing resident is $13,600 annually; 31 percent of such residents are 62 years of age or older and 30 percent are non-elderly disabled.

Other Programs

Other major HUD programs also promote decent safe affordable housing. The Community Development Block Grants (CDBG),[E1] HOME Investment Partnerships,[E2] Housing Opportunities for Persons With HIV/AIDS,[E3] Section 202,[E4] Section 811,[E5] Multifamily Insurance,[E6] and Indian Housing Block Grant[E7] programs also contribute to this goal by increasing the overall supply of affordable housing units.

Accomplishments

All Rental Assistance Programs

For the first three quarters of FY 2010, the Department substantially met the goal to serve 5,304,317 families by serving 5,276,043 families through all of its rental assistance programs.

Tenant Based Rental Assistance (TBRA)

For the first three quarters of FY 2010, the Department substantially met the goal to serve 2,158,244 families by serving 2,131,556 families. This measure is comprised of both HCV and Mainstream vouchers.[E8] In an effort to further assist PHAs so that they are able to more appropriately manage their funds, PIH developed a voucher stabilization forecasting tool and established a Shortfall Prevention Team to stabilize HCV funding utilization activity. In addition, PIH identified subject matter experts across the country and initiated extensive capacity building and training sessions to enable HUD staff to provide more targeted technical assistance to PHAs.

---

[4] The percentages of elderly and non-elderly disabled represent properties assisted under the Section 8 NC/SR program.

Project-Based Rental Assistance (PBRA)

For the first three quarters of FY 2010, the Department exceeded the goal to serve 1,169,900 families by 1.1 percent (or 12,441 families). The Office of Housing reserved and obligated the entire PBRA Recovery Act appropriation of $2 billion in FY 2009, helping to ensure the continued affordability of units assisted under some 6,300 contracts. In addition, 99.3 percent of this appropriation has been spent as of September 30, 2010.

Public Housing

For FY 2010, performance results for this annual measure will be reported in the Annual Performance Report in February 2011.

In an effort to assist PHAs with increasing Public Housing occupancy, PIH is developing a number of tools for both internal use and PHAs. One of the tools that will be used by Field Offices was piloted in 2010. Through enhanced guidance, data validation, technical assistance, monitoring, and oversight, PIH is working to ensure that public housing occupancy rates are high. Thus, the Department has identified actionable steps to retain the number of families served, and to continue to grow the potential to serve more families by modernizing and occupying units.

A significant contribution to supporting the modernization and increased occupancy of public housing units has come from the Public Housing Capital Funds provided through the Recovery Act. PIH obligated nearly the entire $4 billion appropriation of Recovery Act Public Housing Capital Funds in FY 2009, and 50.9 percent of these funds have already been spent as of September 30, 2010. To ensure sound stewardship of the $4 billion made available through the Recovery Act for both formula and competitive awards, PIH’s monitoring strategy included remote reviews for all grantees.

To date, more than 150,000 public housing units have been rehabilitated and a little over 1,000 public housing units were built with Recovery Act Capital Fund awards. These funds have led to the creation over 10,000 jobs. Additionally, more than 257,000 public housing units are targeted for energy efficiency improvements, and of these, approximately 88,000 public units have already undergone energy efficiency improvements.

Data Sources and Relevance

The “All Rental Assistance Programs” measure has multiple data sources with estimates or FY 2009 baseline data used for some programs where data is not yet available. For the “TBRA” measure, HUD staff reviews the status data for consistency prior to quarterly reporting, which includes an opportunity for PHAs to correct any deficiencies. The “PBRA” measure has status data 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 improve the data quality in this system.

Challenges

The capital needs of our Nation's affordable, federally-assisted housing stock are substantial and urgent. The Public Housing program in particular has long wrestled with an old physical stock, and currently has a backlog of unmet capital repair and replacement needs in the range of $20 billion to $30 billion. It is far more costly to build new units than to preserve existing affordable housing. The absence of a viable preservation strategy has led to the loss of 150,000 public housing units through demolition or sale over the last 15 years. To address these issues, HUD proposes to launch an ambitious, multi-year effort called the Transforming Rental Assistance (TRA) initiative (described below).

Looking to the Future

Going forward, the Department has several initiatives to address the critical need for quality affordable rental homes. A more in-depth look at additional future strategies can be found both in HUD's FY 2010 – FY 2015 Strategic Plan[E9] and in the FY 2011 Budget Summary.[E10]

TRA is HUD's signature transformation initiative. The Department proposes to begin this multiyear effort, which seeks to preserve existing units, streamline the Department's rental assistance programs, and provide residents with the sort of mobility option that is currently available only to voucher program participants. Legislation has been submitted to Congress to authorize essential elements of the TRA initiative including long-term property-based rental assistance contracts with a resident mobility feature, changes to existing law governing the project-basing of HCV assistance, streamlining the administration of rental assistance, standardizing various elements across rental assistance programs, and providing HUD with more effective enforcement tools.

TRA reflects HUD's commitment to developing a reliable, long-term solution to preserve affordable housing, support affordable housing reinvestment and neighborhood revitalization efforts, and bring enhanced opportunity and choice to residents. More information on this initiative can be found online at www.hud.gov/tra.

Priority Goal 3: Veterans Homelessness

Overview

Despite recent inroads, homelessness continues to be a challenge for communities across the United States. While homelessness is unacceptable generally, perhaps nowhere is it more abhorrent than among Veterans of U.S. military service. Across the nation today, a large number of Veterans live with the effects of post-traumatic stress disorder (PTSD), debilitating injuries, and other problems resulting from their experiences in armed combat, which are often compounded by a lack of family and social support networks. As a result, many of these Veterans struggle with unemployment, poor health, disabling conditions, substance abuse, and/or criminal records, which all pose significant barriers to both obtaining and maintaining housing. Of the nearly 1.6 million people (or 1 in every 200 Americans) experiencing homelessness last year, more than 10 percent were Veterans.[5]

Eliminating Veterans' homelessness in five years is one of the key tenants of the Administration's Federal Strategy to Prevent and End Homelessness[E1] which calls for increased collaboration at a federal and local level, for both government and community providers. In support of this strategy, HUD's programs have a target goal of assisting a yearly average of 13,250 homeless Veterans to move into permanent housing.

A subset of this effort is HUD's joint Priority Goal with the Department of Veterans Affairs (VA). HUD is partnering with VA to jointly reduce the number of homeless Veterans to 59,000 by June 2012. Without this joint venture, there would be an estimated 194,000 homeless Veterans by June 2012. This Priority Goal, which will serve as a catalyst for meeting the five year goal of ending Veteran's homelessness, focuses on delivering permanent housing and thereby improving the quality of life for homeless Veterans.

The following major programs contribute to this priority goal.

Contributing Programs

HUD-VASH Vouchers

The 2008 Consolidated Appropriations 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. The HUD-VASH program combines HCV rental assistance for homeless veterans with case management and clinical services provided by the VA, (more details on HUD's Section 8 program can be found in the narrative for Priority Goal 2). The HCV program aids very low-income families in obtaining decent, safe, and sanitary rental housing, and more specifically, the HUD-VASH Vouchers are tailored towards assisting Veterans. This is the third year HUD is supporting the housing and service needs of homeless Veterans across America through HUD-VASH.

Special Needs Assistance Program (SNAPS)

The SNAPS aim to reduce homelessness by providing resources to move families and individuals into permanent housing. Communities use SNAPS to provide supportive housing (including short-term housing) to all homeless sub-populations, as well as homeless Veterans. Approximately 11.1 percent of the sheltered homeless population consists of Veterans.

[5] The 5th Homeless Assessment Report, Executive Summary, p.iii.

The SNAPS programs offer Homeless Assistance Grants (HAG) and Housing Opportunities for Persons With HIV/AIDS (HOPWA). The goal of the HAG program is to help homeless families and individuals achieve the outcome of staying in permanent housing and obtaining self-sufficiency, thereby reducing the number of homeless and chronically homeless persons in the Nation. The HOPWA program assists persons with HIV/AIDS maintain stable housing as a base to access HIV treatment and other care. HOPWA is the only federal program dedicated to address the housing needs of persons living with HIV/AIDS and their families.

Accomplishments

HUD-VASH Vouchers

During the first three quarters of FY 2010, PHAs participating in HUD-VASH issued 11,161 vouchers and enabled 8,408 Veterans to rent units with HUD-VASH vouchers. Compared with the numbers achieved in FY 2009, participating PHAs issued 16 percent more vouchers and enabled 28 percent more Veterans to lease units in FY 2010. Since the inception of the HUD-VASH program in FY 2008, PHAs have assisted a total of 15,304 homeless Veterans to become permanently housed.

SNAPS

HUD grantees of the SNAPS programs report their performance outcomes to the Department on an annual basis through Annual Performance Reports. Preliminary data from the FY 2010 Annual Performance Reports indicate that Homeless Assistance Grant permanent supportive housing programs are on track to serve over 3,000 homeless Veterans. Nearly 1,000 homeless Veterans are already reported as served with just 25 percent of the expected Annual Performance Reports entered into the reporting system thus far.

Data Source and Relevance

The VA sends monthly field reports (VA Dashboard) to HUD. This data is reported quarterly. 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 for quality control purposes. In addition, the Annual Performance Report is submitted by all projects that receive funding. There are enhancements in progress by SNAPS to improve the database and the validations checks on the data.

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 (interrelated 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.

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 addition, HUD has a created a signature initiative (*Ending Homelessness By Preventing It*), described below, to address the critical need for confronting homelessness, and HUD is an active partner in the implementation of the Federal Strategic Plan to Prevent and End Homelessness.

Signature Transformation Initiative - Ending Homelessness by Preventing It

In HUD's 2011 budget request, the Department will partner with the Department of Health and Human Services (HHS) to link health and social services with housing vouchers in order to end homelessness for 4,000 chronically homeless households. In addition, HUD will partner with both HHS and the Department of Education (ED) to connect 6,000 homeless families and families at-risk of becoming homeless with housing vouchers, supportive services, and educational services for youth. By forging new partnerships through the two initiatives, HUD, HHS, and ED will model and encourage the development of new strategies at a local level for effectively combining mainstream federal programs in order to better serve homeless families and individuals, including unaccompanied homeless Veterans and those with families.

HUD's signature initiative will serve as the building block for making housing a platform for improving the quality of life for homeless persons, including Veterans. More detailed information regarding HUD's future strategies for homelessness are located at HUD's Strategic Plan (Goal 3),[E2] and HUD's Budget Summary FY 2011.[E3]

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

HUD's fourth Priority Goal is to complete cost-effective energy and green retrofits of 159,000 public, assisted, and other HUD-supported affordable homes by the end of FY 2011.

The residential sector generates 20 percent of greenhouse gas emissions, 33 percent of electricity demand, and 22 percent of energy consumption in the U.S. With HUD itself annually funding energy costs exceeding $5 billion in public and assisted rental housing programs, the Department is providing federal leadership in taking action to reduce energy costs. HUD has committed to catalyzing a residential energy retrofit and new construction market in the affordable housing sector by making significant investments in energy efficiency measures in federally assisted housing developments.

HUD is collaborating with the Department of Energy (DOE)[E1] to support energy efficiency improvements totaling 1.1 million homes through FY 2011. Of this number, HUD, through several programs, will complete cost-effective energy retrofits of an estimated 126,000 HUD-assisted and public housing units. In addition to the joint energy retrofit goal with DOE, HUD will complete healthy and green improvements in 33,000 low-income housing units that will yield positive health outcomes for individuals and families, and have the potential to drastically and permanently change the way housing, energy, and health concerns are addressed in cities across our nation.

The following outlines the Department's activities addressing this goal.

A new wave of energy efficient, green public housing is exemplified by (above) Maverick Gardens (Boston) that includes photovoltaic solar panels, a cogeneration system that produces both electricity and hot water, and is built to Energy Star for New Homes and Leadership in Energy and Environmental Design[E2] (LEED) standards. Below, High Point (Seattle) reduced energy bills by 20 percent ($371 for a 3–bedroom unit) and includes 35 "Breath Easy" homes to reduce the risk of childhood asthma.

Contributing Programs

Programs Administered by the Office of Public and Indian Housing (PIH)

PIH will utilize Recovery Act and regular appropriations, as well as third party financing through Energy Performance Contracts, to complete nearly 74,000 cost-effective energy efficient retrofits and affordable green units through FY 2011. PIH provides financing for renovations of existing buildings with Energy Conservation Measures that include energy efficient lighting; new, more efficient heating and cooling systems; additional insulation; and upgraded windows and doors. PIH also supports new construction and substantial rehabilitation of existing housing built to Energy Star standards for New Homes, Enterprise Green Communities, LEED, or other green standards.

Key PIH programs that support these improvements include:

Capital Fund[E3] (Recovery Act). PIH awarded $3 billion in formula grants for capital improvements that included significant investments in energy improvements. In addition, PIH awarded $600 million in competitive grants to public housing authorities to either build new or rehabilitate existing housing to meet the Enterprise Green Communities standard, or to undertake comprehensive energy retrofits of existing housing.

Native American Housing and Indian Community Development Block Grants[E4] (Recovery Act). PIH awarded competitive and formula grants to tribes to support new construction, acquisition, rehabilitation and infrastructure development activities, with strong incentives for energy efficiency and green building.

HOPE VI Revitalization Grants (HOPE VI).[E5] HUD includes language in its annual Notice of Funding Availability (NOFA) that encourages the adoption of Energy Star for New Homes in HOPE VI projects, and provides additional points when rating and ranking HOPE VI proposals for projects that meet this standard, or a national green building standard that incorporates this standard.

Operating Fund.[E6] PIH provides incentives for energy performance contracting in public housing. An energy performance contract[E7] is an agreement with a third-party energy services company which performs an energy audit, arranges financing, oversees the installation of energy efficiency measures, and provides additional services, such as monitoring of energy use, training of maintenance staff, and resident education.

Programs Administered by the Office of Multifamily Housing

Several multifamily housing programs are contributing to this priority goal:

Green Retrofit Program[E8] (Recovery Act). This program aims to reduce energy costs, cut water consumption, and improve indoor air quality. The program is designed to create or save thousands of green jobs in retrofitting 20,000 units in federally assisted multifamily developments with energy efficient technologies and green building products and practices.

Mark to Market[E9] (M2M) Green Initiative. The Office of Housing will complete up to 8,000 energy and green retrofits through the M2M program. By restructuring the underlying debt, the M2M program supports rents at reduced levels prevalent in the market on thousands of privately owned multifamily properties with federally insured mortgages. The Office of Affordable Housing Preservation administers the M2M program together with its Green Initiative to encourage, with modest incentives, owners and purchasers of affordable housing, multifamily properties to rehabilitate and operate their properties using sustainable Green Building principles.

Section 202 Supportive Housing for the Elderly[E10] and Section 811 Supportive Housing for Persons with Disabilities.[E11] The Office of Housing will continue to incentivize energy efficiency through the Sections 202 and 811 with up to 5,500 units with energy efficiency improvements expected to be completed through FY 2011.

Programs administered by the Office of Healthy Homes and Lead Hazard Control (OHHLHC)

The OHHLHC's[E12] Lead Hazard Control and Healthy Homes Grant Programs, the Green and Healthy Homes Initiative, and programmatic enforcement all achieve lead hazard control interventions and broader, healthy homes interventions in housing, including green improvements.

Programs Administered by the Office of Community Planning and Development

Other contributing programs include homes built to the Energy Star for New Homes standard through the HOME,[E13] CDBG,[E14] and the Tax Credit Assistance (TCAP) Program[E15] funded through the Recovery Act. The HOME and CDBG funded new home construction[6] that met EPA's Energy Star for New Homes. TCAP grants awarded by formula to state housing credit agencies facilitate the development of projects that received LIHTC.

HUD-DOE Multifamily Weatherization Partnership

In May 2009, HUD signed a Memorandum of Understanding with the DOE aimed at lowering barriers to the use of DOE Weatherization Assistance Program (WAP) funds in public and assisted multifamily housing. As a result, DOE issued a new rule in January 2010 that streamlined the WAP's income eligibility determinations and procedural requirements applicable to public housing and other HUD-assisted multifamily housing properties. These enhancements and increased funding have resulted in increased participation and facilitated the start up of new and expanded multifamily energy efficiency programs in several states. [See www.hud.gov/recovery/weatherization.[E16]]

Accomplishments

HUD has made significant investments, both through the Recovery Act and its on-going programs, to further its commitment to energy efficiency and green building. The following accomplishments were reported through the third quarter of FY 2010. Significant numbers of additional units are in the pipeline and on track for completion by the end of FY 2011.

Public and Indian Housing Programs

Public Housing will report on the results of this goal in the FY 2010 Annual Performance Report to be issued in February 2011.

---

[6] CDBG funds cannot generally fund new housing construction, unless these are through the exceptions provided in CFR 570.207.

Multifamily Housing Programs

Through the on-going M2M Green Initiative, green retrofits of 950 units of assisted multifamily housing were completed. Energy efficiency improvements were completed in 2,169 units of Section 202 housing for the elderly and Section 811 housing for persons with disabilities.

Healthy Homes and Lead Hazard Control Programs

Lead-based paint and other housing-related environmental health hazards were eliminated in 12,216 low-income housing units.

Community Planning and Development Program.

CPD programs supported 3,864 homes meeting the Energy Star for New Homes standard, including 3,428 homes through the HOME program, 396 homes through the CDBG program, and 40 homes through the TCAP program.

Data Sources and Relevance

With respect to verification and validation of data, HUD will upgrade data collection and reporting systems for programs to improve HUD's capacity to collect more accurate data and report on energy efficient retrofitting activities. HUD is working to establish mechanisms to determine the cost effectiveness of energy retrofitting activities. As these are established, the agency will work to collect data and educate grantees and recipients to allow for more detailed and comprehensive energy data collection. Data collection will be facilitated by upgrades to HUD's data systems to track grantee accomplishments in developing energy efficient housing.

Challenges

HUD's success on this goal depends upon effective execution by HUD partners and grantees. HUD is working with local housing authorities, local governments, and for-profit and non-profit housing developers and property owners to build their capacity to integrate energy efficiency and green building practices into their local programs. The Department is also working to increase coordination of HUD's programs and reporting systems with those of federal, state, and local governments, including the Department of Energy's Weatherization Assistance Program, Better Buildings Program, and other Recovery Act funded programs.

Looking to the Future

In addition to catalyzing a residential energy retrofit and new construction market with renovations to its own stock of older, federally-assisted affordable housing, HUD has established an Office of Sustainable Housing and Communities[E17] and an interagency Sustainable Communities Initiative[E18] to assist in these efforts. The Sustainable Communities Initiative is a partnership among HUD, the Department of Transportation, and EPA. The initiative aims to lower carbon emissions and household costs through competitive grant awards that support integrated housing, transportation programs, and environmental planning as well as through innovative land use, zoning, and affordable housing practices.

In addition, FHA will pilot $50 million in innovative, energy efficient retrofit financing for both single-family and multifamily housing in FY 2011 through the new Energy Innovation Fund. HUD will submit its updated Energy Action Plan to Congress as required under the Energy Policy Act of 2005. The plan will provide a roadmap for HUD to build on its FY 2010 and FY 2011 energy retrofit goals. Through these initiatives, HUD will serve as a model to help disseminate effective approaches to reduce green house gas emissions and improve the energy and location efficiency of the nation's housing stock.

Transform the Way HUD Does Business

Overview

The Strategic Goal to *Transform the Way HUD Does Business*[E1] works with and strengthens the other four programmatic goals, and aligns with the President's priority on performance management.

To improve its capabilities, HUD initiated a transformational program to create:

- A flexible and high performing learning organization with a motivated, skilled workforce;
- An empowered organization that is customer centered, place-based, collaborative, and responsive to employee and stakeholder feedback;
- Flexible, modern, rules and systems that promote responsiveness, openness, and transparency; and
- A healthy, open, flexible work environment that reflects the values of HUD's mission.

Key elements of this goal are described below.

Areas and Results of Transformation

Human Capital

On February 3, 2010, Congress approved the reorganization of offices within the Department, including the establishment of the Office of the Chief Human Capital Officer (OCHCO) to replace the Office of Administration. Through this action, the core of OCHCO will include all services designed to foster partnering relationships with HUD's Program Offices to improve their ability to attract, develop, and retain people, and knowledge in the accomplishment of the Department's mission. The reorganization will create an infrastructure, which will streamline human capital functions and establish a customer service-oriented human resource organization.

Since the reorganization, OCHCO:

- Cut hiring time in half:
    - HUD is below the 80-day goal set by the U.S. Office of Personnel Management (OPM) for agencies; and

- HUD is now considered a model for government hiring reform.

- Initiated an automated human capital staffing and classification system;
- Brought talent into the Department via selection of 99 Presidential Management Fellows and four summer interns to participate in the Student Ambassador program;
- Developed the following goals in the HUD Strategic Sustainability Plan:
  - Reduce the Department's Greenhouse Gas (GHG) emissions in half by 2020 from sources owned or controlled by HUD; and
  - Reduce the carbon footprint of the HUD Headquarters buildings in half by the end of the Energy Savings Performance Contract (ESPC) project, anticipated to be late calendar year 2013.
- The ESPC project will provide approximately $34 million in major building system and equipment upgrades to:
  - Meet or exceed mandated energy and water conservation goals; and
  - Improve indoor air quality.

Delegation of Authority

As a part of a Place-Based Decision Making Initiative,[E2] HUD is simplifying rules, eliminating outdated processes, and streamlining decision-making. This initiative will improve response time and efficiency by delegating authority for place based decisions to the field. The Office of Field Policy and Management (See box at right) is playing a vital role in this initiative). For example, HUD has delegated to the field the authority to approve travel on non-contract carriers and hiring authority within Housing. So far, nine planned delegations have been made to improve HUD's service to the public.

HUD's Transformation Initiative

The Transformation Initiative[E3] (TI), proposed and first funded in FY 2010, is aimed at enabling greater capacity and flexibility in responding to critical short- and long-term Departmental needs.

Office of Field Policy and Management (OFPM)

OFPM provides management and oversight to HUD's 80 field offices which contains over 65 percent of HUD's staff. Their focus in FY 2010 has been on bringing more place-based authority to the field offices.

OFPM works on an on-going basis with local elected officials and other external partners on several initiatives including:

- Field Transformation
- Sustainable Communities
- Recovery Act Place-Based Reporting/Monitoring
- Foreclosure Prevention/Congressional Black Caucus/Making Home Affordable Events
- Choice Neighborhoods

OFPM field staff coordinates and oversees formula and competitive grant announcements and events with Congressional representatives. OFPM actively participates in the Notice of Funds Availability Departmental clearance process providing valuable comments and recommendations which lead to a better grant delivery system.

Notably, through OFPM's efforts 100 percent of Recovery Act funds were obligated and nearly $6.3 billion expended by September 30, 2010.

In the future, OFPM will delegate more program authorities to the local level, develop place-based solutions to local issues, and is responsible for local coordinating and delivery of disaster supplemental appropriations by maintaining an up-to-date grantee and client database.

This Initiative will enable HUD to:

- Have a predictable stream of funding for high quality research and evaluation;
- Design and execute a series of major research demonstrations to test new ideas for improving its programs and helping state and local governments develop more effective housing and community and economic development strategies;
- Deliver a new level of technical assistance and capacity building; and
- Develop next generation information technology systems.

With respect to FHA, specific funding was provided in FY 2010 for FHA Transformation. This has enabled FHA to begin executing the highest priority initiatives identified in the comprehensive Office of Housing/FHA IT Strategy and Improvement Plan developed in 2009. This plan set the stage for FHA information system technology improvements for the future across multiple lines of business within FHA (e.g., Single Family, Multifamily, Healthcare Facilities). Current disparate systems and functions will be upgraded by leveraging modern capabilities of a Financial Industry Standard Platform, composed of commercially available products and services, to provide a Case Management foundation to FHA's business processes. The resulting benefits will enable seamless processing of "FHA Cases" from initial data submission through endorsement and beyond.

A primary and initial component of the FHA Transformation is the Risk and Fraud initiative, which is focused on identifying and correcting deficiencies in FHA's systems, processes, and programs that create unnecessary risks to the stability of the Mutual Mortgage Insurance (MMI) fund. The initiatives comprised three contract vehicles which allow FHA to address emerging risk areas as identified by senior management that greatly enhances FHA's capabilities related to fraud detection/prevention and risk mitigation by providing access to industry-leading tools and professional services.

Specifically, the initiative consists of three functional areas covering Counterparty Risk Management Functionality, Analytical Consulting Services, and Consulting and Contracting Services for Loan-level File Review. These focused work streams improve FHA's ability to address risk in the pre-loan endorsement and pre-claim phases of the loan-lifecycle, develop more advanced loan level decisioning in line with industry standards, and focus on improved risk management efforts in the post-loan endorsement phase.

HUDStat

Critical to the TI, HUDStat is a system in development that will enable performance reporting with drill down capabilities by place, strategic goal, program, and reporting period. HUDStat supports the execution of the Strategic Plan and will optimize the public benefit of HUD's multi-billion dollar programs. HUDStat will be the process by which the leadership team will review progress toward achievement of the agency's strategic goals. Meetings will be held monthly, with each meeting focusing on a different strategic goal, in rotation. The meetings will be attended by all affected HUD staff from headquarters and the field – and will utilize program financial and performance data and collective knowledge to highlight successes, as well as identify and resolve challenges. HUDStat provides the agency with a forum for collaborative problem solving among program, support, and field offices.

HUD will measure success in the TI by its performance against the following criteria: improvement in performance management from HUDStat; employee ratings of opportunities to increase skills; partner ratings of HUD employees and decision-making; and advances in HUD's ranking in the Partnership for Public Service's report - *Best Places to Work in the Federal Government*.

Challenges

HUD's overall "Best Places to Work" score in 2010 declined slightly from 2008, and HUD fell in the rankings as other agencies improved. Overall, the survey results and focus groups suggest that HUD must address fundamental issues to achieve its transformation and significantly improve its "Best Places" ranking. While there are a number of major initiatives underway at HUD to address these core issues, the Department has a long way to go.

Looking to the Future

In addition to the efforts described above, HUD has established several initiatives to improve agency operations.

- Eliminate and Simplify HUD's Rules and Reports Initiative:[E4]
  - Reduce administrative burden on staff and partners;
  - Use input from HUD partners to identify the most counterproductive rules; and
  - In addition, HUD's Office of Congressional and Intergovernmental Relations is in the process of identifying reports that are redundant or unnecessary.
- Create Upward Mobility and Internal Placement Opportunities for HUD Staff Initiative:[E5]
  - Increase institutional knowledge, workforce flexibility, and employee retention;
  - Potentially lower the cost of personnel disputes; and
  - Create a mobility program with lateral reassignments, rotations, and bridge positions to foster career advancement.
- Emerging Professionals Program
  - Support the development and career advancement of our staff members at the General Schedule grade 11 level and below; and
  - Develop candidates to support the agency succession planning efforts and enhance employee career progression.

- HUD Ideas in Action
  - Facilitate direct communication between front-line staff and leadership;
  - Capture ideas for improvement from all levels of the organization; and
  - Collect citizen input as HUD becomes more transparent and open.

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 on February 25, 2009 - only eight days after the President signed the Act into law. The remaining 25 percent of funds were awarded via competition, with 100 percent of grant and loan funds obligated, and nearly $6.3 billion (or 46.7 percent) disbursed to grantees by September 30, 2010. Fifty percent of funds were disbursed within weeks after the end of the fiscal year, which is approximately one month ahead of Administration expectations.

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 3,000 homes being developed, and over 315,000 units of housing being renovated, many of which have improved energy efficiency. In the second quarter of calendar year 2010, HUD Recovery Act recipients reported over 26,000 jobs saved or created. HUD has also completed two quarters of analysis on where its dollars are performing relative to a variety of indicators including geography, income, race, and poverty level.

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.

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 11th year in a row. 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 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 analysis provides a summary of HUD's:

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

Summarized Financial Data

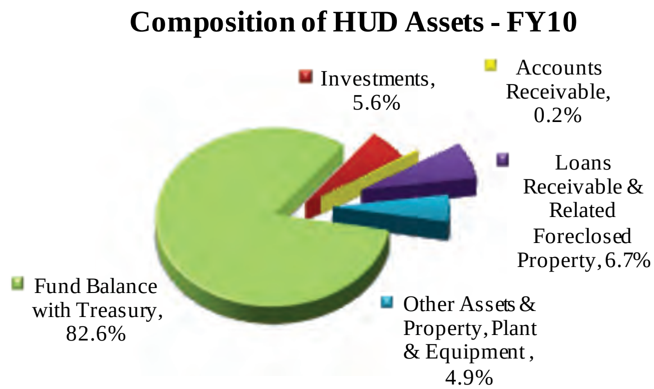
(Dollars in Billions)

	2010	2009
Total Assets	$140.5	$143.3
Total Liabilities	$45.4	$45.0
Net Position	$95.0	$98.3
FHA Insurance-In-Force	$1,041.0	$817.1
Ginnie Mae Mortgage-Backed Securities Guarantees	$1,046.0	$826.0
Other HUD Program Commitments	$64.8	$68.4

Analysis of Financial Position

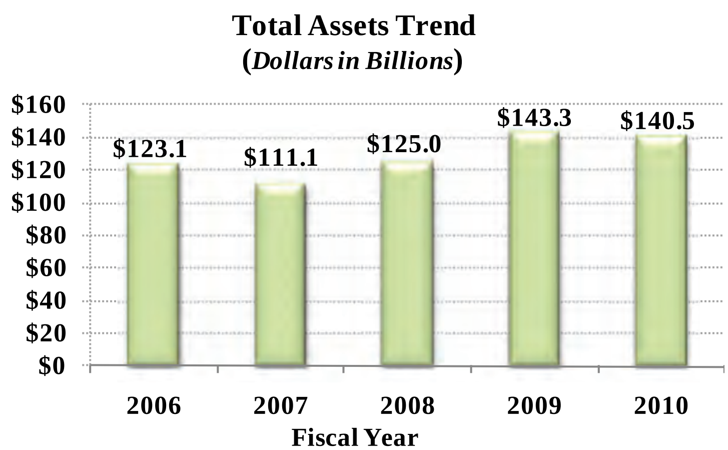
Assets - Major Accounts

Total Assets for FY 2010, as reported in the Consolidated Balance Sheets, are displayed in the graph below. *Total Assets* of $140.5 billion are comprised primarily of *Fund Balance with Treasury* of $115.9 billion and *Loans Receivable & Related Foreclosed Property* of $9.4 billion at September 30, 2010.



Total Assets decreased $2.9 billion or two percent from $143.3 billion at September 30, 2009. The net decrease was due primarily to a decrease of $12.2 billion (sixty-one percent) in *Intragovernmental Investments* from $19.9 billion at September 30, 2009, which are offset by increases of $9.3 billion in *Fund Balance with Treasury*, *Loans Receivable and Related Foreclosed Property*, and *Other Assets and Property, Plant & Equipment.*

The table below shows *Total Assets* for FY 2010 and the four preceding years. The changes and trends impacting *Total Assets* are discussed below.



Fund Balance with Treasury of $115.9 billion represents HUD's aggregate amount of funds available to make authorized expenditures and pay liabilities. *Fund Balance with Treasury* increased $2.3 billion due to an increase of $8.9 billion in funding for the FHA and an increase of $1.4 billion in funding for Ginnie Mae, which are offset by decreases in funding for PIH of $3.1 billion, for CDBG of $2.6 billion, and for HOME of $1.0 billion. Funding for all other programs decreased by $1.3 billion. The increase is primarily due to the maturity and sale of FHA investments and the upward re-estimates in FHA financing accounts.

Investments of $7.9 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 investments decreased by $6.5 billion, a sixty-one percent decrease since FY 2009, due to a $6.4 billion dollar decrease in the net value of federal non-marketable securities and a decrease of $0.6 billion of related interest receivable held in FHA's MMI/CMHI Capital Reserve Fund. The decrease in the net value of the FHA investments is caused by the maturity and the sale of several large bonds. Ginnie Mae investments decreased by $5.7 billion, a sixty-two percent decrease from prior year, due to a $6.0 billion divestiture of U.S. government securities to fund loan buyouts.

Accounts Receivable of $0.3 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* increase of $0.2 billion is primarily due to an increase in Ginnie Mae's accrued mortgage interest receivable resulting from a larger mortgage balance.

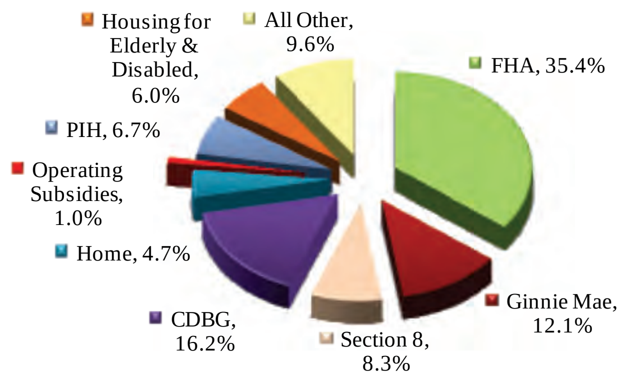
Loans Receivable and Related Foreclosed Property of $9.4 billion are generated by FHA credit program receivables and by HUD's support of construction and rehabilitation of low rent housing, principally for the elderly and disabled under the Section 202/811 program. The increase of $1.4 billion is primarily due to an increase in the gross value of Single-Family Foreclosed Property Held for Sale in the MMI financing account.

Remaining Assets of $6.9 billion, comprising five percent of *Total Assets*, include fixed assets and other assets. The net change pertaining to the *Remaining Assets* balance was an increase by nearly 383 percent compared to the prior fiscal year, due primarily to a $5.3 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.

Assets - Major Programs

The chart below presents *Total Assets* for FY 2010 by major responsibility segment or program.

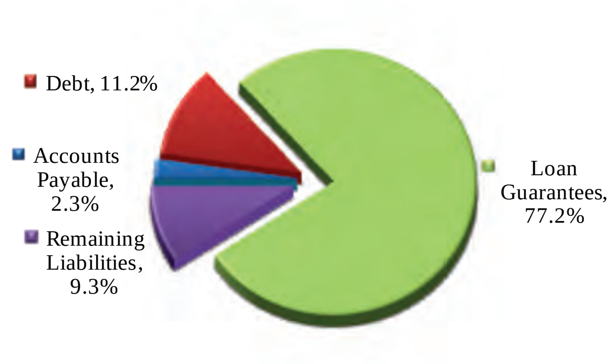
Assets by Responsibility Segments



Liabilities – Major Accounts

Total Liabilities for FY 2010, as reported in the Consolidated Balance Sheets, are displayed in the chart below.

Composition of HUD Liabilities



Total Liabilities of $45.4 billion consists primarily of loan guarantee liabilities of $35.0 billion (seventy-seven percent), debt in the amount of $5.1 billion (eleven percent), accounts payable of $1.0 billion (two percent), and remaining liabilities amounting to $4.2 billion (nine percent) at September 30, 2010.

Total Liabilities increased $0.4 billion (one percent) from $45.0 billion at September 30, 2009, due primarily to an increase of $0.9 billion in *Loan Guarantees*. This increase is due primarily to an upward adjustment to FHA's subsidy re-estimate and Ginnie Mae's loss reserves related to default related expenses.

The chart below presents *Total Liabilities* for FY 2010 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 $4.8 billion and debt held by the public of $0.3 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 $0.5 billion decrease in debt (repayments exceed new borrowings) from $5.6 billion at September 30, 2009, was due to a $0.8 billion decrease in PIH debt.

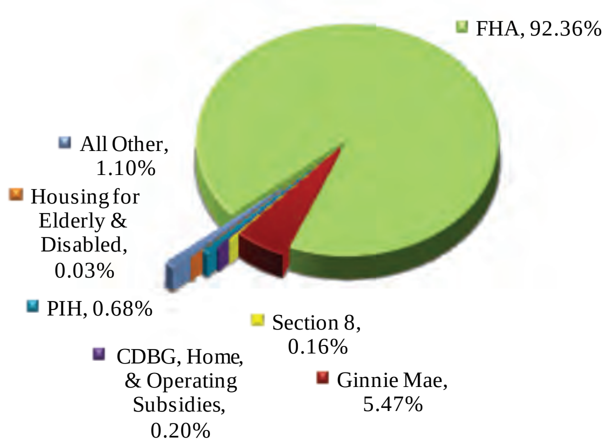
Accounts Payable consist primarily of pending grants payments.

Remaining Liabilities of $4.2 billion consist primarily of *Intragovernmental Liabilities*, *Federal Employee and Veteran Benefits*, and *Other Liabilities*. The *Remaining Liability* balance remained the same as that of the prior fiscal year.

Liabilities – Major Programs

The chart below presents *Total Liabilities* for FY 2010 by responsibility segment.

Liabilities by Responsibility Segment



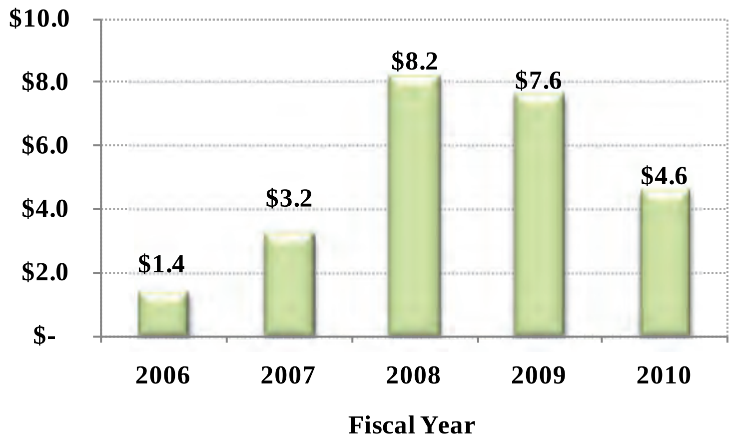
Changes in Net Position

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 $3.3 billion or three percent from the prior fiscal year. The net decrease in *Net Position* is primarily attributable to a $7.9 billion decrease in *Unexpended Appropriations* and a $4.6 billion increase in *Cumulative Results of Operations*.

The combined effect of HUD's *Net Cost of Operations* and *Financing Sources* resulted in a 160 percent decrease in *Change in Net Results of Operations* of $4.6 billion during FY 2010. The significant year-to-year fluctuation shown in the chart below is due primarily to the annual re-estimation of long-term credit program costs and capital transfers of $0.8 billion related to the Department's liquidating programs.

This chart presents HUD's *Net Results of Operations* for FY 2010 and the four preceding years.

Net Results of Operations for FY 2006 - 2010
(*Dollars in Billions*)

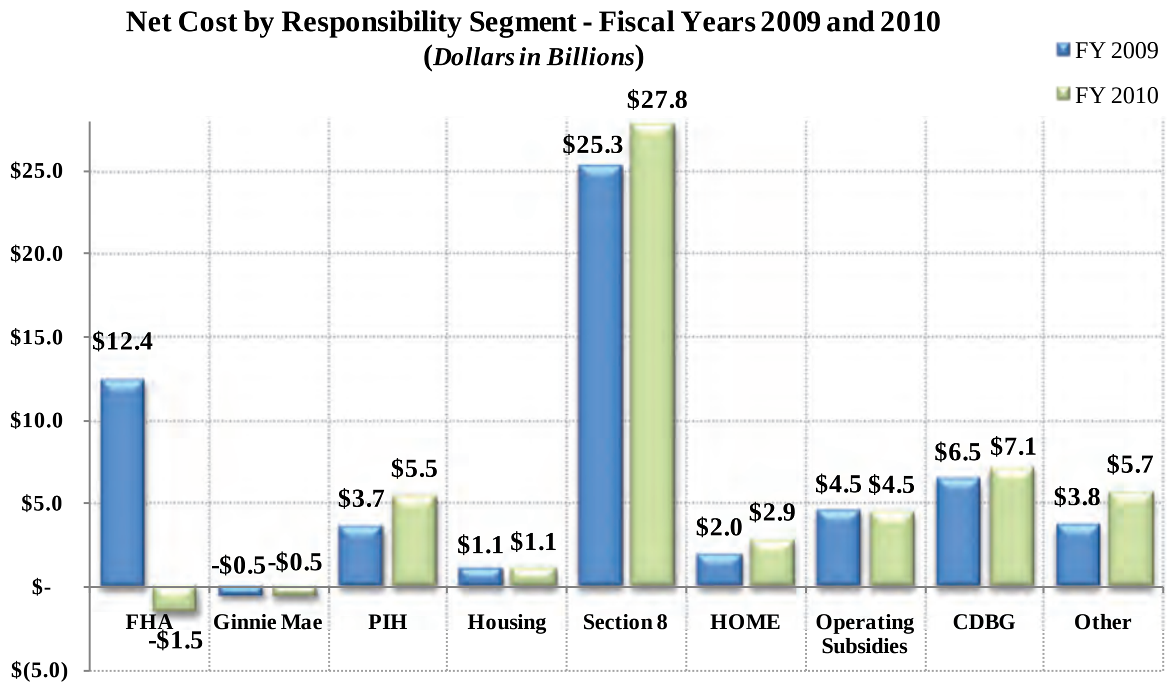


Unexpended Appropriations: The decrease by ten percent from $77.9 billion in FY 2009 to $70.0 billion in FY 2010 represents the accumulation of appropriated funds not yet disbursed and can change as the *Fund Balance with Treasury* changes.

Financing Sources: As shown in HUD's *Statement of Changes in Net Position*, HUD's financing sources for FY 2010 totaled $57.0 billion. This amount is comprised primarily of $57.1 billion in *Appropriations Used*, offset by approximately $0.2 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 $52.5 billion for FY 2010, a decrease of $6.2 billion or 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 2010 by responsibility segment.



As shown in the chart, *Cost of Operations* was primarily a result of spending of $27.8 billion, or fifty-three 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 $2.5 billion, or ten percent, more than the prior fiscal year. FHA *Net Cost* decreased by $14.0 billion, due primarily to a $12.0 billion, or 126 percent, decrease in gross costs due to a decrease in credit subsidy expense from the re-estimate and a decrease in credit subsidy expense from current year endorsements in the MMI financing account. The remaining $2.0 billion, or thirty-six percent, decrease in gross costs is attributable to a decrease in bad debt expense in the General Insurance/Special Risk Insurance (GI/SRI) liquidating account and a decrease in subsidy expense in the GI/SRI financing account.

Analysis of Off-Balance-Sheet Risk

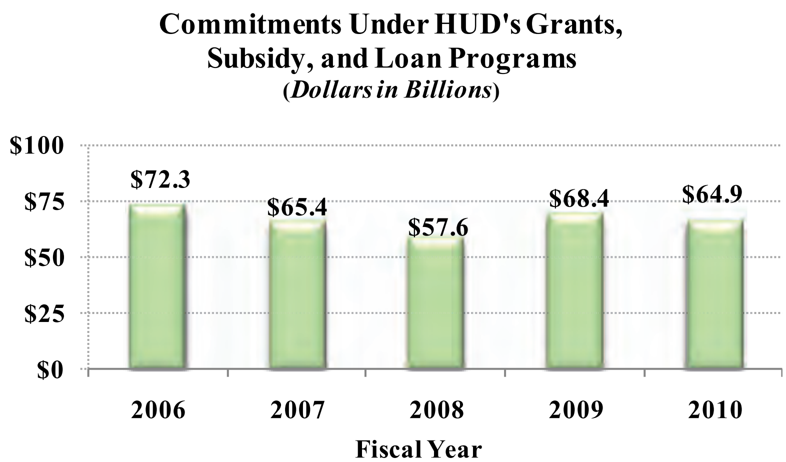
The financial risks of HUD's credit activities are due primarily to managing FHA's insurance of mortgage guarantees and Ginnie Mae's guarantees of Mortgage-Backed Securities (MBS). Financial operations of these entities can be affected by large unanticipated losses from defaults by borrowers and issuers 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 $65.0 billion in FY 2010 represents HUD's commitment to provide funds in future periods under existing contracts for its grant, loan, and subsidy programs.

Administrative Commitments (reservations) of $2.2 billion relate to specific projects for which funds will be provided upon execution of the related contract.

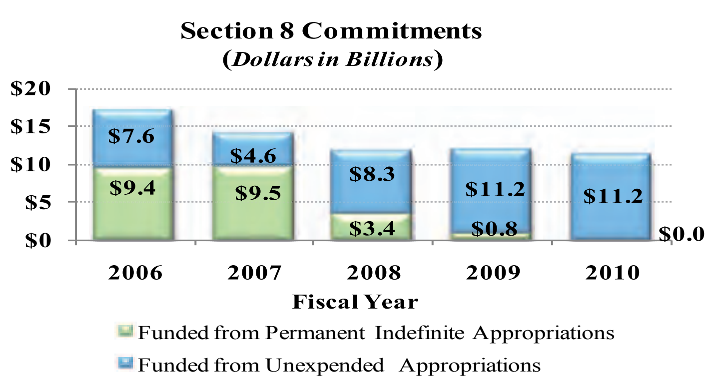
The chart below presents HUD's *Contractual Commitments* for FY 2010 and the four preceding years.



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 $3.7 billion or five percent during FY 2010. The change is primarily attributable to a decrease of $3.1 billion in PIH commitments, a decrease of $1.0 billion in HOME program commitments, and a decrease of $1.9 billion in *All Other Commitments*, which are slightly offset by an increase in commitments of $3.2 billion for CDBG.

The chart below presents HUD's Section 8 *Contractual Commitments* for FY 2010 and the four preceding years.

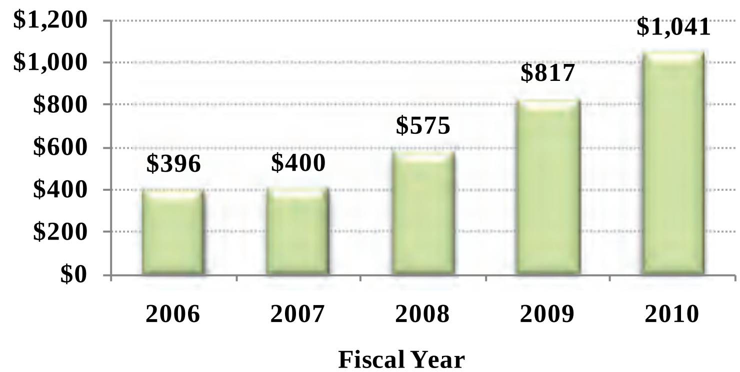


To contain the costs of future Section 8 contract renewals, HUD began converting all expiring contracts to one-year terms during FY 1996. By changing to one-year contract terms, HUD effectively reduced the annual budget authority needed from Congress to fund the subsidies while still maintaining the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

FHA Insurance-In-Force

The chart below presents FHA's Insurance-In-Force of $1,041 billion for FY 2010 and the four preceding years. This is an increase of $224 billion (or twenty-seven percent) from the FY 2009 FHA Insurance-In-Force of $817 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*)



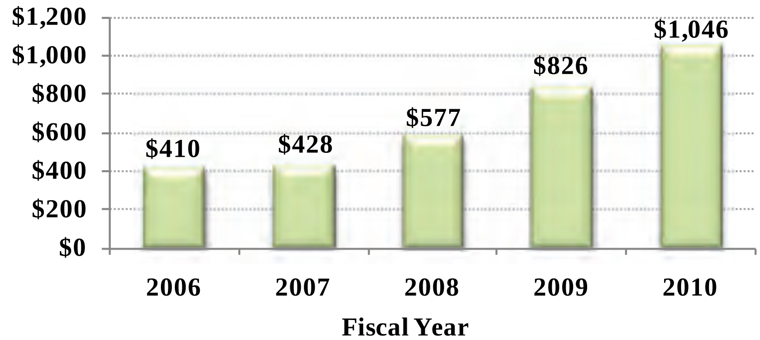
Ginnie Mae Guarantees

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, 2009 and 2010, was approximately $826 billion and $1,046 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 guaranty 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, 2010 and 2009 were $80.0 billion and $98.4 billion, respectively.

The chart on the next page presents Ginnie Mae MBS for FY 2010 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 2010 and 2009, Ginnie Mae issued a total of $184.3 billion and $79.6 billion, respectively, in its multi-class securities program. The estimated outstanding balance of multiclass securities in the total MBS securities balance at September 30, 2010 and 2009 were $489 billion and $350 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

HUD is responsible for establishing, maintaining, and assessing internal controls to provide reasonable assurance that the internal control objectives of the *Federal Managers' Financial Integrity Act (FMFIA)*, 31 U.S.C. 3512 Sections 2 and 4, the *Federal Financial Management Improvement Act (FFMIA),* P.L. 104-208, and the *Federal Information Security Management Act (FISMA)* are met.

The Federal Managers' Financial Integrity Act (FMFIA) of 1982 and Federal Financial Management Improvement Act (FFMIA) of 1996

The Federal Managers' Financial Integrity Act of 1982 and the Office of Management and Budget (OMB) Circular A-123 *Management's Responsibility for Internal Control* present the main internal control requirements for the Federal government. FMFIA specifies management's responsibility for, and its role in, the assessment of accounting and administrative internal controls. FMFIA requires the agency head to annually assess and report on the effectiveness of internal controls that protect the integrity of federal programs and financial management systems and to report any instances of material weaknesses including the preparation of remediation plans. For FY 2010, no material weaknesses were identified.

In FY 2010, OMB Circular A-127, *Financial Management Systems* was substantially revised. The revised Circular introduced a simplified risk-based approach to determine FFMIA substantial compliance by targeting the agency's most significant financial statement audit risks. In order for HUD's financial management systems to be in substantial compliance with FFMIA, its systems must meet the three requirements as defined by Section 803(a) of FFMIA. These requirements are: (1) Federal Financial Management Systems requirements, (2) the applicable Federal Accounting Standards, and (3) U.S. Standard General Ledger at the transaction level.

Based on the revisions to OMB Circular A-127, supplemental guidance was issued for consideration when determining compliance with FFMIA. It requires management to determine if system performance prevents the Agency from providing reliable and timely financial information. Generally, identified deficiencies for systems that do not prevent the agency from meeting its reporting requirements should not be considered as a part of FFMIA compliance determination. Additionally, for FFMIA compliance, it does not require that all systems be entirely automated, nor does it require ideal or state of the art system performance or system efficiency. However, the systems should routinely provide reliable financial information consistently, accurately, and uniformly.

At the end of FY 2010, HUD determined that the Department is in compliance with FFMIA. HUD's OIG auditors cited the Department for not substantially complying with the Act; however, HUD management disagrees with this audit finding, and asserts that our financial management systems satisfy OMB's three-part requirement needed to report substantial compliance with FFMIA.

HUD's Integrated Financial Management Improvement Project (HIFMIP)

HUD continues to strengthen and improve its financial management systems. The Department is currently engaged in the development of a major financial systems modernization project. HIFMIP establishes an enterprise vision to achieve a core financial management system as a resolution to the Department's integration and modernization efforts.

The HIFMIP contract was awarded on September 23, 2010. HIFMIP will replace the functionality of the HUD Central Accounting and Program System (HUDCAPS) with the Integrated Core Financial System (ICFS). The ICFS will replace HUD's outdated legacy systems, provide timely, accurate, and reliable data, and improve efficiency by eliminating time-consuming, manual processes. As part of the Secretary's Transformation Initiative, the Department targets funding toward modernizing HUD's Information Technology (IT) systems. During FY 2010, HUD began the process of reviewing and documenting its financial management systems interfaces. This process will continue in FY 2011 and will address future interfaces, manual processes, and security interfaces to be implemented.

At the end of FY 2010, HUD had three non-compliant financial systems: HUD Procurement System (HPS), Small Purchase System (SPS), and the Facilities Integrated Resources Management System (FIRMS). The two systems, HPS and SPS, were identified as non-compliant as part of HUD's FY 2006 financial statement audit. HUD developed remediation plans to replace these systems with the HUD Integrated Acquisition Management System (HIAMS) to meet the agency's procurement and business needs. A solicitation was issued in FY 2010, and HUD awarded a contract on September 30, 2010. While HIAMS is being developed, compensating controls are in place to mitigate noncompliance issues. FIRMS was identified as being non-compliant with FFMIA. In FY 2010, HUD made significant improvements in the areas of security and internal controls for FIRMS; however, internal control weaknesses still exist.

Federal Information Security Management Act (FISMA) of 2002

The Federal Information Security Management Act of 2002 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, and the Office of Management and Budget (OMB) in order to strengthen information system security. In particular, FISMA requires agency heads to implement policies and procedures to 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 IT to carry out its operations, and the agency continues to improve its Information System Security Program. The implemented improvements during FY 2010 increase HUD's ability to protect the availability, integrity, and confidentiality of information stored on its systems. Noted accomplishments include:

- Ensured all of HUD's information systems maintained a current authorization to operate;
- Matured the vulnerability management program to cost effectively reduce security risks discovered on the Department's technical infrastructure;
- Deployed an automated security management capability to improve visibility into the security posture of HUD's IT systems; and
- Expanded the Department's security awareness program.

In FY 2010, the OIG reports focused on HUD's network security devices. Weaknesses discovered revolved around configuration management of the devices. HUD is developing corrective action plans to improve the configuration management of its network security devices consistent with the OIG's recommendations.

The Secretary's Letter of Assurance

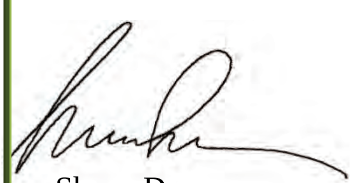
FY 2010 Annual Assurance Statement

The Department of Housing and Urban Development's management is responsible for establishing and maintaining effective internal controls 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 assessment of the effectiveness of its internal control over the efficiency and effectiveness of 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 reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations, as of September 30, 2010, was operating effectively with no material weaknesses found in the design or operation of the internal controls.

In addition, HUD conducted an assessment of the effectiveness of its 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, 2010, 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 2010.



Shaun Donovan — November 15, 2010
Secretary

Message from the Chief Financial Officer

November 15, 2010

Today marks the 20th anniversary of the Chief Financial Officers Act, which launched a comprehensive reform of federal financial management to establish a Chief Financial Officer (CFO) leadership structure, require audited financial statements, and strengthen accountability reporting to improve the government's financial management. When the Act was passed in 1990, HUD had a record of mediocre financial management with consistently poor audit opinions and numerous material weaknesses in internal controls.

The following problems highlight the challenges facing HUD at that time. In 1993, HUD had 36 material weaknesses, 98 non-complaint systems, and a disclaimer of opinion on its financial statements. In 1994, the U.S. Government Accountability Office (GAO) attached the "high-risk" label to HUD's programs. In FY 2000, HUD had an estimated $3.2 billion in improper payments.

In the intervening years, the Department made substantial progress in moving from a high-risk to a high-performing organization. In 1998, eleven accounting offices were consolidated into one location and a new Risk Management Office was established. In FY 2000, HUD's financial statements received an unqualified (clean) audit opinion. In 2007, following multi-year reductions in the risk of mortgage insurance programs and improper rental housing assistance payments, HUD programs were all finally removed from GAO's high-risk list. In FY 2010, HUD received its 11th consecutive clean audit opinion. The Department had no material weaknesses, only three non-compliant systems, and improper payments were 73 percent below the 2000 estimate.

This report along with HUD's Annual Performance Report to be filed in February 2011 serve as the principal reports to the President, the Congress, and the American people on the Department's stewardship of the public funds entrusted to it. The Department's successes and challenges are measured by the outcomes captured in this report.

While having no material weaknesses for the third consecutive year, HUD is progressing toward resolving 8 previously identified significant deficiencies, the status of which can be found later in the Auditor's Report found in this section. Corrective action plans are being developed to address the one newly identified deficiency identified in this year's audit. Additionally, the Department is in the process of developing corrective action plans to fully address the non-compliance with laws and regulations issues identified in the audit report. Actions already underway include the HUD Integrated Financial Management Improvement Project (HIFMIP), mentioned in the third bullet below that will play a major role in addressing the FFMIA non-compliance issue. FHA's actions noted in Priority Goal 1 represent a long-term plan to address the non-compliance with the requirements of the Cranston-Gonzalez National Affordable

Housing Act of 1990 to maintain the capital reserve ratio for FHA's Mutual Mortgage Insurance Fund at a minimum of 2 percent.

Overall, HUD's favorable clean audit affirms our continued commitment to financial and management excellence. Other financial management accomplishments during FY 2010 include:

- Continued excellence in reporting noted by receiving the Certificate of Excellence in Accountability Reporting from the Association of Government Accountants for the fourth year in a row. This certificate recognizes the Department's excellence in performance and accountability reporting in its FY 2009 Performance and Accountability Report.
- Completed a fifth assessment of the effectiveness of internal controls over financial reporting, in accordance with Appendix A of OMB Circular A-123, which is similar to the Sarbanes-Oxley Act requirements for the private sector. Based on that evaluation, the Secretary was able to report reasonable assurance that the Department's internal controls over financial reporting, as of June 30, 2010, were operating effectively and no material weaknesses were found in the design or operation of the internal controls over financial reporting. Nevertheless, opportunities for improved controls were identified and these enhancements have been initiated.
- HUD launched HIFMIP, a financial systems modernization effort, to focus on its core financial system. This effort is consistent with HUD's goal to create flexible, modern systems to promote responsiveness and transparency.
- Both FHA and Ginnie Mae continued to play vital roles in the mortgage marketplace. During the year, FHA insurance-in-force surpassed the $1 trillion mark, while Ginnie Mae reached that same milestone in guarantees of mortgage-backed securities.

While these accomplishments are truly noteworthy, much remains to be done to help the Department meet its goal of transforming the way HUD does business. With its accounting and internal controls side of the house now in order, HUD's Office of the Chief Financial Officer (OCFO) is seeking to play an expanded role as a strategic business partner across the Department. An improved OCFO will have a strong technical foundation, but will also be strategic, able to work across the management team, get involved in operations, and act as a true business partner to HUD's program offices.

Excellence in financial management is attributable to the combined effort of management, employees, and business partners. Specifically, I want to recognize the staff of the Office of the Chief Financial Officer, the FHA Comptroller's Office, Ginnie Mae's Office of Finance, the Office of Inspector General, and other HUD program and administrative components involved in the stewardship of HUD's funds. Their continued dedication and effort is essential in providing the budgetary, accounting, financial management systems, auditing, and performance management services necessary to support HUD's mission.

Douglas A. Criscitello

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, 2010 and 2009, 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, 2010 and 2009. 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, 2010 and 2009.

The **Combined Statement of Budgetary Resources,** which presents the budgetary resources available to HUD during FY 2010 and 2009, the status of these resources at September 30, 2010 and 2009, and the outlay of budgetary resources for the years ended September 30, 2010 and 2009.

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
For the Period Ending September 2010 and 2009
(Dollars in Millions)

		2010		2009
ASSETS				
Intragovernmental				
Fund Balance with Treasury (Note 4)	$	115,907	$	113,641
Investments (Note 5)		7,721		19,912
Other Assets (Note 9)		39		14
Total Intragovernmental Assets		123,667		133,567
Investments (Note 5)		136		145
Accounts Receivable (Note 6)		322		129
Credit Program Receivables and Related Foreclosed Property (Note 7)		9,432		8,058
General Property Plant and Equipment (Note 8)		258		234
Other Assets (Note 9)		6,647		1,189
TOTAL ASSETS	**$**	**140,462**	**$**	**143,322**
LIABILITIES				
Intragovernmental Liabilities				
Accounts Payable (Note 10)		6		7
Debt (Note 11)		4,775		5,083
Other Intragovernmental Liabilities (Note 14)		1,323		2,038
Total Intragovernmental Liabilities		6,104		7,128
Accounts Payable (Note 10)		1,050		974
Loan Guarantees (Note 7)		35,073		34,153
Debt Held by the Public (Note 11)		292		477
Federal Employee and Veterans' Benefits (Note 12)		72		69
Loss Reserves (Note 13)		1,005		560
Other Governmental Liabilities (Note 14)		1,842		1,614
TOTAL LIABILITIES	**$**	**45,438**	**$**	**44,975**
Commmitments and Contingencies (Note 16)				
NET POSITION				
Unexpended Appropriations - Earmarked Funds (Note 17)		6,817		11,720
Unexpended Appropriations		63,231		66,203
Cumulative Results of Operations - Earmarked Funds (Note 17)		15,220		14,634
Cumulative Results of Operations		9,756		5,790
TOTAL NET POSITION		95,024		98,347
TOTAL LIABILITIES AND NET POSITION	**$**	**140,462**	**$**	**143,322**

The accompanying notes are an integral part of these statements.

Department of Housing and Urban Development
Consolidated Statement of Net Cost
For the Period Ending September 2010 and 2009
(Dollars in Millions)

	2010	2009
COSTS		
Federal Housing Administration		
Gross Cost (Note 19)	$ 1,132	$ 14,689
Less: Earned Revenue	(2,680)	(2,266)
Net Program Costs	(1,548)	12,423
Government National Mortgage Association		
Gross Cost (Note 19)	822	148
Less: Earned Revenue	(1,363)	(658)
Net Program Costs	(541)	(510)
Section 8		
Gross Cost (Note 19)	27,795	25,259
Less: Earned Revenue	-	-
Net Program Costs	27,795	25,259
Community Development Block Grants		
Gross Cost (Note 19)	7,125	6,466
Less: Earned Revenue	-	-
Net Program Costs	7,125	6,466
HOME		
Gross Cost (Note 19)	2,851	1,956
Less: Earned Revenue	-	-
Net Program Costs	2,851	1,956
Operating Subsidies		
Gross Cost (Note 19)	4,515	4,540
Less: Earned Revenue	-	-
Net Program Costs	4,515	4,540
PIH Public and Indian Housing Loans And Grants		
Gross Cost (Note 19)	5,481	3,678
Less: Earned Revenue	-	-
Net Program Costs	5,481	3,678
Section 202 Housing for the Elderly and Disabled		
Gross Cost (Note 19)	1,361	1,379
Less: Earned Revenue	(280)	(309)
Net Program Costs	1,081	1,070
All Other		
Gross Cost (Note 19)	5,592	3,630
Less: Earned Revenue	(47)	(37)
Net Program Costs	5,545	3,593
Costs Not Assigned to Programs	191	182
Consolidated		
Gross Cost (Note 19)	56,865	61,927
Less: Earned Revenue	(4,370)	(3,270)
NET COST OF OPERATIONS	**$ 52,495**	**$ 58,657**

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 Period Ending September 2010 and 2009
(Dollars in Millions)

	2010 EARMARKED FUNDS	2010 ALL OTHER FUNDS	2010 CONSOLIDATED TOTAL	2009 EARMARKED FUNDS	2009 ALL OTHER FUNDS	2009 CONSOLIDATED TOTAL
CUMULATIVE RESULTS OF OPERATIONS:						
Beginning of Period	$ 14,625	$ 5,799	$ 20,424	$ 14,089	$ 13,969	$ 28,058
Adjustments:						
Changes in Accounting Principles	-	-	-	-	-	-
Corrections of Errors	-	-	-	-	-	-
Beginning Balances, As Adjusted	14,625	5,799	20,424	14,089	13,969	28,058
BUDGETARY FINANCING SOURCES:						
Other Adjustments	-	7	7	-	-	-
Appropriations Used	4,903	52,196	57,099	1,530	53,217	54,747
Non-exchange Revenue	-	-	-	-	-	-
Donations/Forfeitures-Cash & Cash Equivalents	-	-	-	-	-	-
Transfers In/Out Without Reimbursement	9	(1,170)	(1,161)	5	(2,066)	(2,061)
Other	-	-	-	-	-	-
OTHER FINANCING SOURCES (NON-EXCHANGE):						
Donations and Forfeitures of Property	-	-	-	-	-	-
Transfers In/Out Without Reimbursement	-	1,002	1,002	-	(1,742)	(1,742)
Imputed Financing	1	99	100	-	79	79
Other	-	-	-	-	-	-
Total Financing Sources	4,913	52,134	57,047	1,535	49,488	51,023
Net Cost of Operations	(4,318)	(48,177)	(52,495)	(990)	(57,667)	(58,657)
Net Change	595	3,957	4,552	545	(8,179)	(7,634)
CUMULATIVE RESULTS OF OPERATIONS	**$ 15,220**	**$ 9,756**	**$ 24,976**	**$ 14,634**	**$ 5,790**	**$ 20,424**
UNEXPENDED APPROPRIATIONS:						
Beginning of Period	$ 11,719	$ 66,204	$ 77,923	$ (376)	$ 66,816	$ 66,440
Adjustments:						
Changes in Accounting Principles	-	-	-	-	-	-
Corrections of Errors	-	-	-	-	-	-
Beginning Balances, As Adjusted	11,719	66,204	77,923	(376)	66,816	66,440
BUDGETARY FINANCING SOURCES:						
Appropriations Received	1	49,819	49,820	13,626	53,863	67,489
Appropriations Transfers In/Out	-	(82)	(82)	-	(86)	(86)
Other Adjustments	(1)	(514)	(515)	-	(1,174)	(1,174)
Appropriations Used	(4,902)	(52,196)	(57,098)	(1,530)	(53,216)	(54,746)
Total Budgetary Financing Sources	(4,902)	(2,973)	(7,875)	12,096	(613)	11,483
UNEXPENDED APPROPRIATIONS	**6,817**	**63,231**	**70,048**	**11,720**	**66,203**	**77,923**
NET POSITION	**$ 22,037**	**$ 72,987**	**$ 95,024**	**$ 26,354**	**$ 71,993**	**$ 98,347**

The accompanying notes are an integral part of these statements.

Department of Housing and Urban Development
Combined Statement of Budgetary Resources
For the Period Ending September 2010 and 2009
(Dollars in Millions)

	2010		2009	
	Budgetary	**NonBudgetary Credit Program Financing Accounts**	**Budgetary**	**NonBudgetary Credit Program Financing Accounts**
Budgetary Resources:				
Unobligated Balance, Brought Forward	$ 40,344	$ 26,968	$ 53,378	$ 8,300
Recoveries of Prior Year Unpaid Obligations	896	70	1,010	10
Budget Authority				
Appropriation	49,842	7	67,492	-
Borrowing Authority	36	796	4	475
Contract Authority	-	-	-	-
Spending Authority from Offsetting Collections Earned				
Collected	8,808	28,213	5,171	31,266
Change in Receivable from Federal Sources	(84)	(3)	(144)	1
Change in Unfilled Customer Orders				
Advance Received	(11)	-	(11)	-
W/O Advance from Federal Sources	18	(5)	5	3
Anticipated Rest of Year w/o Advance	-	-	-	-
Previously Unavailable	-	-	-	-
Expenditure Transfers from Trust Funds	-	-	-	-
Subtotal Budget Authority	58,609	29,008	72,517	31,745
Nonexpenditure Transfers, Net	-	-	-	-
Temporarily Not Available Per PL	-	-	-	-
Permanently Not Available	(4,186)	(449)	(7,080)	(883)
Total Budgetary Resources	**$ 95,663**	**$ 55,597**	**$ 119,825**	**$ 39,172**
Status of Budgetary Resources:				
Obligations Incurred				
Direct	64,082	20,787	77,953	12,205
Reimbursable	8,017	-	1,528	-
Subtotal	72,099	20,787	79,481	12,205
Unobligated Balances				
Apportioned	7,804	4,074	13,490	5,884
Exempt from Apportionment	-	-	-	-
Subtotal	7,804	4,074	13,490	5,884
Unobligated Balances Not Available	15,760	30,736	26,854	21,083
Total Status of Budgetary Resources	**$ 95,663**	**$ 55,597**	**$ 119,825**	**$ 39,172**
Change in Obligated Balance:				
Obligated Balance, Net				
Unpaid Obligations, Brought Forward	68,751	1,464	57,120	1,595
Less: Uncollected Customer Payments from Federal Sources	(141)	(23)	(279)	(18)
Total Unpaid Obligated Balance, Net	68,610	1,441	56,841	1,577
Obligations Incurred, Net	72,099	20,787	79,481	12,205
Less: Gross Outlays	(75,292)	(20,290)	(66,841)	(12,326)
Obligated Balance Transferred, Net	-	-	-	-
Actual Transfers, Unpaid Obligations	-	-	-	-
Actual Transfers, Uncollected Customer Payments from Federal Sources	-	-	-	-
Total Unpaid Obligated Balance Transferred, Net	-	-	-	-
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(896)	(70)	(1,010)	(10)
Change in Uncollected Customer Payments from Federal Sources	66	7	139	(5)
Obligated Balance, Net - End of Period				
Unpaid Obligations	64,662	1,891	68,751	1,464
Less: Uncollected Customer Payments from Federal Sources	(74)	(15)	(141)	(23)
Total Obligated Balance, Net - End of Period	64,588	1,876	68,610	1,441
Net Outlays				
Gross Outlays	75,292	20,290	66,841	12,326
Less: Offsetting Collections	(7,805)	(28,213)	(4,272)	(31,266)
Less: Distributed Offsetting Receipts	(1,718)	-	(1,141)	-
Net Outlays	**$ 65,769**	**$ (7,923)**	**$ 61,428**	**$ (18,940)**

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

September 30, 2010 and 2009

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 Rural Housing Service (RHS), 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 with the Housing Choice Voucher (HCV) Program funding cycle that started January 1, 2005 and ended December 31, 2005.

Operating Subsidies[E4] are provided to PHAs and Tribally Designated Housing Entities (TDHEs) to help finance the operations and maintenance costs of their housing projects.

The Community Development Block Grant[E5] (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. Any remaining un-obligated balances shall remain available until expended. 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 $2.4 billion were disbursed in FY 2010 and

$2.2 billion was disbursed in FY 2009. Any remaining un-obligated balances shall remain available until expended.

The Low Rent Public Housing Grants[E6] 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[E7] and Persons with Disabilities[E8] programs, prior to fiscal 1992, provided 40 year loans to nonprofit organizations sponsoring rental housing for the elderly or disabled. During fiscal 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 disabled (Section 811).

The Home Investments Partnerships[E9] 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.

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 11 percent of HUD's consolidated revenues and financing sources for FY 2010 and 9 percent of HUD's consolidated revenues and financing sources for FY 2009.

Note 2: Summary of Significant Accounting Policies

A. Basis of Consolidation

The Department's FY 2010 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 2010 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 are payable in accordance with Cash Management Improvement Act of 1990. HUD's disbursement of funds for these purposes are not considered advance payments, but are viewed as good cash management between the Department and the grantees. In the event that 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 to 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.

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 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 Loan Loss Reserve (LLR).

The LLG and LLR are calculated as the present value of anticipated cash outflows for defaults, such as claim payments, premium refunds, property expense for on-hand properties and sale expense for sold properties, less anticipated cash inflows such as premium receipts, proceeds from asset sales and principal and interest on Secretary-held notes acquired from FHA's claim settlements of defaulted mortgages or pursuant to Section 221 (g) (4) of the National Housing Act.

HUD records its loan loss reserves for its mortgage insurance programs operated through FHA. FHA loss reserves are recorded for the net present value of estimated future cash flows associated with FHA-insured mortgage loans endorsed before FY 1992.

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. Loss Reserves

HUD records loss reserves for its mortgage insurance programs operated through FHA and its financial guaranty programs operated by Ginnie Mae. FHA loss reserves are recorded for the net present value of estimated future cash flows associated with FHA-insured mortgage loans endorsed before FY 1992. Ginnie Mae establishes reserves for actual and probable defaults of issuers of Ginnie Mae-guaranteed mortgage-backed securities; such reserves are based on management's judgment about historical claim and loss information and current and projected economic factors.

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

The Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 45 (FIN 45), *Guarantor's Accounting and Disclosure Requirements for Guarantees,* Including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statements No. 5, 57, and 107, and Rescission of FASB Interpretation No. 34, in November 2002. FIN 45 clarifies the requirements of FASB Statement No. 5, Accounting for Contingencies, relating to the guarantor's accounting for, and disclosure of, the issuance of certain types of guarantees that upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under the guarantee. We have computed the fair value of our guarantee based on the life of the mortgage-backed securities and their underlying loans. Based on this evaluation we have disclosed an asset and liability of $1,103.8 million as of September 30, 2010, and $902.5 million as of September 30, 2009 categorized as other assets and other liabilities, see Note A. There is no impact on the net financial position of Ginnie Mae due to FIN 45.

P. 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. We record MSR as a component of "Other Assets" in our 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 40 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 our estimates of the fair value of MSRs using a valuation model).

Q. Subsequent Events

HUD management has evaluated subsequent events through November 5, 2010, the date through which the financial statements were made available.

As of October 31, 2010, Ginnie Mae has repurchased approximately $499 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.

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, 2010 and 2009 were as follows (dollars in millions):

Description	2010			2009		
	Entity	Non-Entity	Total	Entity	Non-Entity	Total
Intragovernmental						
Fund Balance with Treasury (Note 4)	$ 115,112	$ 795	$ 115,907	$ 113,360	$ 281	$ 113,641
Investments (Note 5)	7,721	-	7,721	19,908	4	19,912
Other Assets (Note 9)	39	-	39	14	-	14
Total Intragovernmental Assets	$ 122,872	$ 795	$ 123,667	$ 133,282	$ 285	$ 133,567
Investments (Note 5)	136	-	136	145	-	145
Accounts Receivable (net) (Note 6)	278	44	322	74	55	129
Loan Receivables and Related Foreclosed Property (net) (Note 7)	9,432	-	9,432	8,058	-	8,058
General Property, Plant, and Equipment (net) (Note 8)	258	-	258	234	-	234
Other Assets (Note 9)	6,577	70	6,647	1,097	92	1,189
Total Assets	**$ 139,553**	**$ 909**	**$ 140,462**	**$ 142,890**	**$ 432**	**$143,322**

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, 2010 and 2009 were as follows (dollars in millions):

Description	**2010**	**2009**
Revolving Funds	$ 39,149	$ 35,006
Appropriated Funds	70,357	78,390
Trust Funds	5,389	6
Other	1,012	239
Total - Fund Balance	**$ 115,907**	**$ 113,641**

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.

A primary reason for the increase in HUD's fund balance with Treasury is appropriations received under the American Recovery and Reinvestment Act of 2009 offset by $6 billion in expenditure by Ginnie Mae to buyout delinquent mortgage-backed securities. HUD's fund balances with U.S. Treasury as reflected in the entity's general ledger as of September 30, 2010 and 2009 were as follows (dollars in millions):

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	$ 38,461	$ 4,086	$ 42,547
Ginnie Mae	2	9,838	378	(23)	10,195	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	22,783	-	22,783
HOME	244	20	6,300	-	6,564	6,564	-	6,564
Operating Subsidies	6	5	1,336	-	1,347	1,346	-	1,346
PIH Loans and Grants	215	82	9,130	-	9,427	9,427	-	9,427
Section 202/811	1,234	115	3,916	-	5,265	5,266	-	5,266
Section 235/236	35	279	3,013	-	3,327	1,289	2,038	3,327
All Other	3,221	703	7,897	(42)	11,779	11,779	-	11,779
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	20,763	-	22,783	-	22,783
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	3,916	-	5,266	-	5,266
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**	**$ -**	**$ 5**	**$ 9,668**	**$ -**

Status of Receipt Account Balances

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

Status of Resources - 2009

Description	Unobligated Available	Unobligated Unavailable	Obligated Not Yet Disbursed	Unfilled Customer Orders	Status of Total Resources	Fund Balance	Other Authority	Total Resources
FHA	$ 6,450	$ 31,749	$ 2,304	$ (89)	$ 40,414	$ 29,947	$ 10,467	$ 40,414
Ginnie Mae	1	14,332	176	(46)	14,463	5,254	9,209	14,463
Section 8 Rental Assistance	427	154	11,965	-	12,546	11,668	878	12,546
CDBG	7,971	15	17,348	-	25,334	25,334	-	25,334
HOME	288	5	7,282	-	7,575	7,575	-	7,575
Operating Subsidies	4	1	1,185	-	1,190	1,190	-	1,190
PIH Loans and Grants	264	33	12,250	-	12,547	12,479	68	12,547
Section 202/811	916	101	4,432	-	5,449	5,449	-	5,449
Section 235/236	12	874	3,567	-	4,453	1,099	3,354	4,453
All Other	3,041	673	9,706	(29)	13,391	13,388	3	13,391
Total	**$ 19,374**	**$ 47,937**	**$ 70,215**	**$ (164)**	**$ 137,362**	**$ 113,383**	**$ 23,979**	**$ 137,362**

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	$ 6,450	$ 21,282	$ 2,304	$ (89)	29,947	$ 183	$ 30,130
Ginnie Mae	1	5,123	176	(46)	5,254	-	5,254
Section 8 Rental Assistance	418	42	11,208	-	11,668	16	11,684
CDBG	7,971	15	17,348	-	25,334	-	25,334
HOME	288	5	7,282	-	7,575	-	7,575
Operating Subsidies	4	1	1,185	-	1,190	-	1,190
PIH Loans and Grants	264	33	12,182	-	12,479	-	12,479
Section 202/811	916	101	4,432	-	5,449	-	5,449
Section 235/236	3	-	1,096	-	1,099	-	1,099
All Other	3,038	673	9,706	(29)	13,388	59	13,447
Total	**$ 19,353**	**$ 27,275**	**$ 66,919**	**$ (164)**	**$ 113,383**	**$ 258**	**$ 113,641**

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	$ -	$ 10,467	$ -	$ -	$ -	$ 10,467	$ -
Ginnie Mae	-	9,209	-	-	-	9,209	-
Section 8 Rental Assistance	9	112	757	-	878	-	-
PIH Loans and Grants	-	-	68	-	68	-	-
Section 202/811	-	-	-	-	-	-	-
Section 235/236	9	874	2,471	-	3,354	-	-
All Other	3	-	-	-	-	-	3
Total	**$ 21**	**$ 20,662**	**$ 3,296**	**$ -**	**$ 4,300**	**$ 19,676**	**$ 3**

Status of Receipt Account Balances

Description	Fund Balance
FHA	$ 183
Section 8 Rental Assistance	16
All Other	59
Total	**$ 258**

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.

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 2010 ranged from 0.63 percent to 3.38 percent. During FY 2009 interest rates ranged from 0.63 percent to 7.25 percent. The amortized cost and estimated market value of investments in debt securities as of September 30, 2010 and 2009 were as follows (dollars in millions):

	Cost	Amortized (Premium)/ Discount, Net	Accrued Interest	Net Investments	Market Value
FY 2010	$ 7,647	$ 30	$ 43	$ 7,721	$ 8,858
FY 2009	$ 19,725	$ 61	$ 126	$ 19,912	$ 21,225

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, 2010 and 2009 (dollars in millions):

	Beginning Balance	New Acquisitions	Share of Earnings or Losses	Return of Investment	Redeemed	Ending Balance
2010						
601 Program	$ 12	$ -	$ -	$ (3)	$ -	$ 9
Risk Sharing Debentures	133	38	-	-	(44)	127
Total	**$ 145**	**$ 38**	**$ -**	**$ (3)**	**$ (44)**	**$ 136**
2009						
601 Program	$ 18	$ -	$ (5)	$ (2)	$ -	$ 11
Risk Sharing Debentures	30	138	-	-	(34)	134
Total	**$ 48**	**$ 138**	**$ (5)**	**$ (2)**	**$ (34)**	**$ 145**

The fiscal year for the Section 601 Program investments is from December 1, 2008 to December 31, 2009. The condensed audited financial statements reported $51 million in assets, $51 million in liabilities and partner's capital, and $1.5 million in net loss 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, HUD records an expense for the HCV Program when each monthly allocation of program funds is added to the PHAs letter-of-credit for drawdown and the PHA records a corresponding revenue on its books. 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, 2010 and 2009, HUD was due $39 million and $52 million, respectively.

Section 236 Excess Rental Income

Upon Housing and OCFO's review of Excess Rental Income (ERI), $13 million represents Excess Rental Income receivables as of September 30, 2010. Multifamily Housing has approved repayment plans for some of these receivables.

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.

In the review process of Excess Rental Income receivables, it was noted that these receivables (although immaterial in value) were not reported in prior year financial statements. In addition, an allowance for loss was not established for the delinquent Excess Rental Income receivables concluding that Excess Rental Income receivables are composed of delinquent accounts over 90 days.

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, 2010 and 2009 (dollars in millions):

	2010			2009		
Description	Gross Accounts Receivable	Allowance for Loss	Total, Net	Gross Accounts Receivable	Allowance for Loss	Total, Net
Public						
Section 8 Settlements	$ 73	$ (61)	$ 12	$ 73	$ (62)	$ 11
Bond Refundings	43	(4)	39	55	(4)	51
Section 236 Excess Rental Income	13	-	13	-	-	-
Other Receivables:						
FHA	122	(106)	16	98	(82)	16
Ginnie Mae	363	(127)	236	45	-	45
Other Receivables	9	(3)	6	9	(3)	6
Total Assets	**$ 623**	**$ (301)**	**$ 322**	**$ 280**	**$ (151)**	**$ 129**

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 2010 and FY 2009:

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. Ginnie Mae
3. Housing for the Elderly and Disabled
4. Low Rent Public Housing Loan Fund
5. All Other
   a) Revolving Fund
   b) Flexible Subsidy
   c) CDBG, Section 108(b)
   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

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

	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
Low Rent Public Housing Loans	-	-	-	-	-
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**

	2009				
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	$ -	$ 1	$ (4)	$ -	$ (3)
b) GI/SRI Direct Loan Program	13	4	(9)	-	8
Housing for the Elderly and Disabled	3,506	38	(13)	1	3,532
Low Rent Public Housing Loans	1	1	-	-	2
All Other					
a) CPD Revolving Fund	5	(1)	(5)	1	-
b) Flexible Subsidy Fund	609	11	(543)	-	77
Total	**$ 4,134**	**$ 54**	**$ (574)**	**$ 2**	**$ 3,616**

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

	2010				
Direct Loan Programs	**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**

Direct Loan Programs	2009 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	$ -	$ -	$ -	$ -	$ -
Total	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**

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	$ 56	$ -
Total	**$ 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	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**

Direct Loan Programs	2009 Interest Differential	Defaults	Fees and Other Collections	Other	Total
All Other					
a) Green Retrofit Program	$ -	$ -	$ -	$ -	$ -
Total	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**

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

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

Direct Loan Programs	2009 Total Modifications	2009 Interest Rate Re-estimates	2009 Technical Re-stimates	2009 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	$ 46	$ -
Total	**$ 46**	**$ -**

F. Subsidy Rates for Direct Loans by Program and Component (dollars in millions):

Budget Subsidy Rates for Direct Loans for the Current Year's Cohorts (dollars in millions):

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%

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

Beginning Balance, Changes, and Ending Balance	FY 2010	FY 2009
Beginning balance of the subsidy cost allowance	$ -	$ -
Add: subsidy expense for direct loans disbursed during the reporting years by component:	-	-
a) Interest rate differential costs	23	-
b) Default costs (net of recoveries)	24	-
c) Fees and other collections	-	-
d) Other subsidy costs	(1)	-
Total of the above subsidy expense components	46	-
Adjustments:		
a) Loan modifications	-	-
b) Fees received	-	-
c) Foreclosed properties acquired	-	-
d) Loans written off	-	-
e) Subsidy allowance amortization	-	-
f) Other	-	-
Ending balance of the subsidy cost allowance before re-estimates	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	**$ 46**	**$ -**

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

	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**

	2009									
		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	$	19	$	3	$	(12)	$	16	$	26
b) GI/SRI Funds, Excluding HECM		2,677		202		(2,168)		2		713
c) GI/SRI Funds, HECM		4		2		(1)		2		7
Total	**$**	**2,700**	**$**	**207**	**$**	**(2,181)**	**$**	**20**	**$**	**746**

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

	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**

	2009									
		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	$	560	$	-	$	(3,165)	$	4,875	$	2,270
b) GI/SRI Funds, Excluding HECM		625		-		(478)		281		428
c) GI/SRI Funds, HECM		772		418		(223)		31		998
All Other		-		-		-		-		-
Total	**$**	**1,957**	**$**	**418**	**$**	**(3,866)**	**$**	**5,187**	**$**	**3,696**

	2010	2009
Total Credit Program Receivables and Related Foreclosed Property, Net	$ 9,432	$8,058

J. Guaranteed Loans Outstanding (dollars in millions):

J1. Guaranteed Loans Outstanding (dollars in millions):

	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**

	2009	
Loan Guarantee Programs	**Outstanding Principal, Guaranteed Loans, Face Value**	**Amount of Outstanding Principal Guaranteed**
FHA Programs		
a) MMI/CMHI Funds	$ 711,827	$ 674,638
b) GI/SRI Funds	92,361	82,603
c) H4H Progam	4	4
All Other	3,531	3,526
Total	**$ 807,723**	**$ 760,771**

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

Home Equity Conversion Mortgage Loans Outstanding:

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

		Cumulative	
Loan Guarantee Programs	**2009 Prior Year Endorsements**	**Current Outstanding Balance**	**Maximun Potential Liability**
FHA Programs	$ 30,080	$ 59,877	$ 102,500

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

	2010	
Loan Guarantee Programs	**Outstanding Principal, Guaranteed Loans, Face Value**	**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**

	2009	
Loan Guarantee Programs	**Outstanding Principal, Guaranteed Loans, Face Value**	**Amount of Outstanding Principal Guaranteed**
FHA Programs		
a) MMI/CMHI Funds	$ 330,385	$ 328,097
b) GI/SRI Funds	6,942	6,922
c) H4H Program	4	4
All Other	607	606
Total	**$ 337,938**	**$ 335,629**

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

	2009		
Loan Guarantee Programs	**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	$ 136	$ 33,886	$ 34,022
All Other	-	131	131
Total	**$ 136**	**$ 34,017**	**$ 34,153**

	2010		
Loan Guarantee Programs	**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):

	2010				
Loan Guarantee Programs	**Endorsement Amount**	**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	(1,184)	-	(106)
c) GI/SRI Funds	14,991	438	(868)	1	(428)
d) H4H Program	20	4	(1)	-	4
All Other	-	-	-	-	10
Total	**$ 332,520**	**$ 11,124**	**$ (17,578)**	**$ 3,377**	**$ (3,066)**

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

	2009				
Loan Guarantee Programs	**Endorsement Amount**	**Default Component**	**Fees Component**	**Other Component**	**Subsidy Amount**
FHA					
a) MMI/CMHI Funds, Excluding HECM	$ 330,384	$ 9,991	$ (13,639)	$ 3,496	$ (151)
b) MMI/CMHI Funds, HECM	30,080	1,043	(1,457)	-	(414)
c) GI/SRI Funds	6,942	203	(350)	1	(146)
d) H4H Program	4	1	-	-	1
All Other	-	16	-	-	16
Total	**$ 367,410**	**$ 11,254**	**$ (15,446)**	**$ 3,497**	**$ (694)**

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

	2010			
Loan Guarantee Programs	**Total Modifications**	**Interest Rate Re-estimates**	**Technical Re-estimates**	**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**

Loan Guarantee Programs	2009 Total Modifications	2009 Interest Rate Re-estimates	2009 Technical Re-estimates	2009 Total Re-estimates
FHA				
a) MMI/CMHI Funds	$ (362)	$ -	$ 7,274	$ 6,912
b) GI/SRI Funds	(6)	-	3,138	3,132
All Other	-	-	(15)	(15)
Total	**$ (368)**	**$ -**	**$ 10,397**	**$ 10,029**

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

Loan Guarantee Programs	Current Year	Prior Year
FHA		
a) MMI/CMHI Funds	$ (4,812)	$ 6,347
b) GI/SRI Funds	2,762	2,986
c) H4H Program	3	1
All Other	$ (14)	$ 1
Total	**$ (2,061)**	**$ 9,335**

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

Budget Subsidy Rates for Loans Guarantee for FY 2010

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%

The subsidy rates above pertain only to FY 2010 cohorts. These rates cannot be applied to the guarantees of loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loan guarantees reported in the current year could result from disbursements of loans from both current year cohorts and prior year(s) cohort. The subsidy expense reported in the current year also includes modifications re-estimates.

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

Beginning Balance, Changes, and Ending Balance	FY 2010	FY 2009
Beginning balance of the loan guarantee liability	$ 34,153	$ 19,613
Add: subsidy expense for guaranteed loans disbursed during the reporting years by component:		
(a) Interest supplement costs	-	-
(b) Default costs (net of recoveries)	11,134	11,254
(c) Fees and other collections	(17,577)	(15,446)
(d) Othe subsidy costs	3,377	3,497
Total of the above subsidy expense components	$ (3,066)	$ (695)
Adjustments:		
(a) Loan guarantee modifications	-	(367)
(b) Fees Received	10,083	8,771
(c) Interest supplemental paid	-	-
(d) Foreclosed property and loans acquired	6,815	3,909
(e) Claim payments to lenders	(16,487)	(10,487)
(f) Interest accumulation on the liability balance	1,351	1,086
(g) Other	15	113
Ending balance of the subsidy cost allowance before re-estimates	$ 32,864	$ 21,943
Add or Subtract subsidy re-estimates by component:		
(a) Interest rate re-estimate	-	-
(b) Technical/default re-estimate	(1,602)	6,670
(c) Adjustment of prior years credit subsity re-estimates	3,811	5,540
Total of the above re-estimate components	2,209	12,210
Ending balance of the subsidy cost allowance	**$ 35,073**	**$ 34,153**

O. Administrative Expense (dollars in millions):

Loan Guarantee Program	FY 2010	FY 2009
FHA	$ 581	$ 585
All Other	-	-
Total	**$ 581**	**$ 585**

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 4-year period, unless it can be demonstrated that the estimated useful life is significantly greater than 4 years.

The following shows general property, plant, and equipment as of September 30, 2010 and 2009, (dollars in millions):

Description	FY 2010			FY 2009		
	Cost	Accumulated Depreciation and Amortization	Book Value	Cost	Accumulated Depreciation and Amortization	Book Value
Equipment	$ 1	$ (1)	$ -	$ 23	$ (22)	$ 1
Leasehold Improvements	-	-	-	-	-	-
Internal Use Software	159	(106)	53	152	(84)	68
Internal Use Software in Development	205	-	205	165	-	165
Total Assets	**$ 365**	**$ (107)**	**$ 258**	**$ 340**	**$ (106)**	**$ 234**

Note 9: Other Assets

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

Description	FHA	Ginnie Mae	All Other	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 and reports the loans at the unpaid principal balance outstanding, net of unamortized premiums and discounts, other cost basis adjustments, and an allowance for loan losses. 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 security holders. Such advances are reported not of an allowance for doubtful recoveries to the extent management believes they will not be recovered. Properties that are undergoing the foreclosure process and being conveyed to the insuring agency of the mortgage are reported under the advance category as Ginnie Mae is awaiting repayment of the receivable.

During FY 2010, Ginnie Mae brought out $4.5 billion in mortgages loans primarily from the single family defaulted portfolio. In addition, following guidelines outlined in the Ginnie Mae mortgage-backed securities guide, a large number of loans were repurchased out of pools due to delinquencies of greater than 120 days categorized as mortgages held of investment. In addition, Ginnie Mae's net advance balance increased by approximately $722 million in FY 2010 compared to FY 2009 as a result of the repurchase of these loans.

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. Upon Ginnie Mae's assumption of the servicing rights from these issuers, Ginnie Mae initially recognized the MSR at zero, in accordance with ASC 860-10-35-7, since it was determined that the fair value could not be determined due to the close proximity to the end of FY 2009. The close proximity to year end in addition to reliance on third parties did not allow sufficient time to retrieve pertinent information to determine the fair value of the potential servicing asset.

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**

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. We rely on this valuation model as a basis for the MSR amount recorded in our financial statements. This model involves significant number of assumptions and has limitations.

Key economic assumptions used in determining the fair value of MSRs are as follows (dollars in thousands):

Description	**Issuer Defaulted August 4, 2009**	**Issuer Defaulted December 17, 2009**
Valuation at period end:		
Fair value (thousands)	$ 128,500	$ 9,200
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	(8,400)	(600)
Impact on fair value of a 20% adverse change	(15,800)	(1,100)
Discount rate assumptions:		
Rate assumption	12.51%	12.50%
Impact on fair value of a 10% adverse change	(3,400)	(200)
Impact on fair value of a 20% adverse change	(6,700)	(500)

The following shows HUD's Other Assets as of September 30, 2009 (dollars in millions):

Description	FHA	Ginnie Mae	Total
Intragovernmental Assets:			
Other Assets	$ 14	$ -	$ 14
Total Intragovernmental Assets	**14**	**-**	**14**
Mortgagor Reserves for Replacement - Cash	$ 92	-	92
Financial Accounting Standards Board Interpretation No 45	-	902	902
Mortgage Loans Held for Investment, net	-		-
Mortgage Loans Held for Sale, net	-	32	32
Advances Against Defaulted Mortgage-Backed Security Pools, net	-	120	120
Properties Held for Sale, net	-	5	5
Mortgage Servicing Rights	-	-	-
Other Assets	37	1	38
Total	**$ 143**	**$ 1,060**	**$ 1,203**

Note 10: Liabilities Covered and Not Covered by Budgetary Resources

The following shows HUD's liabilities as of September 30, 2010 and 2009 (dollars in millions):

Description	2010			2009		
	Covered	Not-Covered	Total	Covered	Not-Covered	Total
Intragovernmental						
Accounts Payable	$ 6	$ -	$ 6	$ 7	$ -	$ 7
Debt	4,775	-	4,775	5,083	-	5,083
Other Intragovernmental Liabilities	1,305	18	1,323	2,021	17	2,038
Total Intragovernmental Liabilities	$ 6,086	$ 18	$ 6,104	$ 7,111	$ 17	$ 7,128
Accounts Payable	1,050	-	1,050	974	-	974
Liabilities for Loan Guarantees	35,073	-	35,073	34,153	-	34,153
Debt	292	-	292	477	-	477
Federal Employee and Veterans' Benefits	-	72	72	-	69	69
Loss Reserves	1,005	-	1,005	560	-	560
Other Liabilities	1,750	92	1,842	1,534	80	1,614
Total Liabilities	**$ 45,256**	**$ 182**	**$ 45,438**	**$ 44,809**	**$ 166**	**$ 44,975**

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, 2010 (dollars in millions):

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

The following shows HUD borrowings, and borrowings by PHAs/TDHEs for which HUD is responsible for repayment, as of September 30, 2009 (dollars in millions):

Description	Beginning Balance	Net Borrowings	Ending Balance
Agency Debt:			
Held by Government Accounts	$ 775	$ (117)	$ 658
Held by the Public	729	(252)	477
Total Agency Debt	$ 1,504	$ (369)	$ 1,135
Other Debt:			
Debt to the U.S. Treasury	$ 4,832	$ (407)	$ 4,425
Total Debt	**$ 6,336**	**$ (776)**	**$ 5,560**
Classification of Debt:			
Intragovernmental Debt			$ 5,083
Debt held by the Public			477
Total Debt			**$ 5,560**

Interest paid on borrowings as of September 30, 2010 and 2009 was $315 million and $374 million respectively. The purpose of these borrowings is discussed in the following paragraphs.

Borrowings from the U.S. Treasury

HUD is authorized to borrow from the U.S. Treasury to finance Housing for Elderly and Disabled loans. The Treasury borrowings typically have a 15-year term, but may be repaid prior to maturity at HUD's discretion. However, such borrowings must be repaid in the sequence in which they were borrowed from Treasury. The interest rates on the borrowings are based on Treasury's 30-year bond yield at the time the notes are issued. Interest is payable on April 30 and October 31. Interest rates ranged from 10.67 percent to 16.18 percent during FY 2007. All Treasury borrowings were paid in full during FY 2007.

In FY 2010 and FY 2009, FHA borrowed $790 million and $470 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-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 FY 2010 and from 3.71 percent to 7.34 percent during FY 2009.

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. Interest rates range from 3.25 percent to 6.0 percent during both FY 2010 and FY 2009. The borrowings from the FFB and the private sector have terms up to 40 years. FFB interest is payable annually on November 1. Interest rates range from 10.67 percent to 16.18 percent during both FY 2010 and FY 2009.

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 and realized a loss of $154 million as a result of HUD's unamortized premium at the time of sale to FFB. The loss was offset by $48 million in interest savings based on an average yearly interest rate of 15 percent over a ten year period.

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 4.00 percent to 13.375 percent in FY 2010 and 4.00 percent to 12.88 percent in FY 2009. 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 2010, HUD recorded imputed costs of $100 million which consisted of $55 million for pension and $45 million for health care benefits. During FY 2009, HUD recorded imputed costs of $79 million which consisted of $36 million for pension and $43 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 $72 million as of September 30, 2010, and $69 million as of September 30, 2009. Future payments on this liability are to be funded by future financing sources.

In addition to the imputed costs of $79 million noted above, HUD recorded benefit expenses totaling $161 million for 2010 and $155 million for FY 2009.

Note 13: Loss Reserves

For FY 2010 and FY 2009, Ginnie Mae established loss reserves of $1,004.9 million and $560 million, respectively, which represents probable defaults by issuers of mortgage-backed securities, through a provision 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 and the sale of servicing rights which transfers to Ginnie Mae upon the default of the issuer. Ginnie Mae management believes that its reserve is adequate to cover probable losses from defaults by issuers of Ginnie Mae guaranteed mortgage-backed securities.

Ginnie Mae incurs losses when insurance and guarantees do not cover expenses that result from issuer defaults. Such expenses include: (1) unrecoverable losses on individual mortgage defaults because of coverage limitations on mortgage insurance or guarantees, (2) ineligible mortgages included in defaulted Ginnie Mae pools, (3) improper use of proceeds by an issuer, and (4) non-reimbursable administrative expenses and costs incurred to service and liquidate portfolios of defaulted issuers.

Note 14: Other Liabilities

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**

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, 2009 (dollars in millions):

Description	Non-Current	Current	Total
Intragovernmental Liabilities			
FHA Special Receipt Account Liability	$ -	$ 1,914	$ 1,914
Unfunded FECA Liability	17	-	17
Employer Contributions and Payroll Taxes	-	7	7
Miscellaneous Receipts Payable to Treasury	-	89	89
Advances to Federal Agencies	-	11	11
Total Intragovernmental Liabilities	$ 17	$ 2,021	$ 2,038
Other Liabilities			
FHA Other Liabilities	$ -	$ 300	$ 300
FHA Escrow Funds Related to Mortgage Notes	-	115	115
Ginnie Mae Deferred Income	-	114	114
Deferred Credits	-	15	15
Deposit Funds	-	32	32
Accrued Unfunded Annual Leave	80	-	80
Accrued Funded Payroll Benefits	-	55	55
Other - FIN 45	-	903	903
Total Other Liabilities	**$ 97**	**$ 3,555**	**$ 3,652**

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

Unamortized insurance in force outstanding for FHA's mortgage insurance programs as of September 30, 2010 and 2009 was $1,025 billion and $804 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, 2010 and 2009 was $119 billion and $103 billion respectively as disclosed in Note 7E.

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-insured, RD-insured, and VA-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 2009, was approximately $1,046.2 billion and $826.0 billion, respectively. However, Ginnie Mae's potential loss is considerably less because the FHA and RD insurance and VA 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, 2010 and 2009 were $80.0 billion and $98.4 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 2010 and FY 2009, Ginnie Mae issued a total of $184.3 billion and $79.9 billion respectively in its REMIC multi-class securities program. The estimated outstanding balance for the complete multi-class securities program (REMICs, Platinum's, etc.) at September 30, 2010 and 2009, were $489 billion and $350 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, 2010 and 2009 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

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 $8.6 million in its financial statements. The Department also estimates other cases where the expected outcome totaling $7 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 and receives funds from general tax revenues for salaries and expenses. Program operations are financed by a variety of fees, such as guaranty, commitment, new issuer, handling, and transfer servicing fees, which are only to be used for Ginnie Mae's legislatively authorized mission. In FY 2010, Congress authorized Ginnie Mae to use $11.1 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.

All uncommitted balances of excess rental charges from the Rental Housing Assistance Fund as of June 30, 2005, and any collections made during FY 2005 and all subsequent fiscal years, shall be transferred to the Flexible Subsidy Fund, as authorized by Section 236(g) of the National Housing Act, as amended.

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. HUD's overriding goal is job creation and preservation through:

1. Promoting energy efficiency and creating green jobs;
2. Unlocking the credit markets and supporting shovel-ready projects; and

3. Mitigating the effects of the economic crisis and preventing community decline.

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, 2010 (dollars in millions):

	Ginnie Mae	Rental Housing Assistance	Flexible Subsidy	Recovery Act Funds	Manufactued Housing Fees Trust Fund	Eliminations	Total Earmarked Funds
Balance Sheet							
Fund Balance w/Treasury	$ 6,650	$ 3	$ 164	$ 7,226	$ 12	$ -	$ 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**	**$ 7,236**	**$ 12**	**$ -**	**$ 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	$ 7,193	$ 12	$ -	$ 22,037
Total Liabilities and Net Position	**$ 17,063**	**$ 16**	**$ 238**	**$ 7,236**	**$ 12**	**$ -**	**$ 24,565**
Statement of Net Cost For the Period Ended							
Gross Costs	$ 822	$ 3	$ (22)	$ 4,903	$ 6	$ (3)	$ 5,709
Less Earned Revenues	(1,363)	(16)	(11)	(1)	(3)	3	(1,391)
Net Costs	**$ (541)**	**$ (13)**	**$ (33)**	**$ 4,902**	**$ 3**	**$ -**	**$ 4,318**
Statement of Changes in Net Position for the Period Ended							
Net Position Beginning of Period	$ 14,036	$ 3	$ 204	$ 12,095	$ 6	$ -	$ 26,344
Appropriations Received	-	-	-	-	-	-	-
Transfers In/Out Without Reimbursement	-	-	-	-	9	-	9
Imputed Costs	-	-	-	-	-	-	-
Transfers In/Out Without Reimbursement	1	-	-	-	-	-	1
Net Cost of Operations	541	13	34	(4,902)	(3)	-	(4,317)
Change in Net Position	$ 542	$ 13	$ 34	$ (4,902)	$ 6	$ -	$ (4,307)
Net Position End of Period	**$ 14,578**	**$ 16**	**$ 238**	**$ 7,193**	**$ 12**	**$ -**	**$ 22,037**

The following shows earmarked funds activity as of September 30, 2009 (dollars in millions):

	Ginnie Mae	Rental Housing Assistance	Flexible Subsidy	Recovery Act Funds	Manufactued Housing Fees Trust Fund	Eliminations	Total Earmarked Funds
Balance Sheet							
Fund Balance w/Treasury	$ 5,254	$ 3	$ 128	$ 12,100	$ 6	$ 10	$ 17,501
Investments	9,277	-	-	-	-	-	9,277
Accounts Receivable	45	-	-	-	-	-	45
Loans Receivable	-	-	76	-	-	-	76
General Property, Plant and Equipment	40	-	-	-	-	-	40
Other	1,059	-	-	-	-	-	1,059
Total Assets	**$ 15,675**	**$ 3**	**$ 204**	**$ 12,100**	**$ 6**	**$ 10**	**$ 27,998**
Accounts Payable	$ 58	$ -	$ -	$ 7	$ -	$ -	$ 65
Loss Reserves	560	-	-	-	-	-	560
Other Liabilities	1,019	-	-	-	-	-	1,019
Total Liabilities	$ 1,637	$ -	$ -	$ 7	$ -	$ -	$ 1,644
Unexpended Appropriations	$ -	$ 3	$ (376)	$ 12,093	$ -	$ -	$ 11,720
Cumulative Results of Operations	14,038	-	580	-	6	10	14,634
Total Net Position	$ 14,038	$ 3	$ 204	$ 12,093	$ 6	$ 10	$ 26,354
Total Liabilities and Net Position	**$ 15,675**	**$ 3**	**$ 204**	**$ 12,100**	**$ 6**	**$ 10**	**$ 27,998**
Statement of Net Cost For the Period Ended							
Gross Costs	$ 136	$ 4	$ (12)	$ 1,532	$ 6	$ -	$ 1,666
Less Earned Revenues	(657)	(3)	(13)	-	(3)	-	(676)
Net Costs	**$ (521)**	**$ 1**	**$ (25)**	**$ 1,532**	**$ 3**	**$ -**	**$ 990**
Statement of Changes in Net Position for the Period Ended							
Net Position Beginning of Period	$ 13,527	$ 4	$ 179	$ -	$ 3	$ -	$ 13,713
Appropriations Received	-	-	-	13,625	-	-	13,625
Transfers In/Out Without Reimbursement	(10)	-	-	-	6	10	6
Net Cost of Operations	521	(1)	25	(1,532)	(3)	-	(990)
Change in Net Position	$ 511	$ (1)	$ 25	$ 12,093	$ 3	$ 10	$ 12,641
Net Position End of Period	**$ 14,038**	**$ 3**	**$ 204**	**$ 12,093**	**$ 6**	**$ 10**	**$ 26,354**

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):

2010	Federal Housing Administration	Ginnie Mae	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
Intragovernmental Costs	$ 305	$ 2	$ 92	$ 22	$ 12	$ 23	$ 64	$ 35	$ 234	$ 789
Public Costs	826	820	27,703	7,103	2,839	4,492	5,417	1,326	5,359	55,885
Subtotal Costs	$ 1,131	$ 822	$ 27,795	$ 7,125	$ 2,851	$ 4,515	$ 5,481	$ 1,361	$ 5,593	$ 56,674
Unassigned Costs									$ 191	$ 191
Total Costs										$ 56,865
Intragovernmental Earned Revenue	$ (2,547)	$ (483)	$ -	$ -	$ -	$ -	$ -	$ -	$ (20)	$ (3,050)
Public Earned Revenue	(132)	(880)	-	-	-	-	-	(280)	(28)	(1,320)
Total Earned Revenue	(2,679)	(1,363)	-	-	-	-	-	(280)	(48)	(4,370)
Net Cost of Operations	**$ (1,548)**	**$ (541)**	**$ 27,795**	**$ 7,125**	**$ 2,851**	**$ 4,515**	**$ 5,481**	**$ 1,081**	**$ 5,736**	**$ 52,495**

2009	Federal Housing Administration	Ginnie Mae	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
Intragovernmental Costs	$ 303	$ 2	$ 87	$ 23	$ 12	$ 20	$ 111	$ 33	$ 241	$ 832
Public Costs	14,386	146	25,172	6,443	1,944	4,520	3,567	1,346	3,389	60,913
Subtotal Costs	$ 14,689	$ 148	$ 25,259	$ 6,466	$ 1,956	$ 4,540	$ 3,678	$ 1,379	$ 3,630	$ 61,745
Unassigned Costs									$ 182	$ 182
Total Costs										$ 61,927
Intragovernmental Earned Revenue	$ (2,148)	$ (109)	$ -	$ -	$ -	$ -	$ -	$ -	$ (21)	$ (2,278)
Public Earned Revenue	(118)	(549)	-	-	-	-	-	(309)	(16)	(992)
Total Earned Revenue	(2,266)	(658)	-	-	-	-	-	(309)	(37)	(3,270)
Net Cost of Operations	**$ 12,423**	**$ (510)**	**$ 25,259**	**$ 6,466**	**$ 1,956**	**$ 4,540**	**$ 3,678**	**$ 1,070**	**$ 3,775**	**$ 58,657**

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 2010 (dollars in millions):

Budget Functional Classification	**Gross Cost**	**Earned Revenue**	**Net Cost**
Intragovernmental:			
Commerce and Housing Credit	$ 3	$ -	$ 3
Community and Regional Development	33	(6)	27
Income Security	444	(3)	441
Other Multiple Functions	$ 3	$ (11)	$ (8)
Total Intragovernmental	483	(20)	463
With the Public:			
Commerce and Housing Credit	$ 2,022	$ (4,326)	$ (2,304)
Community and Regional Development	7,371	-	7,371
Income Security	46,211	(24)	46,187
Administration of Justice	51	-	51
Other Multiple Functions	536	-	536
Total with the Public	$ 56,191	$ (4,350)	$ 51,841
Not Assigned to Programs:			
Income Security	191	-	191
Total with the Public	$ 191	$ -	$ 191
TOTAL:			
Commerce and Housing Credit	$ 2,025	$ (4,326)	$ (2,301)
Community and Regional Development	7,404	(6)	7,398
Income Security	46,846	(27)	46,819
Administration of Justice	51	-	51
Other Multiple Functions	539	(11)	528
TOTAL:	**$ 56,865**	**$ (4,370)**	**$ 52,495**

The following shows HUD's total cost and earned revenue by budget functional classification for FY 2009 (dollars in millions):

Budget Functional Classification	**Gross Cost**	**Earned Revenue**	**Net Cost**
Intragovernmental:			
Commerce and Housing Credit	$ 2	$ -	$ 2
Community and Regional Development	43	(7)	36
Income Security	482	(2)	480
Other Multiple Functions	$ (1)	$ (13)	$ (14)
Total Intragovernmental	526	(22)	504
With the Public:			
Commerce and Housing Credit	$ 14,858	$ (3,236)	$ 11,622
Community and Regional Development	6,688	-	6,688
Income Security	39,080	(12)	39,068
Administration of Justice	46	-	46
Other Multiple Functions	547	-	547
Total with the Public	$ 61,219	$ (3,248)	$ 57,971
Not Assigned to Programs:			
Income Security	182	-	182
Total with the Public	$ 182	$ -	$ 182
TOTAL:			
Commerce and Housing Credit	$ 14,860	$ (3,236)	$ 11,624
Community and Regional Development	6,731	(7)	6,724
Income Security	39,744	(14)	39,730
Administration of Justice	46	-	46
Other Multiple Functions	546	(13)	533
TOTAL:	**$ 61,927**	**$ (3,270)**	**$ 58,657**

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

This note provides a categorization of net costs for two of HUD's major program areas whose costs were incurred across multiple programs. Section 8 costs are incurred to assist low- and very low- income families in obtaining decent and safe rental housing. In addition, costs incurred under the Other major program represent HUD's smaller programs. These programs provide assistance to support other HUD objectives such as fair housing and equal opportunity, energy conservation, homeless assistance, housing unit rehabilitation, and home ownership.

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

Fiscal Year 2010

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**
CDBG					
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
Costs Not Assigned to Programs	$ 64	$ 94	$ 33	$ -	$ 191
Net Program Costs	**$ 512**	**$ 1,001**	**$ 4,250**	**$ (27)**	**$ 5,736**

The following table shows the cross-cutting of HUD's major program areas that incur costs that cross multiple program areas for FY 2009 (dollars in millions):

Fiscal Year 2009

HUD's Cross-Cutting Programs	Public and Indian Housing	Housing	Community Planning and Development	Other	Consolidated
Section 8:					
Intragovernmental Gross Costs	$ 42	$ 44	$ -	$ -	$ 86
Intragovernmental Earned Revenues	-	-	-	-	$ -
Intragovernmental Net Costs	$ 42	$ 44	$ -	$ -	$ 86
Gross Costs with the Public	$ 16,286	$ 8,837	$ 50	$ -	$ 25,173
Earned Revenues					-
Net Costs with the Public	$ 16,286	$ 8,837	$ 50	$ -	$ 25,173
Net Program Costs	**$ 16,328**	**$ 8,881**	**$ 50**	**$ -**	**$ 25,259**
CDBG					
Intragovernmental Gross Costs	$ -	$ -	$ 21	$ 2	$ 23
Intragovernmental Earned Revenues	-	-	-	-	$ -
Intragovernmental Net Costs	$ -	$ -	$ 21	$ 2	$ 23
Gross Costs with the Public	$ 75	$ -	$ 6,356	$ 12	$ 6,443
Earned Revenues	-	-	-	-	$ -
Net Costs with the Public	$ 75	$ -	$ 6,356	$ 12	$ 6,443
Net Program Costs	**$ 75**	**$ -**	**$ 6,377**	**$ 14**	**$ 6,466**
HOME					
Intragovernmental Gross Costs	$ -	$ -	$ 11	$ 1	$ 12
Intragovernmental Earned Revenues	-	-	-	-	$ -
Intragovernmental Net Costs	$ -	$ -	$ 11	$ 1	$ 12
Gross Costs with the Public	$ -	$ 45	$ 1,899	$ -	$ 1,944
Earned Revenues	-	-	-	-	$ -
Net Costs with the Public	$ -	$ 45	$ 1,899	$ -	$ 1,944
Net Program Costs	**$ -**	**$ 45**	**$ 1,910**	**$ 1**	**$ 1,956**
Low Rent Public Hsg Loans					
Intragovernmental Gross Costs	$ 109	$ -	$ -	$ 2	$ 111
Intragovernmental Earned Revenues	-	-	-	-	$ -
Intragovernmental Net Costs	$ 109	$ -	$ -	$ 2	$ 111
Gross Costs with the Public	$ 3,567	$ -	$ -	$ -	$ 3,567
Earned Revenues	-	-	-	-	$ -
Net Costs with the Public	$ 3,567	$ -	$ -	$ -	$ 3,567
Net Program Costs	**$ 3,676**	**$ -**	**$ -**	**$ 2**	**$ 3,678**
Other:					
Intragovernmental Gross Costs	$ 56	$ 162	$ 46	$ (23)	$ 241
Intragovernmental Earned Revenues	(2)	(4)	(1)	(14)	$ (21)
Intragovernmental Net Costs	$ 54	$ 158	$ 45	$ (37)	$ 220
Gross Costs with the Public	$ 526	$ 698	$ 2,163	$ 2	$ 3,389
Earned Revenues	-	(16)	-	-	$ (16)
Net Costs with the Public	$ 526	$ 682	$ 2,163	$ 2	$ 3,373
Costs Not Assigned to Programs	$ 63	$ 89	$ 30	$ -	$ 182
Net Program Costs	**$ 643**	**$ 929**	**$ 2,238**	**$ (35)**	**$ 3,775**

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, provides basic Single Family mortgage insurance and is a mutual insurance fund, whereby mortgagors, upon non-claim termination of their mortgages, share surplus premiums paid into the MMI fund that are not required for operating expenses and losses or to build equity. The 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 2010				Fiscal Year 2009			
	GI/SRI Program	MMI/CMHI Program	H4H Program	Total	GI/SRI Program	MMI/CMHI Program	H4H Program	Total
Costs								
Intragovernmental Gross Costs	$ 144	$ 159	$ 2	$ 305	$ 131	$ 167	$ 5	$ 303
Intragovernmental Earned Revenues	(412)	(2,134)	-	(2,546)	(392)	(1,756)	-	(2,148)
Intragovernmental Net Costs	$ (268)	$ (1,975)	$ 2	$ (2,241)	$ (261)	$ (1,589)	$ 5	$ (1,845)
Gross Costs with the Public	$ 3,359	$ (2,543)	$ 10	$ 826	$ 5,302	$ 9,072	$ 12	$ 14,386
Earned Revenues	(70)	(63)	-	(133)	(71)	(47)	-	(118)
Net Costs with the Public	$ 3,289	$ (2,606)	$ 10	$ 693	$ 5,231	$ 9,025	$ 12	$ 14,268
Net Program Costs	**$ 3,021**	**$ (4,581)**	**$ 12**	**$ (1,548)**	**$ 4,970**	**$ 7,436**	**$ 17**	**$ 12,423**

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.

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.

As shown on the next page, appropriations to fund a substantial portion of these commitments will be provided through permanent indefinite authority. These commitments relate primarily to the Section 8 program, and the Section 235/236 rental assistance and interest reduction programs and further explained below.

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, 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.

PIH's review of $164 million of obligations related to the PIH Direct Loan Program is ongoing. As of September 30, 2010, PIH concluded that $71 million in outstanding obligations reported in HUD's financial statements be recaptured. As recommended, the outstanding balances have been de-obligated in HUD's general ledgers and are reported as a recapture in the Statement of Budgetary Resources for FY 2010. Of the recaptured amount, $21 million is offset as other authority withdrawn and the remaining balance of $50 million is shown as an unobligated balance not available to HUD. The excess resource of $50 million reflected as cash in HUD's balance sheet and the corresponding equity associated with these unobligated balances will be reduced by $51 million as a result of the negative warrant processed by the Department of Treasury in FY 2011. PIH's analysis of these unliquidated obligations has no impact on the Statement of Net Cost.

The following shows HUD's obligations and contractual commitments under its grant, subsidy, and loan programs as of September 30, 2009 (dollars in millions):

	Undelivered Orders				
Programs	**Unexpended Appropriations**	**Permanent Indefinite**	**Investment Authority**	**Offsetting Collections**	**Undelivered Orders - Obligations, Unpaid**
FHA	$ 153	$ -	$ 276	$ 685	$ 1,114
Section 8 Rental Assistance	11,206	757	-	-	$ 11,963
Community Development Block Grants	17,326	-	-	-	$ 17,326
HOME Partnership Investment Program	7,271	-	-	-	$ 7,271
Operating Subsidies	1,023	-	-	-	$ 1,023
Low Rent Public Housing Grants and Loans	12,078	67	-	-	$ 12,145
Housing for Elderly and Disabled	4,430	-	-	-	$ 4,430
Section 235/236	1,096	2,471	-	-	$ 3,567
All Other	9,584	-	-	-	$ 9,584
Total	**$ 64,167**	**$ 3,295**	**$ 276**	**$ 685**	**$ 68,423**

Of the total Section 8 Rental Assistance contractual commitments as of September 30, 2009, $6.9 billion relates to project-based commitments, and $4.7 billion relates to tenant-based commitments. 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 above 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 above.

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

	Reservations			
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**

The following chart shows HUD's administrative commitments as of September 30, 2009 (dollars in millions):

	Reservations			
Programs	Unexpended Appropriations	Permanent Indefinite Appropriations	Offsetting Collections	Total Reservations
Section 8 Rental Assistance Project-Based	$ 107	$ 6	$ -	$ 113
Community Development Block Grants	1,058	-	-	1,058
HOME Partnership Investment Program	270	-	-	270
Low Rent Public Housing Grants and Loans	139	-	-	139
Housing for Elderly and Disabled	180	-	-	180
Section 235/236	-	4	-	4
All Other	661	-	-	661
Total	**$ 2,415**	**$ 10**	**$ -**	**$ 2,425**

Note 23: Effects of Hurricanes

Multifamily Hurricane Cost

Ginnie Mae guarantees to advance payments of principal and interest on Mortgage-Backed Securities (MBS) when the issuer of the pooled mortgages behind the MBS's defaults. Ginnie Mae files the claims for loans defaulted within the defaulted issuer's portfolio to FHA, VA, or RHS. Ginnie Mae has not incurred any losses due to date and does not expect any material future losses.

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.

The following 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 are 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**

The following table shows the status of budgetary resources information for HUD's programs funded to support disaster relief as of September 30, 2009 (dollars in millions):

	CDBG	Tenant-Based Rental Assistance	Prevention of Resident Displacement	Total
Budgetary Resources				
Unobligated Balance, beginning of period	$ 2,000	$ -	$ 1	$ 2,001
Recoveries	-	4	-	4
Budget Authority	-	-	-	-
Spending Authority from Offsetting Collections	-	-	(1)	(1)
Permanently Not Available, Recissions	-	-	-	-
Total Budgetary Resources	**$ 2,000**	**$ 4**	**$ -**	**$ 2,004**
Status of Budgetary Resources				
Obligations Incurred	$ 1,000	$ 4	$ -	$ 1,004
Unobligated Balance, available	1,000	-	-	1,000
Unobligated Balance, not available	-	-	-	-
Total Status of Budgetary Resources	**$ 2,000**	**$ 4**	**$ -**	**$ 2,004**
Change in Obligated Balance				
Obligated Balance, net beginning of period	$ 7,115	$ 34	$ -	$ 7,149
Obligations Incurred	1,000	4	-	1,004
Gross Outlays	(2,264)	(11)	-	(2,275)
Recoveries	-	(4)	-	(4)
Obligated Balance, net end of period	**$ 5,851**	**$ 23**	**$ -**	**$ 5,874**
Net Outlays	**$ 2,264**	**$ 11**	**$ 1**	**$ 2,276**

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	$ 12,600	$ 9,148	$ 3,452
Mississippi	5,525	3,035	2,490
Texas	638	372	266
Florida	285	146	139
Total	**$ 19,048**	**$ 12,701**	**$ 6,347**

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
2010			
Direct	$ 907	$ 83,962	$ 84,869
Reimbursable	-	8,017	8,017
Total	**$ 907**	**$ 91,979**	**$ 92,886**
2009			
Direct	$ 1,863	$ 88,295	$ 90,158
Reimbursable	-	1,528	1,528
Total	**$ 1,863**	**$ 89,823**	**$ 91,686**

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 2010 data is not available for comparison to the Statement of Budgetary Resources. Actual FY 2010 data will be available in the Appendix to the Budget of the United States Government, FY 2012.

For FY 2009, 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 2009 (dollars in millions):

	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	$ 158,997	$ 91,686	$ (1,141)	$ 43,629
Difference #1 - Resources related to HUD's expired accounts not reported in the President's Budget	(494)	(22)	-	-
Difference #2 - Rounding	(22)	(10)	1	1
Difference #3 - Negative subsidy reported by GNMA as an offsetting receipt is reported as a negative outlay in the President's Budget	-	-	888	(888)
Difference #4 - FY 2009 activity not included in the President's Budget related to the General Fund receipts account	-	-	10	-
United States Budget	**$ 158,481**	**$ 91,654**	**$ (242)**	**$ 42,742**

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, 2010 and 2009 (in millions).

	2010	2009
Budgetary Resources Obligated		
Obligations Incurred	$ 92,886	$ 91,686
Spending Authority from Offsetting Collections and Recoveries	(36,908)	(36,424)
Obligations Net of Offsetting Collections	$ 55,978	$ 55,262
Offsetting Receipts	(1,718)	(1,141)
Net Obligations	$ 54,260	$ 54,121
Other Resources		
Transfers In/Out Without Reimbursement	$ 1,002	$ (1,742)
Imputed Financing from Costs Absorbed by Others	100	79
Other Resources	7	(139)
Net Other Resources Used to Finance Activities	$ 1,109	$ (1,802)
Total Resources Used to Finance Activities	$ 55,369	$ 52,319
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Change in Budgetary Resources Obligated for Goods/Services/Benefits	$ (670)	$ (11,394)
Services Ordered but Not Yet Provided	3,998	-
Credit Program Resources not Included in Net Cost (Surplus) of Operations	30,771	32,147
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	(5,299)	-
Other Changes to Net Obligated Resources Not Affecting Net Cost of Operations	(32,493)	(28,262)
Total Resources Used to Finance Items Not Part of Net Cost of Operations	$ (3,693)	$ (7,509)
Total Resources Used to Finance the Net Cost of Operations	$ 51,676	$ 44,810
Components of Net Cost of Operations Not Requiring/Generating Resources in the Current Period		
Upward/Downward Re-estimates of Credit Subsidy Expense	$ 2,289	$ 12,252
Increase in Exchange Revenue Receivable from the Public	(358)	(311)
Change in Loan Loss Reserve	(84)	(49)
Revaluation of Assets or Liabilities	(138)	-
Changes in Bad Debt Expenses Related to Credit Reform Receivables	(349)	1,431
Reduction of Credit Subsidy Expense from Guarantee Endorsements and	(3,100)	(1,084)
Other	2,559	1,608
Total Components of Net Cost of Operations Not Requiring/Generating Resources in the Current Period	$ 819	$ 13,847
Net Cost of Operations	**$ 52,495**	**$ 58,657**

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 organizations:

- Community Planning and Development (CPD),
- Public and Indian Housing (PIH),
- Policy Development and Research (PD&R), and
- 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 awarded to state and local communities, which use these funds to support a wide variety of community development activities within their jurisdiction. 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 or rehabilitation of property owned by state and local governments, 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.
- **Homeless – Supportive Housing Program (SHP)** 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.
- **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.
- **Housing Opportunities for People With HIV/AIDS (HOPWA)** provides education and employment assistance to assist families and individuals who are living with the challenges of HIV/AIDS and risks of homelessness. Resources are used to assist beneficiaries to obtain permanent housing results, as well as to address short-term and transitional housing needs.
- The **Youthbuild** program, which assists young individuals to obtain education, skills, and experience, was transferred to the Department of Labor in September 2006 but is reported here to show prior year results.
- **Emergency Shelter Grants (ESG)** provide formula funding to local units of government 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 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 and the Partnership for Advancing Technology in Housing (PATH) program, as described below.

- **Community Development Work Study:** Colleges and universities throughout the United Sates have used this program to offer financial aid and work experience to students enrolled in a full-time graduate program in community development or a closely related field such as urban planning, public policy, or public administration. This program is not currently funded, but it is reported to reflect prior year activity.
- **Partnership for Advancing Technology in Housing (PATH).** PATH is a public/private sector initiative which seeks to expand the development and utilization of new technologies in order to make American homes stronger, safer, and more durable; more energy efficient and environmentally friendly; easier to maintain and less costly to operate; and more comfortable and exciting to live in. PATH links key agencies in the federal government with leaders from the home building, product manufacturing, insurance, financial, and regulatory communities in a unique partnership focused on technological innovation in the American housing industry. This program is not currently funded, but it is reported to reflect prior year activity.

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, establishes and coordinates lead-based paint regulations and policy, and supports compliance assistance and enforcement. These programs also support technical assistance and the conduct of technical studies and demonstrations to identify innovative methods to create lead-safe housing at reduced cost. In addition, these programs are designed to increase the awareness of lead professionals, parents, building owners, housing and public health professionals, and others with respect to lead-based paint and related property-based health issues.

- **Lead Hazard Control Grants** help state and local governments and private organizations and firms control lead-based paint hazards in low-income, privately owned rental, and owner-occupied housing. The grants build program and local capacity. The grants also generate training and employment opportunities as well as 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 2006 – 2010
(Dollars in millions)

Program	2006	2007	2008	2009	2010
CPD					
CDBG	$1,170	$1,262	$1,284	$1,180	$1,083
Disaster Grants	$299	$120	$169	$144	$358
HOME	$30	$38	$54	$18	$36
SHP – Homeless	$24	$21	$17	$14	$20
NSP[1]	N/A	N/A	N/A	N/A	$10
PIH					
ICDBG	$68	$58	$56	$61	$62
NHHBG	$8	$8	$9	$10	$13
IHBG[2]	$320	$260	$266	$296	$188
HOPE VI	$72	$95	$97	$104	$114
PH Capital Fund[3]	$2,074	$2,117	$2,005	$2,310	$3,783
TOTAL	**$4,065**	**$3,979**	**$3,957**	**$4,137**	**$5,667**

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 on the next page summarizes material program investments in Human Capital, for fiscal years 2006 through 2010.

Investments in Human Capital
Fiscal Year 2006 – 2010
(Dollars in millions)

Program	2006	2007	2008	2009	2010
CPD					
CDBG	$4	$23	$32	$29	$28
SHP - Homeless	$2	$41	$18	$16	$28
HOPWA[1]	N/A	N/A	N/A	$3	$2
Youthbuild[2]	$22	$23	$19	–	–
ESG	–	–	–	–	$2
PIH					
HOPE VI	$6	$8	$8	$9	$10
NHHBG	–	–	–	–	$1
IHBG	$2	$1	$1	$1	$1
PD&R					
CDWS[3]	$3	$2	–	–	–
TOTAL	**$39**	**$98**	**$78**	**$58**	**$72**

Notes:
[1] FY 2009 was the first year of reporting HOPWA's investment in human capital in the RSSI.
[2] Youthbuild was transferred to the Department of Labor. The history is reported for the sake of consistency.
[3] 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 table on the next page 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 2006 – 2010

Program	2006	2007	2008	2009	2010
CPD					
CDBG	79,833	52,277	60,498	47,578	97,349
SHP - Homeless[1]	N/A	17.0%	22.8%	21.9%	21.6%
HOPWA[2]	N/A	N/A	N/A	6,540	4,604
Youthbuild[3]	3,929	3,103	2,987	N/A	N/A
PIH					
ICDBG[4]	N/A	N/A	N/A	15	–
NHHBG[4]	N/A	N/A	N/A	160	210
IHBG[4]	N/A	N/A	N/A	485	1,474
Hope VI (*see table below*)					
OHHLHC					
Lead Technical Assistance[5]	0	0	400	1,200	–
TOTAL	**83,762**	**55,380**	**63,885**	**55,978**	**103,637**

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 2009 was the first year of reporting HOPWA's investment in human capital in the RSSI.
[3] Youthbuild was transferred to the Department of Labor. The history is reported for the sake of consistency.
[4] Amounts for ICDBG, NHHBG, and IHBG were not reported prior to FY 2009.
[5] 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 FY 2009 and FY 2010, since the program's inception.–

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

HOPE VI Service	2009 Enrolled	2009 Completed	% Completed	2010 Enrolled	2010 Completed	% Completed
Employment Preparation, Placement, & Retention[1]	75,991	24,888	33%	78,818	26,077	33%
Job Skills Training Programs	31,079	16,490	53%	31,932	16,936	53%
High School Equivalent Education	16,453	4,760	29%	17,036	4,989	29%
Entrepreneurship Training	3,496	1,505	43%	3,528	1,534	43%
Homeownership Counseling	15,259	6,506	43%	15,727	6,752	43%

Note:
[1] Completion data are not applicable, since all who enroll are considered recipients of the training.

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 2006 – 2010
(Dollars in millions)

Program	2006	2007	2008	2009	2010
PIH					
IHBG	$1	–	–	$1	–
PD&R					
PATH[1]	$8	$5	$2	$1	–
OHHLHC					
Lead Hazard Control	$11	$5	$4	$3	$5
TOTAL	**$20**	**$10**	**$6**	**$5**	**$5**

Note:
1. *PATH data for prior years has been updated. 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. As indicated in the following table, such studies have contributed to an overall reduction in the per-housing unit cost of lead hazard evaluation and control efforts. 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 2006 – 2010

Program	2006	2007	2008	2009	2010
OHHLHC					
Lead Hazard Control	$4,926	$4,900	$5,570	$5,554	$5,901
TOTAL	**$4,926**	**$4,900**	**$5,570**	**$5,554**	**$5,901**

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
For the Period Ending 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 Balance Sheet
For the Period Ending September 2009
(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)	$ 30,130	$ 5,254	$ 11,684	$ 25,334	$ 7,575	$ 1,190	$ 12,479	$ 5,449	$ 14,547	$ 113,641
Investments (Note 5)	10,635	9,277	-	-	-	-	-	-	-	19,912
Other Assets (Note 9)	16	-	1	-	1	2	1	-	(6)	14
Total Intragovernmental Assets	40,781	14,531	11,685	25,334	7,575	1,191	12,480	5,449	14,540	133,567
Investments (Note 5)	145	-	-	-	-	-	-	-	-	145
Accounts Receivable (Note 6)	16	45	61	-	-	-	-	-	6	129
Credit Program Receivables and Related Foreclosed Property (Note 7)	4,446	-	-	-	-	-	1	3,532	77	8,058
General Property Plant and Equipment (Note 8)	-	40	-	-	-	-	-	-	195	234
Other Assets (Note 9)	128	1,059	-	-	-	-	-	-	1	1,189
TOTAL ASSETS	**$ 45,517**	**$ 15,674**	**$ 11,746**	**$ 25,334**	**$ 7,576**	**$ 1,191**	**$ 12,481**	**$ 8,982**	**$ 14,820**	**$ 143,322**
LIABILITIES										
Intragovernmental Liabilities										
Accounts Payable (Note 10)	-	-	-	3	-	-	-	-	4	7
Debt (Note 11)	4,420	-	-	-	-	-	658	-	5	5,083
Other Intragovernmental Liabilities (Note 14)	1,913	-	69	2	1	2	1	1	48	2,038
Total Intragovernmental Liabilities	6,333	-	69	5	1	2	659	1	58	7,128
Accounts Payable (Note 10)	639	58	5	20	12	164	26	3	47	974
Loan Guarantees (Note 7)	34,022	-	-	-	-	-	-	-	131	34,153
Debt Held by the Public (Note 11)	14	-	-	-	-	-	463	-	-	477
Federal Employee and Veterans' Benefits (Note 12)	-	-	6	6	2	5	1	1	47	69
Loss Reserves (Note 13)	-	560	-	-	-	-	-	-	-	560
Other Governmental Liabilities (Note 14)	416	1,020	12	8	4	8	4	7	138	1,614
TOTAL LIABILITIES	**$ 41,424**	**$ 1,638**	**$ 92**	**$ 39**	**$ 19**	**$ 178**	**$ 1,153**	**$ 11**	**$ 421**	**$ 44,975**
NET POSITION										
Unexpended Appropriations - Earmarked Funds (Note 18)	-	-	773	2,963	2,248	-	4,201	-	1,535	11,720
Unexpended Appropriations	832	-	10,881	22,333	5,308	1,013	8,176	5,428	12,232	66,203
Cumulative Results of Operations - Earmarked Funds (Note 18)	-	14,035	-	-	-	-	-	-	599	14,634
Cumulative Results of Operations	3,261	1	-	-	-	-	(1,050)	3,543	35	5,790
TOTAL NET POSITION	4,093	14,036	11,654	25,295	7,556	1,013	11,328	8,971	14,401	98,347
TOTAL LIABILITIES AND NET POSITION	**$ 45,517**	**$ 15,674**	**$ 11,746**	**$ 25,334**	**$ 7,576**	**$ 1,191**	**$ 12,481**	**$ 8,982**	**$ 14,820**	**$ 143,322**

Figures may not add to totals because of rounding.

Department of Housing and Urban Development
Consolidating Statement of Changes in Net Position
For the Period Ending 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										
Changes in Accounting Principles										
Earmarked Funds	-	-	-	-	-	-	-	-	-	-
All Other Funds	-	-	-	-	-	-	-	-	-	-
Corrections of Errors										
Earmarked Funds	-	-	-	-	-	-	-	-	-	-
All Other Funds	-	-	-	-	-	-	-	-	-	-
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	4,903
All Other Funds	981	-	26,801	6,548	1,786	4,445	4,105	1,289	6,241	52,196
Non-exchange Revenue										
Earmarked Funds	-	-	-	-	-	-	-	-	-	-
All Other Funds	-	-	-	-	-	-	-	-	-	-
Donations/Forfeitures-Cash and Cash Equivalents										
Earmarked Funds	-	-	-	-	-	-	-	-	-	-
All Other Funds	-	-	-	-	-	-	-	-	-	-
Transfers In/Out Without Reimbursement										
Earmarked Funds	-	-	-	-	-	-	-	-	9	9
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:										
Donations and Forfeitures of Property										
Earmarked Funds	-	-	-	-	-	-	-	-	-	-
All Other Funds	-	-	-	-	-	-	-	-	-	-
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
Other										
Earmarked Funds	-	-	-	-	-	-	-	-	-	-
All Other Funds	-	-	-	-	-	-	-	-	-	-
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 Period Ending September 2010
(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME (Unexpended Appropriations)	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	11,442	72,995
Net Position	**$ 7,641**	**$ 14,578**	**$ 11,589**	**$ 22,733**	**$ 6,542**	**$ 1,327**	**$ 9,119**	**$ 8,465**	**$ 13,038**	**$ 95,032**

Figures may not add to totals because of rounding.

Department of Housing and Urban Development
Consolidating Statement of Changes in Net Position
For the Period Ending September 2009
(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	$ -	$ 13,527	$ -	$ -	$ -	$ -	$ -	$ -	$ 563	$ 14,089
All Other Funds	10,347	-	-	-	-	-	(1,365)	4,954	34	13,969
Beginning Balances	10,347	13,527	-	-	-	-	(1,365)	4,954	597	28,058
Adjustments										
Changes in Accounting Principles										
Earmarked Funds	-	-	-	-	-	-	-	-	-	-
All Other Funds	-	-	-	-	-	-	-	-	-	-
Corrections of Errors										
Earmarked Funds	-	-	-	-	-	-	-	-	-	-
All Other Funds	-	-	-	-	-	-	-	-	-	-
Beginning Balances, As Adjusted										
Earmarked Funds	-	13,527	-	-	-	-	-	-	563	14,089
All Other Funds	10,347	-	-	-	-	-	(1,365)	4,954	34	13,969
Total Beginning Balances, As Adjusted	10,347	13,527	-	-	-	-	(1,365)	4,954	597	28,058
Budgetary Financing Sources										
Other Adjustments (Rescissions, etc)										
Earmarked Funds	-	-	-	-	-	-	-	-	-	-
All Other Funds	-	-	-	-	-	-	-	-	-	-
Appropriations Used										
Earmarked Funds	-	-	1,227	7	2	-	286	-	7	1,530
All Other Funds	6,929	-	23,804	6,390	1,919	4,475	3,603	1,308	4,788	53,217
Non-exchange Revenue										
Earmarked Funds	-	-	-	-	-	-	-	-	-	-
All Other Funds	-	-	-	-	-	-	-	-	-	-
Donations/Forfeitures-Cash and Cash Equivalents										
Earmarked Funds	-	-	-	-	-	-	-	-	-	-
All Other Funds	-	-	-	-	-	-	-	-	-	-
Transfers In/Out Without Reimbursement										
Earmarked Funds	-		-	-	-	-	-	-	5	5
All Other Funds	(347)	10	-	-	-	-	-	(1,713)	(15)	(2,066)
Other Budgetary Financing Sources										
Earmarked Funds	-	-	-	-	-	-	-	-	-	-
All Other Funds	-	-	227	69	35	66	105	63	(564)	-
Other Financing Sources:										
Donations and Forfeitures of Property										
Earmarked Funds	-	-	-	-	-	-	-	-	-	-
All Other Funds	-	-	-	-	-	-	-	-	-	-
Transfers In/Out Without Reimbursement										
Earmarked Funds	-	-		-	-	-	-	-	-	-
All Other Funds	(1,260)	-	-	-	-	-	-	-	(482)	(1,742)
Imputed Financing From Costs Absorbed From Others										
Earmarked Funds	-	-	-	-	-	-	-	-	-	-
All Other Funds	15	1	-	-	-	-	-	-	63	79
Other										
Earmarked Funds	-	-	-	-	-	-	-	-	-	-
All Other Funds	-	-	-	-	-	-	-	-	-	-
Total Financing Sources										
Earmarked Funds	-		1,227	7	2	-	286	-	13	1,535
All Other Funds	5,337	10	24,031	6,458	1,954	4,540	3,708	(341)	3,791	49,488
Total Financing Sources	5,337	10	25,259	6,466	1,956	4,540	3,994	(341)	3,803	51,023
Net Cost of Operations										
Earmarked Funds	-	518	(1,227)	(7)	(2)	-	(286)	-	13	(990)
All Other Funds	(12,423)	(10)	(24,031)	(6,458)	(1,954)	(4,540)	(3,392)	(1,070)	(3,789)	(57,667)
Net Change										
Earmarked Funds	-	518	-	-	-	-	-	-	27	545
All Other Funds	(7,086)	1	-	-	-	-	315	(1,411)	2	(8,179)
Total All Funds										
Earmarked Funds	-	14,035	-	-	-	-	-	-	599	14,634
All Other Funds	3,261	1	-	-	-	-	(1,050)	3,543	35	5,790
Total All Funds	**$ 3,261**	**$ 14,036**	**$ -**	**$ -**	**$ -**	**$ -**	**$ (1,050)**	**$ 3,543**	**$ 635**	**$ 20,424**

Department of Housing and Urban Development
Consolidating Statement of Changes in Net Position
For the Period Ending September 2009
(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME (Unexpended Appropriations)	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	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (376)	$ (376)
All Other Funds	411	-	8,849	24,838	5,414	1,035	8,201	5,865	12,203	66,816
Beginning Balances	411	-	8,849	24,838	5,414	1,035	8,201	5,865	11,827	66,440
Adjustments										
Changes in Accounting Principles										
Earmarked Funds	-	-	-	-	-	-	-	-	-	-
All Other Funds	-	-	-	-	-	-	-	-	-	-
Corrections of Errors										
Earmarked Funds	-	-	-	-	-	-	-	-	-	-
All Other Funds	-	-	-	-	-	-	-	-	-	-
Beginning Balances, As Adjusted										
Earmarked Funds	-	-	-	-	-	-	-	-	(376)	(376)
All Other Funds	411	-	8,849	24,838	5,414	1,035	8,201	5,865	12,203	66,816
Total Beginning Balances, As Adjusted	411	-	8,849	24,838	5,414	1,035	8,201	5,865	11,827	66,440
Budgetary Financing Sources										
Appropriations Received										
Earmarked Funds	-	-	-	3,000	2,250	-	4,510	-	3,866	13,626
All Other Funds	7,554	-	26,605	3,900	1,825	4,455	3,593	1,015	4,916	53,863
Appropriations Transfers In/Out										
Earmarked Funds	-	-	2,000	(30)	-	-	(23)	-	(1,947)	-
All Other Funds	(145)	-	(18)	(3)	(4)	-	(15)	(3)	102	(86)
Other Adjustments (Rescissions, etc)										
Earmarked Funds	-	-	-	-	-	-	-	-	-	-
All Other Funds	(58)	-	(751)	(12)	(7)	(3)	-	(141)	(201)	(1,174)
Appropriations Used										
Earmarked Funds	-	-	(1,227)	(7)	(2)	-	(286)	-	(7)	(1,530)
All Other Funds	(6,929)	-	(23,804)	(6,390)	(1,919)	(4,474)	(3,603)	(1,308)	(4,788)	(53,216)
Other Financing Sources:										
Total Financing Sources										
Earmarked Funds	-	-	773	2,963	2,248	-	4,201	-	1,911	12,096
All Other Funds	422	-	2,031	(2,505)	(105)	(22)	(25)	(437)	29	(613)
Total Financing Sources	422	-	2,804	457	2,143	(22)	4,177	(437)	1,939	11,483
Net Change										
Earmarked Funds	-	-	773	2,963	2,248	-	4,201	-	1,535	11,720
All Other Funds	832	-	10,881	22,333	5,308	1,013	8,176	5,428	12,232	66,203
Total Unexpended Appropriations	**$ 832**	**$ -**	**$ 11,654**	**$ 25,295**	**$ 7,556**	**$ 1,013**	**$ 12,378**	**$ 5,428**	**$ 13,767**	**$ 77,923**
Total All Funds										
Earmarked Funds	-	14,035	773	2,963	2,248	-	4,201	-	2,134	26,354
All Other Funds	4,093	2	10,881	22,333	5,308	1,013	7,127	8,971	12,266	71,993
Net Position	**$ 4,093**	**$ 14,036**	**$ 11,654**	**$ 25,295**	**$ 7,556**	**$ 1,013**	**$ 11,328**	**$ 8,971**	**$ 14,400**	**$ 98,347**

Figures may not add to totals because of rounding.

Department of Housing and Urban Development
Combining Statement of Budgetary Resources
For the Period Ending 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
Contract Authority	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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
Anticipated for Rest of Year w/o Advance	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Previously Unavailable	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Expenditure Transfers from Trust Funds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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	-	-	-	-	-
Temporarily Not Available Per PL	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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
Exempt from Apportionment	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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)
Obligated Balance Transferred, Net	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Actual Transfers, Unpaid Obligations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Actual Transfers, Uncollected Customer Payments from Federal Sources	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Unpaid Obligated Balance Transferred, Net	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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.

Department of Housing and Urban Development
Combining Statement of Budgetary Resources
For the Period Ending September 2009
(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	$ 19,547	$ 13,973	$ 615	$ 9,215	$ 379	$ 2	$ 239	$ 2,102	$ 7,306	$ 53,378	$ 8,148	$ 152	$ 8,300	$ 61,678
Recoveries of Prior Year Unpaid Obligations	26	-	346	8	11	1	31	99	489	1,010	10	-	10	1,020
Budget Authority														
Appropriation	7,554	-	26,605	6,900	4,075	4,455	8,103	1,015	8,785	67,492	-	-	-	67,492
Borrowing Authority	-	-	-	-	-	-	1	-	3	4	470	5	475	479
Contract Authority	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Spending Authority from Offsetting Collections														
Earned														
Collected	2,363	1,889	-	-	-	-	106	749	64	5,171	31,233	34	31,266	36,438
Change in Receivable from Fed Sources	(152)	9	-	-	-	-	-	-	-	(144)	1	-	1	(144)
Change in Unfilled Customer Orders														
Advanced Received		-	-	-	-	-	-	-	(11)	(11)	-	-	-	(11)
W/O Advance from Federal Sources	-	-	-	-	-	-	-	-	5	5	1	3	3	8
Anticipated for Rest of Year w/o Advance	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Previously Unavailable		-	-	-	-	-	-	-	-	-	-	-	-	-
Expenditure Transfers from Trust Funds		-	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal	9,765	1,898	26,605	6,900	4,075	4,455	8,210	1,764	8,845	72,517	31,705	42	31,745	104,263
Non Expenditure Transfers, Net	(58)	(1)	1,982	(33)	(4)	-	(37)	(3)	(1,845)	-	-	-	-	-
Temporarily Not Available Per PL	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Permanently not available	(364)	-	(3,284)	(12)	(7)	(2)	(609)	(1,854)	(949)	(7,080)	(883)	-	(883)	(7,963)
Total Budgetary Resources	**$ 28,916**	**$ 15,870**	**$ 26,265**	**$ 16,077**	**$ 4,454**	**$ 4,456**	**$ 7,834**	**$ 2,108**	**$ 13,845**	**$ 119,825**	**$ 38,979**	**$ 194**	**$ 39,172**	**$ 158,998**
Status of Budgetary Resources:														
Obligations Incurred														
Direct	17,515	8	25,684	8,092	4,161	4,451	7,537	1,090	9,414	77,953	12,180	25	12,205	90,158
Reimbursable		1,528	-	-	-	-	-	-	-	1,528	-	-	-	1,528
Subtotal	17,515	1,536	25,684	8,092	4,161	4,451	7,537	1,090	9,414	79,481	12,180	25	12,205	91,686
Unobligated Balances														
Apportioned	575	1	427	7,970	288	4	264	916	3,044	13,490	5,875	9	5,884	19,374
Exempt from Apportionment		-	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal	575	1	427	7,970	288	4	264	916	3,044	13,490	5,875	9	5,884	19,374
Unobligated Balances Not Available	10,826	14,332	154	15	5	1	33	101	1,387	26,854	20,924	159	21,083	47,937
Total Status of Budgetary Resources	**$ 28,916**	**$ 15,870**	**$ 26,265**	**$ 16,077**	**$ 4,454**	**$ 4,456**	**$ 7,834**	**$ 2,108**	**$ 13,845**	**$ 119,825**	**$ 38,979**	**$ 194**	**$ 39,172**	**$ 158,998**
Change in Obligated Balance														
Obligated Balance, Net														
Unpaid Obligations, Brought Forward	863	131	11,663	15,671	5,047	1,184	8,638	4,759	9,165	57,120	1,595	-	1,595	58,716
Less: Uncollected Customer Payments from Federal Sources	(238)	(37)	-	-	-	-	-	-	(5)	(279)	(2)	(16)	(18)	(297)
Total Unpaid Obligated Balance, Net	626	95	11,663	15,671	5,047	1,184	8,638	4,759	9,160	56,841	1,593	(16)	1,577	58,418
Obligations Incurred, Net	17,515	1,536	25,684	8,092	4,161	4,451	7,537	1,090	9,414	79,481	12,180	25	12,205	91,686
Less: Gross Outlays	(17,512)	(1,492)	(25,035)	(6,407)	(1,915)	(4,449)	(3,895)	(1,318)	(4,818)	(66,841)	(12,302)	(25)	(12,326)	(79,168)
Obligated Balance Transferred, Net		-	-	-	-	-	-	-	-	-	-	-	-	-
Actual Transfers, Unpaid Obligations		-	-	-	-	-	-	-	-	-	-	-	-	-
Actual Transfers, Uncollected Customer Payments from Federal Sources		-	-	-	-	-	-	-	-	-	-	-	-	-
Total Unpaid Obligated Balance Transferred, Net	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(26)	-	(346)	(8)	(11)	(1)	(31)	(99)	(489)	(1,010)	(10)	-	(10)	(1,020)
Change in Uncollected Customer Payments from Federal Sources	152	(9)	-	-	-	-	-	-	(5)	139	(1)	(3)	(5)	134
Obligated Balance, Net - End of Period														
Unpaid Obligations	840	176	11,965	17,348	7,282	1,185	12,250	4,432	13,272	68,751	1,464	-	1,464	70,214
Less: Uncollected Customer Payments from Federal Sources	(85)	(46)	-	-	-	-	-	-	(9)	(141)	(4)	(19)	(23)	(163)
Total Obligated Balance, Net - End of Period	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
Net Outlays														
Gross Outlays	17,512	1,492	25,035	6,407	1,915	4,449	3,895	1,318	4,818	66,841	12,302	25	12,326	79,167
Less: Offsetting Collections	(2,363)	(1,001)	-	-	-	-	(106)	(749)	(53)	(4,272)	(31,233)	(34)	(31,266)	(35,538)
Less: Distributed Offsetting Receipts	(183)	(888)	(16)	-	-	-	-	-	(54)	(1,141)	-	-	-	(1,141)
Net Outlays	**$ 14,966**	**$ (397)**	**$ 25,018**	**$ 6,407**	**$ 1,915**	**$ 4,449**	**$ 3,789**	**$ 569**	**$ 4,711**	**$ 61,428**	**$ (18,931)**	**$ (9)**	**$ (18,940)**	**$ 42,488**

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 (CFO) Act of 1990, the Department has prepared the accompanying consolidated balance sheets of the Department of Housing and Urban Development (HUD) as of September 30, 2010 and 2009 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 2010 and 2009 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, 2010 and 2009, whose statements reflected total assets constituting 47 and 43 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 2010 and 2009 financial statements, insofar as it relates to the amounts included for FHA and Ginnie Mae as of September 30, 2010 and 2009, 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, government-wide policy requirements, as well as 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 HUD-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 titled: Additional Details to Supplement Our Report on HUD's Fiscal Years 2010 and 2009 Financial Statements (2011-FO-0003, dated November 15, 2010).

Opinion on the Fiscal Years 2010 and 2009 Financial Statements

In our opinion, based on our audit and the reports of other auditors, for the accompanying fiscal years 2010 and 2009, the principal financial statements and the accompanying notes present fairly, in all material respects, the assets, liabilities, and net position of HUD as of September 30, 2010 and 2009 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.

As reported by FHA's auditor, the FHA Single Family Insurance Program is reported under the Federal Credit Reform Act of 1990. The act's objective is to estimate the program interest subsidy costs on a present value basis and to recognize the current budgetary impact during the life of the long-term mortgage assets rather than upon the actual future termination or default of the loans. The Loan Guarantee Liability (LGL) is a management estimate of the net present value of future claims, net of premiums and recoveries, from loans insured as of the end of the fiscal year. This estimate is developed using econometric models, which integrate historical data with national house price forecasts to develop assumptions about future portfolio performance. Endorsements in the last two years make up approximately two-thirds of FHA's insured single family mortgage loans in the Mutual Mortgage Insurance (MMI) Fund. These recent loans have very limited claims experience to support management's assumptions regarding their future performance. Because of this limited experience and the impact of the current economy on the housing market, the reliability of the LGL estimate for single family mortgages may be significantly affected. Due to the current economic conditions, this estimate is extremely sensitive to changes in both house price and delinquency or claims forecasts.

The MMI Fund includes a Capital Reserve account from which increases in funding to cover accrued claim losses are drawn. FHA's auditor also reported that as of September 30, 2010 FHA had $3.4 billion available compared to $2.6 billion in the Capital Reserve account at the end of fiscal 2009 to cover further increases in the MMI Fund's LGL. Both amounts were considerably below the statutorily required two percent of net amortized assets. The Credit Reform Act of 1990 provides for permanent, indefinite budget authority should future increases in the LGL exceed funds available in the Capital Reserve account. Additionally, as reported by the Ginnie Mae auditor, Ginnie Mae recognized in its books for the first time the fair value of the mortgage servicing rights valued at $138 million as of September 30, 2010. This asset recognition, resulted from the acquisition of $27.5 billion in mortgage servicing portfolio from two large defaulted Ginnie Mae issuers in fiscal year 2010, deviates from Ginnie Mae's usual practice since it was not feasible to resell the defaulted issuers' servicing portfolio quickly this year as it did in previous years.

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 Improvement Act of 1996 (FFMIA);
- Improve the processes for reviewing obligation balances;
- Continue improvements in the oversight and monitoring of subsidy calculations, intermediaries' program performance, and Utilization of Housing Choice Voucher 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 the Department's critical financial systems;
- Effectively monitor FHA modernization efforts and existing systems to mitigate near term financial reporting risks; and
- Mitigate increased risks to FHA management's LGL credit reform estimates caused by economic conditions and inherent model design.

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 non-compliance with applicable laws and regulations, government-wide 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 regarding system requirements;
- HUD did not substantially comply with the Anti-Deficiency Act;
- HUD did not substantially comply with Laws and Regulations Governing Claims of the United States Government; and
- FHA's Mutual Mortgage Insurance fund capitalization was not maintained at a minimum capital ratio of two percent, which is required under the Cranston-Gonzalez National Affordable Housing Act of 1990

The audit also identified $341 million in excess obligations recorded in HUD's records. We are also recommending that $27.5 million not be expended as originally intended and reprogrammed by the grantee. Lastly, we are recommending that HUD seek legislative authority to implement $385 million in offsets against public housing agencies' (PHA) excess unusable funding held in Net Restricted Assets Accounts at the PHAs. These amounts represent funds that HUD could put to better use.

Consolidating Financial Information

We conducted our audit for the purpose of forming an opinion on the consolidated principal financial statements taken as a whole. HUD has presented consolidating balance sheets and related consolidating statements of changes in net position, and combining statements of budgetary resources as supplementary information in its *Fiscal Year 2010 Agency Financial Report*. The consolidating and combining financial information is presented for purposes of additional analysis of the financial statements rather than to present the financial position, changes in net position, and budgetary resources of HUD's major activities. The consolidating and combining financial information is not a required part of the principal financial statements. The fiscal year 2010 and 2009 financial information has been subjected to the auditing procedures applied to the principal financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Required Supplementary Information

In its *Fiscal Year* 2010 *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". 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.

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 Needs to have Financial Management Systems Comply with the Federal Financial Management Improvement Act of 1996 (FFMIA). In fiscal year 2010, a review of the Office of Community Planning and Development's (CPD) formula grants found that the information system was not in compliance with federal financial management systems requirements and U.S. Generally Accepted Accounting Principles, as a result of weaknesses in its internal controls over financial reporting. Additionally, as reported in prior years, HUD has not completed development of an adequate integrated financial management system. HUD is required to implement a unified set of financial systems and the financial portions of mixed systems. This encompasses the software, hardware, personnel, processes (manual and automated), procedures, controls, and data necessary to carry out financial management functions, manage financial operations of the agency, and report on the agency's financial status to central agencies, Congress, and the public. As currently configured, HUD financial management systems do not meet the test of being unified, meaning that the systems are not planned for and managed together, operated in an integrated fashion, and linked electronically to efficiently and effectively provide agency-wide financial system support necessary to carry out the agency's mission and support the agency's financial management needs.

HUD Needs to Improve Processes for Reviewing Obligation Balances. Our review found that the HUD did not establish, enforce or evaluate the effectiveness of the control procedures over the review process. Our review of the fiscal year 2010 year-end obligation balances showed that timely reviews and recaptures of unexpended obligations for Section 8 project-based, Sections 202 and 811 supportive housing programs, and administrative and other program obligations were not being performed. As a result, $69.2 million in excess funds had not been recaptured. In addition, we identified $36.4 million in unliquidated obligations that were not subjected to a review process, 434 Low Rent Development grants that have not been closed out amounting to $174 million of invalid obligations, and an additional $1.62 billion in program obligations under CPD that were not properly reviewed.

HUD Management Must Continue to Improve Oversight and Monitoring of Subsidy Calculations, Intermediaries' Program Performance, and Utilization of Housing Choice Voucher 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 intermediaries are correctly calculating housing subsidies and (2) verify tenant income and billings for subsidies. During the past several years HUD's increased and improved monitoring has resulted in a significant decline in improper payment estimates. However, HUD needs to continue to place emphasis on its on-site 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.

In our fiscal year 2010 review of the Housing Choice Voucher program, we noted that Public Housing Agencies (PHAs) have accumulated $1.04 billion in funds in the Net Restricted Asset (NRA) Account. We are recommending that HUD seek legislative authority to implement $385 million in offsets against PHA's excess funding held in the NRAs.

CPD Needs to Establish Internal Controls Over Grantees' Compliance with Program Requirements. In fiscal year 2010 we focused our review on the CPD timely monitoring reviews of its grantee and subgrantees. Our review indicated that there were a number of areas that need enhanced internal controls and improved documentation of management efforts.

HOME Program funds totaling $20.8 million are not being expended timely due to poor performing Community Housing Development Organizations (CHDO) and subgrantees.

HUD needs to continue to improve its efforts to review the status of each of its Homeless Assistance contracts on a regular basis, which would have identified excess funds that could be deobligated, recaptured and included in the next competition announcement. As a result, we recommend that Field Offices review the status of the identified contracts and recapture up to the $97.8 million in undisbursed obligations for contracts that expired on or before June 30, 2010.

HUD Needs to Improve Administrative Control of Funds. Program offices, in conjunction with the Chief Financial Officer, need to improve accounting and administrative controls of funds to ensure funds control plans are complete, accurate, updated and followed. During our review, we noted funds control plans were not updated to reflect changes in accounting procedures, allotment holders, or funds control officers and requirements were not always followed to support obligations and disbursements of funds.

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 the Department's computer systems on which HUD's 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 Continue to Pose Risks of Unauthorized Access to the Department's Critical Financial Systems. For several years, HUD's personnel security practices over access to critical and sensitive systems have been inadequate and, therefore, the risk of unauthorized access to HUD's financial systems remains a critical issue. OIG followed up on previously reported information technology personnel security weaknesses and found that deficiencies still exist. HUD cannot be assured that all users who have access to HUD critical and sensitive systems have had the appropriate background investigation.

Effective FHA Modernization is Necessary to Address Systems Risks. As reported last year, FHA continues to make progress improving its overall financial system control environment. Given the state of the current systems, FHA's financial systems will continue to require expensive maintenance and monitoring and are likely to pose increasing risks to the reliability of FHA's financial reporting until the modernization efforts are completed. In fiscal year 2010, FHA initiated a multi-year systems modernization effort that will replace a number of critical FHA business systems. Overall project plans have been developed but those plans will require additional details and should define a fully-functioning governance structure for the overall project going forward. The implementation plan will also need to ensure that the current systems are replaced within a timeframe that does not put FHA's financial operations at further risk.

Economic Conditions and Inherent Model Design Increases Risks to Management Estimates. FHA has not performed a comprehensive analysis of the risk of redefault on mitigated loans and the delinquency transition model does not identify a specific redefault risk. In addition, FHA has not analyzed the impact of recent loss mitigation efforts on its overall future claim projections. A quantum change in the mortgage market has occurred and it potentially affects the predictiveness of the default transition, claim payment, and prepayment models for fiscal years 2011 and 2012. Management's documentation of their review of the actuarial report did not include an analysis or explanation of counterintuitive model results. The design of the current model does not provide an effective way to communicate risks and the precision of the model estimates. The FHA financial statements may not effectively present the relative risks in management's estimates in this challenging economic environment.

Compliance with Laws and Regulations

HUD Did Not Substantially Comply with the Federal Financial Management Improvement Act. In its *Fiscal Year 2010 Agency Financial Report*, HUD reports that 3 of its 42 financial management systems do not comply with the requirements of the Federal Financial Management Improvement Act and OMB Circular A-127, *Financial Management Systems*. Even though 39 individual systems have been certified as compliant with federal financial management systems requirements, collectively and in the aggregate, deficiencies still exist.

We continue to report as significant deficiencies that (1) *Controls over HUD's Computing Environment Can Be Further Strengthened and (2) Weak Personnel Security Practices Continue 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, and unauthorized use or misappropriation.

Also, OIG audit reports have disclosed that security over financial information was not provided in accordance with OMB Circular A-130

Management of Federal Information Resources, Appendix III and the Federal Information Security Management Act.

HUD Did Not Substantially Comply with the Anti-Deficiency Act. Our review determined there are six potential Anti-Deficiency Act violations that have not been reported to the President through OMB, Congress, or GAO, as required by the U.S. Code, Title 31 Section 1351.1517 (b) (Anti-deficiency Act). In addition, one potential Anti-Deficiency Act violation has been under review for two years without a final determination as to whether or not a violation has occurred. Lastly, our review found that HUD potentially violated the Anti-Deficiency Act when HUD officials committed the Department to a financial obligation through an Interagency Agreement with the United States Bureau of the Census without fully funding the contracted obligation at the time the agreement was executed.

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 Title 31 of the Code of Federal Regulations, Section 901, Standards for the Administration of Claims. HUD did not aggressively collect all debts arising out of activities performed by the agency. These activities include notifying debtors of a delinquency and performing timely follow-up activities. Our review of the Section 202 loan portfolio determined that these activities were not being substantially and promptly performed as required by HUD Handbook 1900.25 REV-3 and 31 CFR 901. Eight of 14 delinquent loans (57 percent) reviewed indicated that follow-up and collection activities to cure the delinquency had not occurred prior to our review. These eight loans had delinquent payments that had aged between 117 days and 6 years. Additionally, the delinquent status of debt due to the Department was not reported 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 Does Not Comply with Cranston-Gonzalez National Affordable Housing Act (NAHA) of 1990. NAHA requires FHA's Mutual Mortgage Insurance Fund to maintain a minimum capital ratio of two 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 two percent based on September 30, 2010 balances.

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 2010 and 2009 financial statements. Their report on FHA's financial statements, dated November 5, 2010[2] includes an unqualified opinion on FHA's financial statements, along with discussion of two significant deficiencies in internal controls and one instance of non-compliance with laws and regulations.

Results of the Audit of Ginnie Mae's Financial Statements

The independent certified public accounting firm of Carmichael, Brasher, Tuvell and Company performed a separate audit of the Ginnie Mae's fiscal years 2010 and 2009 financial statements. Carmichael, Brasher, Tuvell and Company's report on Ginnie Mae's financial statements, dated November 5, 2010,[3] includes an unqualified opinion on these financial statements.

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 have been placed in 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 conducted our audit in accordance with *Government Auditing Standards*, and the requirements of OMB Bulletin 07-04, as amended. These

[2] Clifton Gunderson, LLP's report on FHA, Audit of Federal Housing Administration Financial Statements for Fiscal Years 2010 and 2009 (2011-FO-0002, dated November 5, 2010) was incorporated into this report.

[3] Carmichael, Brasher, Tuvell and Company's report on Ginnie Mae, Audit of Government National Mortgage Association Financial Statements for Fiscal Years 2010 and 2009 (2011-FO-0001, dated November 5, 2010) was incorporated into this report.

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, government-wide 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, government-wide policies, and provisions of contract and grant agreements were not designed to and did not provide sufficient evidence 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, government-wide policies, and provisions of contract and grant agreements. Accordingly, we do not express an opinion on HUD's internal controls or on its compliance with laws, regulations, government-wide 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 2010 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 230.5 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* and OMB Bulletin 07-04 *Audit Requirements for Federal Financial Statements, as amended.* 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 November 1, 2010, we provided a draft of the internal control and compliance sections of our report to the CFO and appropriate assistant secretaries and other Departmental officials and requested that the CFO coordinate a Department-wide response. The CFO responded in a memorandum dated November 12, 2010, which is included in its entirety in our separate report. 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, the Government Accountability Office, and the U.S. Congress, and is not intended to be, and should not be, used by anyone other than these specified parties. 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."

James A. Heist
Assistant Inspector General for Audit

November 15, 2010

Secretary's Audit Resolution Report to Congress

This information on the Department of Housing and Urban Development's audit resolution and follow-up covers the period October 1, 2009, through September 30, 2010. 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 and recommendations of funds that could be put to better use for FY 2010.

Audit Resolution Highlights

Overall the Department achieved 1,030 approved management decisions and successfully implemented 1,083 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, 2010. This inventory was successfully addressed, and the Department resolved 109 recommendations in this category, which was a reduction of 75 percent.

Summary of Management Decisions on Audit Recommendations

Opening Inventory Requiring Decisions	485[1]
New Audit Recommendations Requiring Decisions	891
Management Decisions Already Made	(1,030)
Audit Recommendations Still Requiring Decisions	346
Recommendations Beyond Statutory Resolution Period	6[2]

[1]The opening inventory was decreased from 486 to 485 due to a duplicate entry that was corrected.
[2]This reporting period ended with 346 recommendations without management decisions. Of these, 6 recommendations (2 audits) are over 6 months old.

Summary of Recommendations with Management Decision and No Final Action

Opening Inventory – Final Actions Pending	1,248
Management Decisions Made During Report Period	1,030
Sub-Total Final Actions Pending	2,278
Final Action Taken	(1,083)[1]
Audit Recommendations Reopened During Period (Without Final Actions)	0
Total Audit Recommendations Still Requiring Final Actions	1,195[2]

[1]Final Action was taken on a total of 1083 recommendations (273 audits of which 178 had final actions taken, thus closing the audits). The number of recommendations where a management decision and final action were concurrent was 161 in 73 audits.

[2]The Department had 99 audit reports with 188 recommendations under a current repayment agreement. These recommendations are considered open and count in the audit inventory until final repayment is made.

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.	271	$ 640,056,161[1]
B. Audit Reports on which management decisions were made during the period.	85	$ 165,121,536
C. Total audit reports pending final action during period (total of A and B)	356	$ 805,177,697
D. Audit Reports on which final action was taken during the period		
1. Recoveries	90[2]	$ 81,218,968
(a) Collections and offsets	81	$ 67,257,555
(b) Property	1	$ 915,487
(c) Other	22	$ 13,045,926
2. Write-offs	63	$ 157,263,290
3. Total of 1 and 2	111[3]	$ 238,482,258
E. Audit Reports needing final action at the end of the period (subtract D3 from C)	245[4]	$ 566,695,439
F. Open Recommendations (with disallowed costs):	(501)[5]	$(444,540,903)

[1]The opening balance was increased due to retroactive adjustments.
[2]Audit Reports are duplicated in D.1.(a), D.1.(b) and D.1.(c);thus the total is reduced by 14.
[3]Audit Reports are duplicated in both D.1 and D.2; thus the total is reduced by 42.
[4]Litigation, legislation, or investigation is pending for 26 audit reports with costs totaling $68,910,846.
[5]The figures in brackets represent data at the recommendation level as compared to the report level.

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.

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.	181	$ 3,689,967,620
B. Audit Reports on which management decisions were made during the period.	66	$ 888,640,319
C. Total audit reports pending final action during period (total of A and B)	247	$ 4,578,607,939
D. Audit Reports on which final action was taken during the period		
1. Value of Audit Reports implemented (completed)	73	$ 1,590,975,732
2. Value of Audit Reports that management concluded should not or could not be implemented	23	$ 45,558,134
3. Total of 1 and 2	84[1]	$ 1,636,533,866
E. Audit Reports needing final action at the end of the period (subtract D3 from C)	163[2]	$ 2,942,074,073
F. Open recommendations (with funds put to better use)	(104)[3]	$ (575,747,789)

[1] Audit Reports are duplicated in both D.1 and D.2; thus the total is reduced by 12.
[2] Litigation, legislation, or investigation is pending for 19 audit reports with costs totaling $41,715,615.
[3] The figures in brackets represent data at the recommendation level as compared to the report level.

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 funds put to better use in the report are reported as open until all recommendations in a report are closed.

Delinquent Debt Collection

FY 2010 *	Total Debt *(millions)*	Delinquent Debt *(millions)*	Delinquent Debt Collections *(millions)*
	$11,333	$715	$1,274

**The above totals reflect FY 2010 data from the Third Quarter Treasury Report on Receivables Due from the Public (Fourth Quarter data was not available in time for incorporation into this report). The vast majority of these totals are comprised of debts from Housing programs, and less than one percent of delinquent debt originates from all other HUD programs. The Housing Financial Operations Center in Albany, New York, administers delinquent, eligible debts that HUD refers to the Department of the Treasury, Financial Management Service (FMS).*

HUD's Financial Operations Center (Center) continues to maximize collections on delinquent FHA debts using all available collection tools, and to maintain systems and processes that assure full compliance with the Debt Collection Improvement Act of 1996 (DCIA).

During FY 2010, the Center submitted $32.5 million of new delinquent debts to the Treasury Offset Program (TOP). At the end of FY 2010, a total of 12,312 debtors, representing $157.7 million in debt owed, were eligible for offset. Offset collections for HUD debts during FY 2010 totaled $9.5 million. Also during FY 2010, $22 million of new delinquent debts were referred to Treasury's FMS, Debt Management Services for cross-servicing. At the end of FY 2010, a total of 3,904 HUD debts amounting to $70.4 million were at cross-servicing.

During 2010, the Center mailed 6,934 "Notices of Intent" (NOI) letters to delinquent debtors to advise them that their debts were past due. These notices provide debtors with the right to establish repayment plans or appeal the enforceability of debts through the HUD Office of Appeals, or for federal employees, through an Administrative Law Judge. Debtors who fail to make payment arrangements or exercise their appeal rights are referred to FMS and are subjected to various collection actions.

A total of 4,747 NOI letters were sent to aged account debtors informing them of Treasury's new policy which stipulates that there is no longer a statute of limitations for TOP. This action resulted in a significant volume of debtor inquiries, complaints, and appeals that were addressed by HUD promptly and successfully.

The Center continues to efficiently handle accounts where the debtor has filed bankruptcy by using the U.S. Court's Public Access to Court Electronic Records system. This system offers inexpensive, fast, and comprehensive bankruptcy case information on active and recently closed cases.

HUD has used administrative wage garnishment (AWG) via the cross-servicing program since 2002. During FY 2010, FMS reported $1.7 million in AWG collections for HUD debt with 439 active garnishment orders in place at the end of the fiscal year. The Albany Center collected an additional $2 million via its direct administrative wage garnishment program.

Additional HUD debt collection initiatives during FY 2010 included: (1) a draft update to HUD's claims collection regulations, issuance of IRS Form 1099-C to 3,206 debtors to report the termination of collection action on debts totaling $45.3 million; (2) continued use of the Electronic On-line Solutions for Complete and Accurate Reporting System to respond to 942 consumer disputes that were filed with credit bureaus regarding HUD's credit reporting of delinquent debts; and (3) a response within three days to all 136 requests for documents or information from FMS to support their cross-servicing efforts.

Other Accompanying Information

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

October 15, 2010

MEMORANDUM FOR: Shaun Donovan, Secretary, S

Michael P Stephens

FROM: Michael P. Stephens, Acting Inspector General, G

SUBJECT: Management and Performance Challenges

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 or the Department) in fiscal year 2011. 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 numerous 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 (Ginnie Mae) 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. Currently, 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 of 2009 (Recovery Act) increased the oversight responsibilities for the Department for the next 2 years. 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 mortgage industry where the market share of FHA-insured mortgages has increased dramatically from 1.9 percent in 2006 to 30 percent in 2010. The attachment discusses these and other challenges facing HUD.

Attachment

The complete Office of Inspector General memorandum is located online at http://www.hud.gov/offices/cfo/reports/pdfs/2010mpc.pdf, and is extracted and segmented on the following pages, along with additional management updates on progress addressing each challenge

Office of Inspector General's Management and Performance Challenges

HUD Management's Perspective

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. Following each of the OIG's narrative of the challenges (displayed in shading), management has provided updates concerning the Departmental progress in addressing each challenge.

Challenge: Single-family programs

FHA's single-family mortgage insurance programs enable millions of first-time borrowers and minority, low-income, elderly, and other underserved households to realize the benefits of home ownership. HUD manages a growing portfolio of more than $873 billion 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 decided to raise the annual premium and lower 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 will use is traditionally considered subprime territory in the conventional marketplace. HUD also moved to strengthen its lender population by increasing its net worth requirements (minimum of $l million). Further, after December 31, 2010, loan correspondents (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.

By law, HUD has to pay the claim on a defaulted FHA-insured mortgage but can go back to the lender and 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 current year, 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 that resulted 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 Department of the Treasury announced enhancements to the existing Making Home Affordable Program, a refinance program that provides homeowners that owe more on their mortgage than the value of their home opportunities to refinance into an affordable FHA loan. Further, recent legislation provided 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/underemployed. The assistance will be worked 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. Setting up and monitoring this program in the time Congress has allotted will be a challenge.

We remain concerned that increases in demand to the FHA program are having collateral implications for the integrity of the Ginnie Mae mortgage-backed securities program including the potential for increases in fraud in that program. HUD needs to consider the downstream risks to investors and financial institutions eventual securitization of a large proportion of FHA's insured mortgages. Ginnie Mae securities are the only mortgage-backed securities 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 investors, Ginnie Mae is required to assume responsibility for it. Typically, Ginnie Mae defaults the issuers and assumes control of the issuers' mortgage-backed security pools. Like FHA, Ginnie Mae has seen an augmentation in its market share (it has even in some recent months surpassed both Fannie Mae and Freddie Mac) and guaranteed $412 billion in outstanding mortgage-backed securities during fiscal year 2010 and now has $1 trillion in outstanding mortgage-backed securities.

The Department's Progress

Single Family Programs

FHA shares OIG's concerns regarding the prudent management of its expanded insurance portfolio and is working to ensure that, as it continues to play a vital role in a volatile economy, it does so in a responsible fashion. As a result, FHA is acting to reduce risks and losses to the Mutual Mortgage Insurance (MMI) fund throughout the life cycle of the FHA lending process.

In establishing revised credit score requirements for FHA loans, HUD endeavored to balance the need to protect the MMI capital reserve account, while at the same time preserving the historical role of FHA in providing home financing vehicles during periods of economic volatility. The credit score thresholds established by HUD were selected after a careful analysis of FHA mortgage performance data. HUD believes that the newly implemented credit score requirements achieve the appropriate balance necessary to permit FHA to continue providing access to homeownership opportunities while effectively managing risk to its insurance funds.

FHA has taken a number of other measures to reduce or eliminate risks to its insurance funds as well. As part of HUD's proposed rule issued July 15, 2010, HUD intends to strengthen its credit policy by reducing the allowable seller concessions permitted in an FHA transaction from six to three percent. Allowing sellers to contribute up to six percent of a home's sales price to offset a buyer's costs exposes the FHA to excess risk by potentially driving up the cost of the home beyond its appraised value. Reducing seller concessions to three percent will bring FHA into conformity with industry standards. Additionally, HUD intends to tighten underwriting standards for manually underwritten loans. These transactions have resulted in high mortgage insurance claim rates and present an unacceptable risk of loss. Together, these two measures will significantly reduce inappropriate risks and unnecessary losses connected with the origination of loans submitted for FHA insurance.

HUD also issued a proposed rule on October 8, 2010, to strengthen FHA's lender indemnification and insurance process. For those lenders with special authority to insure mortgage loans on FHA's behalf, HUD seeks to force indemnification for 'serious and material' violations of FHA origination requirements such that the mortgage never should have been endorsed by the mortgagee in the first place. Specifically, these lenders may be required to indemnify HUD if they failed to: (1) verify and analyze the creditworthiness, income, and/or employment of the borrower; (2) verify the source of assets brought by the borrower for payment of the required down payment and/or closing costs; (3) address property deficiencies identified in the appraisal affecting the health and safety of the occupants or the structural integrity of the property; or (4) ensure that the property appraisal satisfies FHA appraisal requirements. HUD may seek indemnification irrespective of whether the violation caused the mortgage default. The proposed rule will also require those mortgagees with delegated lender insurance authority to continually maintain an acceptable claim and default rate, both to gain this special lender status as well as to preserve it. HUD proposes that all new unconditional direct endorsement lenders who have the authority to self-insure mortgages must demonstrate a default and claim rate at or below 150 percent for the previous two years. These measures will ensure that lenders granted special authority to insure loans on FHA's behalf perform appropriately, and if they do not, will grant FHA the requisite authority to recover losses.

Along with these policy enhancements, FHA has begun the implementation of system changes which will facilitate lender and loan risk management. Under the FHA Transformation Initiative, FHA has begun a multi-year effort to modernize the technology infrastructure and applications for the origination and underwriting of FHA loans, the approval and recertification of FHA's lender partners, and the monitoring of those business partners. Under the FHA Risk and Fraud

Initiative, FHA has initiated contracts to enable more effective mitigation of credit risk and mortgage fraud utilizing cutting-edge analytical methodologies and IT solutions. These tools will help FHA to identify lender and loan-level weaknesses and respond faster to conditions affecting FHA's programs and insurance portfolio.

These improvements to FHA's policies and processes are components of a comprehensive effort by FHA to identify and eliminate potential areas of risk in its operations. FHA is confident that its work to improve its counterparty risk management capabilities and enhance its program requirements will significantly improve the performance of the FHA portfolio, and will permit the restoration of the Department's capital reserve fund to Congressionally mandated levels.

Ginnie Mae Risk Management

Ginnie Mae has continued to enhance its risk management processes in response to the substantially increased volumes in its programs. Ginnie Mae's loan matching program is one of the most important processes Ginnie Mae uses to mitigate the risk of fraud. This process involves a monthly review of every loan in the Ginnie Mae portfolio; during FY 2010, Ginnie Mae made further improvements to this process to focus Ginnie Mae's resources on potentially higher risk loans and higher risk issues. Ginnie Mae has taken additional steps to increase its oversight of issuers by reallocating existing staff to the Office of the Chief Risk Officer. Ginnie Mae is also in the process of adding additional staff in the Office of Mortgage-Backed Securities, both Account Executives and Monitoring staff, to increase oversight of its issuers.

Ginnie Mae is once again increasing the net worth requirements of its issuers, and continues to subject all new issuers to a one-year probationary period, which commences upon the first issuance of a Ginnie Mae MBS or upon the acquisition of a Ginnie Mae servicing portfolio. During this time, Ginnie Mae closely evaluates performance metrics, including loan-level insurance statistics and delinquency levels. Early payment defaults, staffing levels, and other operational and financial issues also are monitored. An onsite review is conducted within six months of approval and all findings must be cleared within a given timeframe.

Additionally, Ginnie Mae has expanded its capacity to review all its issuers from both an operational and financial perspective and taken steps to further mitigate exposure to fraud and abuse. Much of this effort is supported by Ginnie Mae's use of flexible staffing through contractors. In addition to the onsite reviews conducted for new issuers, existing issuers are reviewed onsite as necessary through regular monitoring of their financial statements, loan origination characteristics, and other performance measures. The Ginnie Mae Portfolio Analysis Database System (GPADS) helps track counterparty risk using portfolio statistics and comparing issuers with broader peer group activity. Ginnie Mae also is working more closely than ever with FHA, VA, and the Department of Agriculture's Rural Development on sharing loan data to detect and address fraud and other issues. One example of these efforts is an enhancement to the insurance matching program, which verifies the government insurance status of underlying mortgages that allows for the more timely identification and follow-up of loans lacking appropriate insurance documentation.

Challenge: Oversight of Recovery Act funds

Congress allocated $13.6 billion in funding to HUD programs under the Recovery Act. This allocation added significant funding to the Public Housing Capital Fund, Community Development Block Grants, Neighborhood Stabilization Program, Homelessness Prevention and Rapid Re-Housing 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 the influx of mortgages and refinancing, and conducting its normal operations is a significant challenge.

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 two fiscal years we started and completed 88 audits and reviews of Recovery Act-related activities. These audits and reviews addressed the administrative capacity of selected Recovery Act grantees to meet their responsibilities 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 plan to mitigate those risks.

Capacity issues of Recovery Act funding recipients will challenge HUD. For example, HUD decided to provide Recovery Act public housing capital funding to authorities it deemed "troubled." Currently, there are 174 troubled authorities that received allocations totaling $350 million in Recovery Act funds, and members of Congress have raised concerns about public housing authorities' ability to effectively administer Recovery Act funding. HUD developed a troubled public housing agency (PHA) Recovery Act strategy in which it assigned each troubled PHA a risk level of low, medium, or high. HUD has plans to provide technical assistance, monitoring, and oversight based on these risk levels. During the fiscal year, we reviewed the capacity of 19 authorities, noting that 11 had significant capacity issues. HUD's oversight of the $4 billion in capital funds is a challenge. By March 2010, the PHAs were required to obligate these funds, and they must spend the funds within the next 2 fiscal years, in addition to administering their normal capital fund programs.

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 to community planning and development programs for block grant activities and homelessness prevention. HUD must oversee the expenditure of these funds in the next 2 years. We looked at 28 grantees and subgrantees receiving Recovery Act funds and reported to HUD that 12 had the capacity to handle the increased funding, while 13 needed improvements and 3 lacked capacity.

The Department's Progress

The Recovery Act provided $13.6 billion for projects and programs administered by HUD. Given the Recovery Act's cross-cutting and aggressive scope and timeframe, the Secretary and OSPM view the Recovery Act as an opportunity to lay the groundwork for future transformation at HUD. The agency has already begun to put in place several groundbreaking accountability measures and initiatives.

Response to Capacity Concerns

As outlined in the HUD Recovery Act program plans published in May 2009 and revised in May 2010, HUD programs have hired additional staff in both headquarters and regional/field offices with necessary experience and skill sets to complete the work of the Recovery Act. Programs have also met the challenge of Recovery Act implementation by shifting internal workloads for operational efficiency, training internal staff on Recovery Act functions, and delaying other non-critical activities.

The OIG has issued reports on capacity reviews conducted on Recovery Act grantees. In cases where the report identifies concerns, the program has responded to the OIG with plans to address the concerns, and program staff members work with the recipients to address and resolve the identified concerns. Some, but not all programs have set-aside Recovery Act administrative funds for travel purposes to support monitoring, through which staff members travel on-site and work directly with grantees if necessary. It is also important to note that there has been a significant review of the Recovery Act activities at HUD, and specifically PIH, performed by GAO. GAO conducted 16 reviews and found substantial compliance with the Recovery Act provisions and also found that HUD programs were well controlled and reporting on a timely basis. HUD management believes that the capacity issues are not a universal concern.

In support of ensuring PHA capacity in the obligation and expenditure of Recovery Act funds, PIH implemented a standardized process for both the troubled and non-troubled PHAs that focused on comprehensive and substantive reviews for grant initiation activities, use of funds, environmental compliance, procurement, and grant performance. To date, 3,829 reviews have been completed for both formula and competitive awards. This includes 100 percent of initial formula grantees receiving a remote review, and on-site reviews for all 174 troubled agencies. In addition, all of the 376 competitive grants received remote reviews. As a result of this review process, PIH was able to identify potential issues early on and provide guidance and technical assistance to grantees.

Additionally, PIH worked closely with grantees to ensure transparency through a high level of recipient reporting. PIH has managed some of the highest levels of recipient reporting within the Department and across all Federal Agencies. Each reporting period, PIH has exceeded 95 percent reporting, maintaining over 99 percent of grantee reporting in the previous four reporting quarters

Monitoring of Expenditures and Intended Uses

HUD has established additional internal management controls to create a greater level of accountability for performance. The Recovery Act team prepares dashboard reports for distribution to the Secretary, Deputy Secretary, and senior leadership team that include financial performance measures and targets, core activities data (e.g., housing units rehabilitated, housing units developed, and people served by homelessness prevention assistance), and issues or risks. OSPM and the Senior Program Manager for Economic Recovery provide regular briefings to the Secretary and Deputy Secretary, with updates on progress based on performance metrics of obligation by HUD, obligation by grantees, disbursement, core activities funded (e.g., units rehabilitated, units developed, people served), and pressing policy concerns. Performance measure targets and milestones that are missed, or that are in jeopardy of being missed, will be accompanied by an explanation of the reasons why, including any issues affecting progress and the specific plan for their resolution or mitigation. The report also identifies specific grantees with performance issues and summarizes the actions being taken to address them.

In 2010, the Deputy Secretary completed a groundbreaking place-based reporting effort focused on tracking and managing disbursements by geographic region, which has served as a pilot for longer-term department-wide implementation beyond the Recovery Act. This place-based reporting included examination of expenditures by recipients, barriers to spending, and follow-up actions by Regional and Field Offices.

Finally, the Senior Program Manager for Economic Recovery continues to meet on a monthly basis with the OIG to discuss issues of priority concern, including ongoing and recently issued audits. In FY 2010, the Recovery Act program management team received a favorable audit report from the OIG on its Recovery Act recipient reporting processes, as described below. The Recovery Act program management team also reviews program-related and grantee-related audits regularly.

Recipient Reporting, Analysis, and Transparency

A recent OIG audit of Recovery Act recipient reporting found that the overall quality assurance process completed by the HUD Recovery Act team for recipient reporting has been successful. In particular, the OIG found that: “The Recovery Team’s accomplishments as of the March 31, 2010, reporting period are as follows: (1) developed policies and procedures for validating recipient reporting; (2) completed several rounds of validation checks of recipient data; (3) successfully assisted approximately 99 percent of the prime recipients (4,849 of 4,911) to meet report requirements; and (4) met with the OIG on a monthly basis to discuss Recovery Act activities." In the third calendar quarter of 2010, HUD recipients maintained a high percentage of reporting compliance, at 97 percent.

In addition to making quarterly reports into www.FederalReporting.gov, HUD Recovery Act recipients are also required to submit reports directly to the agency on core activities funded by the Recovery Act. The Department has identified a rigorous set of performance measures that quantify progress of each of the Recovery Act programs toward goals of: (1) promoting energy efficiency and creating green jobs, (2) unlocking the credit markets and supporting critical public projects, and (3) mitigating the effects of the economic crisis and preventing community decline. As reported by Recovery Act recipients in July 2010, since the inception of the Act, these funds have led to over half a million people being served through homelessness prevention assistance, nearly 3,000 homes being developed, and over 315,000 units of housing being renovated, many of which have improved energy efficiency. In the second quarter of calendar year 2010, HUD Recovery Act recipients reported over 26,000 jobs saved or created. HUD has also completed two quarters of analysis on where its dollars are performing geographically, relative to a variety of indicators including geography, income, race, and poverty level.

Consistent with OMB reporting requirements, HUD has posted weekly financial reports on www.hud.gov/recovery since March 1, 2009. Furthermore, the HUD Recovery Act website provides a range of information to ensure that transparency objectives are met, including place-based (e.g., state-based) updates on Recovery Act expenditure and core activities funded by Recovery Act programs. HUD also provides success stories regarding the impact of Recovery Act grants.

Challenge: 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. 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.

The current administration announced a "human capital transformation," noting that the 2008 Federal Human Capital Survey ranked HUD 24th out of the 30 large agencies in the "Best Places to Work in the Federal Government" report (HUD has since moved to last in the 2010 rankings). The Department contracted with the National Academy of Public Administration (NAPA) to consult on this problem. NAPA noted that 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, systematic manner.

NAPA recommended that the Department establish an intra-agency team of senior officials, including the Chief Financial Officer, Chief Human Capital Officer, and administrative/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.

The Department's Progress

An additional study was conducted entitled "Health Check" in order to move from the NAPA report to an action plan. Some recommendations from the NAPA report and the "Health Check" study are already being implemented while others are being assessed.

The transformation of the Office of the Chief Human Capital Officer (OCHCO) resulted in elevation of performance management, recruitment, and planning efforts. Workforce and succession planning have been identified as critical, and a workforce succession planner has been recruited to lead this effort. The OCHCO is implementing a new Staffing and Classification system. This system will enhance workforce analysis while reducing the number of human resource systems currently being utilized. It will also provide new tools to streamline and enhance the recruitment, on boarding (the process of helping new employees become productive members of an organization), and retention of workforce. While implementation is being led by OCHCO; OCFO, OCIO, OSPM, and others have been involved with defining the needs and capabilities of the new system.

With the release of the "2010 Employee Viewpoint Survey (EVS)" (an annual survey of employees to assess employee satisfaction, as well as leadership and management practices that contribute to agency performance) results; OCHCO assigned its analysis and interpretation to the Office of Policy, Planning, and Training and established a Departmental EVS Task Team to assist with planning and implementing an action plan to improve agency performance in this area. Working in cooperation with OSPM and engaging the Office of Personnel Management (OPM) in EVS analysis and action planning workshops, the Department submitted a "2010 EVS Action Plan" to OPM and OMB on September 13, 2010, consisting of three key areas: performance management, learning and development, and strategic communication.

Additional EVS Task Teams have been established for each program office leading to the creation and implementation of program office action plans. Representatives of program office task teams are working together on developing these action plans as well as department-wide implementation measures. An executive level task team has been established to interpret the EVS results and determine actions while working with OCHCO to provide implementation assistance and accountability.

Immediate changes related to employee development and engagement can be seen in the approach to course development with task teams consisting of members from the planned audience. New program selection will include a diverse team of participants from across the Department. This includes occupations, grades, and other race and national origin demographics.

Looking Ahead to FY 2011 and Beyond

HUD is extremely committed and active in transforming the way it does business. Several actions are currently underway or planned for the future. Current actions include the re-establishment of the Human Capital Council, the creation of a Training Council, the development of a Strategic Communication Plan (led by the Office of Public Affairs, OCHCO, and OSPM), and the creation of Project Management Offices throughout HUD starting with the OCHCO.

The highest priority has been given to improved communication throughout the Department. Efforts include modifying the Supervisory training programs to include a communication course. Meetings between OCHCO and Public Affairs are on-going to developing a strategic communication plan as an essential part of the Secretary's Agenda. Town hall meetings are being scheduled and web sites are being redesigned to promote participation from all HUD employees through HUD's internal web site.

Challenge: 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, the 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 the Office of Management and Budget. 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. We continue to note the following weaknesses with HUD's financial management systems:

- HUD's ability to prepare financial statements and other financial information requires extensive compensating procedures.
- HUD has limited availability of information to assist management in effectively

managing operations on an ongoing basis.

FHA's business increased dramatically as a result of the mortgage crisis and now accounts for 30 percent of the market share. 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 implement needed changes to its business processes. The recent changes in the economy and the housing market and explosive growth in FHA's single-family insurance program have exacerbated these issues and brought the need to move FHA IT modernization initiatives to the forefront. Critical maintenance had been deferred, and old technology and fragmented architecture are inefficient and expensive to maintain. In August 2009, FHA completed the IT Strategy and Improvement Plan, which identifies FHA's priorities for IT transformation. The plan identifies 25 solution 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 and track and report progress, provide support to managers, and support organizational change management activities. Its ultimate goal is to focus leadership effort and resources needed for a successful transformation initiative. HUD has since awarded four contracts under this initiative.

Another IT 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, resulting in performance, flexibility, and interface issues. 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.

During 2009, HUD unsuccessfully attempted to move certain applications off the antiquated Unisys mainframe onto a modern platform. Computer processing utilization reached the critical rate of 80-90 percent during 2009, which necessitated an upgrade in the processing power of the existing mainframe in May 2009. The upgrade brought the utilization rate down to 60-70 percent. HUD performed another upgrade in June 2010, bringing the utilization rate down further to 35-40 percent. During August 2010, HUD replaced the old Unisys mainframe with the latest model with newer technology. In addition, HUD replaced the antiquated tape drives that were attached to the old Unisys mainframe with virtual tape systems to increase performance.

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.

As part of our annual IT security review mandated by the Federal Information Security Management Act, we found that HUD had not completed all requirements for systems containing personally identifiable information, including categorization and inventory of such systems. Also HUD had not implemented two factor authentications on all enterprise remote access solutions.

The Department's Progress

HUD has strategically planned for and delivered a modernized infrastructure that facilitates the provisioning of services and allows scalability and agility in meeting on-demand business requirements, improved quality of service, and increased cost efficiencies. HUD's data center environment represents the success of these efforts through the implemented upgrade to the antiquated Unisys platform that represented a significant barrier to FHA business expansion. With the delivery of the Unisys Dorado 780, capacity has been significantly expanded and maintenance costs lowered. Furthermore, this infrastructure enhancement was designed to anticipate future capacity requirements and was implemented in a timely manner to ensure enhanced performance availability to meet increased programmatic requirements.

As HUD moves forward with its mission and strategic goals, the oversight and management of the infrastructure will continue to implement strategies and procedures for timely, cost-effective acquisition, use, and reallocation of infrastructure resources to provide quality service to HUD. Future plans continue to focus on an agile enterprise that embraces industry best practices, IT mandates, and performance-based management, with significant milestones for the following:

- Implementing end-to-end processes, enterprise identity management, real-time transactions, and integrated systems;
- Continuing to eliminate costly proprietary systems;
- Easing access to data when-needed, where-needed; and
- Migrating rigid business processes to highly leveraged and flexible service oriented systems.

Progress towards these milestones will enable HUD to continue moving towards an agile high leverage/high speed organization.

Challenge: 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 about 4,100 PHAs, which are to provide housing to low-income families or make assistance payments to private owners that lease their rental units to assisted families. In fiscal year 2010, the PHAs assisted 3.2 million low income households.

HUD has a challenge of ensuring that adequate funding is available to support the Housing Choice Voucher program. In fiscal year 2009, approximately 180 PHAs reported shortfalls in voucher funding. Several factors contributed to the shortfalls. First, the funding Congress provided to renew vouchers for calendar year 2009 was several hundred million dollars less than the amount for which agencies were eligible. Second, tenant incomes declined-most likely due to recent job losses caused by the recession-driving up voucher costs in many regions of the country and worsening the financial crunch. Third, the average cost of a voucher increased more than 5 percent in fiscal year 2009, despite weakening in most rental housing markets. Early in fiscal year 2010, Congress provided HUD $200 million in advance funding to assist PHAs experiencing shortfalls. In total, 182 PHAs received $77 million in additional funding. As a proactive measure, HUD established the shortfall prevention team to ensure that assisted families would not be terminated from the Housing Choice Voucher program. HUD provided technical assistance to these PHAs in identifying cost-saving measures to maximize the funding utilization and prevent termination of families receiving rental assistance.

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 $8 billion for Section 8 project-based rental assistance.

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 has increased its focus on the electronic monitoring of its intermediaries. In the past, HUD has performed comprehensive onsite monitoring reviews to increase detection of intermediaries’ lack of compliance or errors in complying with the program regulations. We noted that HUD did not prepare its required fiscal year 2010 management plan. As a result, at the headquarters level, HUD did not develop formal plans to establish performance and onsite comprehensive monitoring review goals. The lack of management plans hampered efforts to track and provide oversight of the field offices that are responsible for developing risk assessments and determining which PHAs to review.

The Department's Progress

Program Transformation

HUD has proposed legislative program simplification for its rental assistance programs. This legislation will initiate a multi-year effort to streamline its rental assistance programs via the Transforming Rental Assistance (TRA) initiative – a multi-year, $350 million proposal. TRA will modernize HUD's rental assistance programs so that they are easier for families to access, less costly to operate, and easier to administer at the local level. [More information on this initiative can be found online at www.hud.gov/tra.]

Ensuring Adequate Funding

PIH has taken a number of steps in support of ensuring adequate funding for the Housing Choice Voucher program. During FY 2010, PIH initiated a joint effort with PD&R to determine reasonable methods for accurately capturing TBRA funding changes; these efforts will result in PIH being able to apply the most appropriate method in putting forth future budget requests which more closely predict true program need, including but not limited to, calculation of the Annual Adjustment Factor.

A substantial aspect of providing technical support to PHAs facing shortfalls in 2009 and 2010 focused on the need for determining amounts and sources of funds available to support program costs; in particular, the PHAs' Net Restricted Assets (NRA) became a focus of PIH activity. During 2010, PIH initiated an NRA reconciliation process on its top 500 funded PHAs for the funding years of 2005 through 2009. In addition, the Voucher Management System (PHAs' reporting mechanism for HCV leasing and expenses) was updated to include new fields which now collect data on PHA-reported NRA levels, Unrestricted Net Assets (UNA), cash resources, and vouchers issued but not under lease. These new fields provide much-needed information to the PHAs and PIH staff in assessing not only current status of agencies but also in providing technical assistance on utilization of funds more broadly. A Shortfall Prevention Team was also established to stabilize HCV funding utilization activity. Taken together, these accomplishments facilitate a more stabilized and balanced approach to voucher utilization with an emphasis on assisting PHAs to estimate approaching funding and leasing outcomes.

Improper Payments

HUD has been a federal government leader in reducing improper payments having reduced improper payments from an estimated $3.43 billion in FY 2000 to $925 million in FY 2009 (a 73 percent reduction). HUD has achieved this success principally through the use of the Enterprise Income Verification (EIV) System. The EIV System makes integrated income data available from one source for PHAs and multifamily property owners to improve income verification during initial intake and income reexaminations. This system continues to facilitate HUD's progress with improper payment reduction. For FY 2009, rental assistance improper payments decreased 3 percent. Use of the Enterprise Income Verification (EIV) system is now mandatory for PHAs and owners and management agents (O/As). Housing continues to make improvements in the area of reducing erroneous payments by providing O/As with current and updated guidance on program requirements. In July 2010, Housing issued a revised and expanded Notice on EIV and will soon issue Change 4 to *Handbook 4350.3 REV-1, Occupancy Requirements of Subsidized Multifamily Housing Programs*, that will include an entire chapter devoted to EIV. PIH issued notices in January, March, and May 2010, to provide PHAs with guidance on reducing improper payments on behalf of individuals who have not complied with the mandatory social security number disclosure requirement and deceased program beneficiaries, as well as mandated and effective use of HUD's EIV system to reduce administrative and improper payment errors.

The Office of Housing also continues to monitor program administrators in regard to improper payments through its annual on-site management and occupancy reviews (MORs) for the majority of its Multifamily portfolio. In addition, contract administrators have been reporting, through an interim error tracking log, any MOR findings resulting in over- and/or under-payment of subsidy. The reporting of this information began in early FY 2009 and is used for the purposes of targeting training at those areas where most of the errors are occurring. It is also used to inform OMB that not only is the Department continuing to monitor its program administrators, but it is also increasing its efforts to ensure that subsidy payments are being calculated correctly.

Enhanced EIV System Functionality

During FY 2010, PIH implemented the Debts Owed to PHAs and Terminations module within the EIV system. PHAs are now required to report outstanding debts owed and/or program non-compliance of former program beneficiaries to alert other PHAs of this adverse information to prevent future payments from being made on behalf of individuals who have not fulfilled their financial responsibilities under a PIH rental housing assistance program and/or individuals who have demonstrated their inability to comply with program requirements. PIH's EIV Debts Owed to PHAs and Termination module will help to prevent improper payments before they occur. It should be noted that this initiative was initiated and implemented prior to the issuance of the November 2009, Executive Order 13520 – Reducing Improper Payments and the June 18, 2010, Presidential Memorandum - Enhancing Payment Accuracy Through a "Do Not Pay List." PIH continues to aggressively and proactively develop and implement initiatives to ensure that limited Federal dollars serve as many eligible families and increase accessibility of PIH rental housing assistance programs by its intended program beneficiaries.

Improper Payments Team

During the second quarter of FY 2010, PIH created the Improper Payments Team, which is devised of program analysts who carry out ongoing monitoring, improper payment recovery, training and technical assistance activities, along with identifying and eliminating the highest improper payments within PIH rental housing assistance programs. This team's efforts directed to the reduction of improper payments are designed to protect access to PIH rental assistance program by their intended program beneficiaries. As a result of the Improper Payments Team's efforts in FY 2010, PIH reported the following success as of Fiscal Year End 2010:

1. Increased Public and Indian Housing Information Center (PIC) reporting rate to 95 percent from 84 percent;
2. Increased EIV System access rate to 98 percent from 96 percent;
3. Decreased improper payments on behalf of deceased program beneficiaries by 56 percent;
4. Decreased the number of egregious tenant under reporting of income cases by 56 percent; and
5. Decreased the number of program beneficiaries with invalid SSNs by 69 percent.

Monitoring

During this transition year (the new FY 2010 – 2015 Strategic Plan was published on May 5, 2010), rental assistance programs operated off of the previous year's management plan goals. In FY 2010, all PHAs were monitored through a remote review. PIH also conducted 810 on-site reviews for all troubled PHAs and a sample of non-troubled PHAs. The remote reviews focused on four main components: grant initiation, environmental compliance, procurement, and grant administration. The follow-up/on-site review checklist follows-up on the same four components examined in the remote review and also includes a review of the contract administration of the procurements related to the use of Recovery Act funds.

In an effort to not only ensure that the program funds are expended properly, but to also identify improper financial decisions and practices, PIH has partnered with the Real Estate Assessment Center Quality Assurance Division to conduct forensic audits of high risk PHAs. This proactive approach will allow PIH to identify poor financial management practices and provide the necessary technical assistance so that PHAs will be practicing accepted and effective financial management.

PIH also conducted 395 quality assurance/quality control (QA/QC) reviews of all troubled PHAs and a random sample of 223 of the non-troubled PHAs. QA/QC reviews consisted of a headquarters review of all necessary documents used by the field office in completing the remote and onsite reviews. In addition, PIH conducted quick-look reviews of all Recovery Act formula grant obligating documents for PHAs that were less than 90 percent obligated by February 26, 2010.

Housing continues to make monitoring of its Multifamily portfolio a top priority to ensure that program administrators are in compliance with HUD's regulations and program requirements. The majority of Multifamily's properties receive an on-site management and occupancy review

(MOR) annually. In FY 2010, 17,741 MORs were conducted, which represents an increase of 131 over the 17,610 MORs that were conducted in FY 2009.

Challenge: Administering programs directed toward victims of natural disasters

In efforts to reduce the physical, human, and economic toll of future disasters, HUD is encouraging States to undertake activities and long-term strategies that focus on reducing damages from future natural disasters. To accomplish this goal, HUD has awarded $312 million in Disaster Recovery Enhancement Fund (DREF) monies to support the long-term recovery following dozens of natural disasters in 2008. Since these States previously received Community Development Block Grant funds for disasters, 13 States were eligible to receive the DREF funds to target disaster mitigation.

Over the past several years, HUD has allocated more than $29.4 billion to various States through its Community Development Block Grant program. These active disaster grants nationwide have $23 billion in obligations and $18 billion in disbursements. Regarding the $19.6 billion in funds provided to Gulf Coast States for Hurricane Katrina, $15 billion or 76.3 percent of the funds had been disbursed through September 30, 2010.

As Gulf Coast communities work to recover from Hurricane Katrina, other communities throughout the United States are feeling the effects of natural disasters as well. In addition to the DREF funds, Congress appropriated $100 million to assist the communities affected by the disasters that occurred in the spring of 2010. Supplemental appropriations were enacted on July 29, 2010, to provide additional funds for disaster relief; long-term recovery; and restoration of infrastructure, housing, and economic revitalization in areas affected by severe storms and flooding from March through May 2010 for which the President declared a major disaster.

As a result of its continuing role in addressing natural disasters, HUD faces significant management challenges as identified by our 2010 audit work. In a recent audit, we reported that more than $18.7 million in questioned costs was incurred because one State did not follow Federal and State requirements. The State was not ready to handle the many differences in contracting with disaster funds and was thereby ill-prepared to meet the challenges created by the natural disaster. In efforts to reduce the physical, human, and economic toll of future disasters, HUD has a unique challenge of encouraging States to undertake long-term strategies that focus on mitigating the impact of future natural disasters. The challenge for HUD is to facilitate disaster preparedness by improving the long-term recovery process and ensuring that a comprehensive community development plan is in place.

Further, HUD will have continuing challenges in preventing duplication of benefits from the many Federal disaster programs, along with balancing timeliness of fund distribution versus the need for accountability and controls in disaster programs.

The Department's Progress

Long-Term Strategies to Mitigate the Impact of Future Natural Disasters

To administer the Disaster Recovery Enhancement Fund (DREF), the Department identified four specific activities that could qualify a grantee for additional funds:

- Development and adoption of a forward-thinking land-use plan that will guide use of long-term recovery efforts and subsequent land-use decisions throughout the community and reduces existing or future development in disaster-risk areas;
- Floodplain or critical fire or seismic hazard area buyouts programs under an optional relocation plan that includes incentives so that families and private sector employers move out of areas at severe risk for a future disaster;
- Individual Mitigation Measures (IMM) to improve residential properties and make them less prone to damage. If such activities are incorporated into the grantee's rehabilitation or new construction programs generally, the cost increment attributed to IMM will be the amount considered for the additional allocation, not the total construction amount budget; and
- Implementation of modern disaster resistant building codes, including, but not limited to, training on new standards and code enforcement.

To receive a DREF award, eligible activities had to be budgeted by the grantee (either in its hard-copy Action Plan, or in its Disaster Recovery Grant Reporting (DRGR) system Action Plan) by June 30, 2010. In addition, each grantee also had to demonstrate that it still had unmet disaster recovery needs.

Duplication of benefits

Funds awarded via the DREF are subject to all of the requirements imposed by the appropriation law and the above referenced *Federal Register* notices. In particular, 74 FR 7244 (published February 13, 2009) states:

> 10. *Duplication of benefits*. In general, 42 U.S.C. 5155 (section 312 of the Robert T. Stafford Disaster Assistance and Emergency Relief Act, as amended) prohibits any person, business concern, or other entity from receiving financial assistance with respect to any part of a loss resulting from a major disaster as to which he has received financial assistance under any other program or from insurance or any other source. The Second 2008 Act stipulates that funds may not be used for activities reimbursable by or for which funds have been made available by FEMA or by the Army Corps of Engineers.

Code of Federal Regulation 74 FR 7244 also requires each grantee's Action Plan to describe, "Monitoring standards and procedures that are sufficient to ensure program requirements, including non-duplication of benefits, are met and that provide for continual quality assurance, investigation, and internal audit functions with responsible staff reporting independently to the Governor of the state or, at a minimum, to the chief officer of the governing body of any designated administering entity…” Furthermore, each grantee must outline, “a description of the steps [it] will take to avoid or mitigate occurrences of fraud, abuse, and mismanagement, especially with respect to accounting, procurement, and accountability, with a description of how [it] will provide for increasing the capacity for implementation and compliance of local government grant recipients, subrecipients, subgrantees, contractors, and any other entity responsible for administering activities…”

The Department will continue monitoring grants to ensure all funds, including the DREF awards, meet the above requirements. Additionally, the Department will publish a notice in the Federal register in early 2011 to clarify the requirements of the duplication of benefits guidance and issue tailored technical assistance to grantees that are launching new disaster recovery-funded programs.

Timely of Distribution of Funds

HUD implemented several internal controls to ensure that disaster recovery funds are accurately disbursed in a timely manner. Specifically, HUD placed additional controls on the Line of Credit Control System (LOCCS), including restricting all unbudgeted balances, providing for line-item budgets instead of an undifferentiated grant, and including warning flags for draws over $5 million and over $25 million. The flags can only be removed, allowing drawdown completion, after a CPD manager reviews and accepts accompanying documentation. Additionally, HUD’s Disaster Recovery Grant Reporting (DRGR) system was integrated with LOCCS on January 5, 2009.

Technical Assistance

Grantees receiving disaster funds face unprecedented rebuilding tasks and are often not equipped to address them with their standard operating procedures. To that end, grantees receiving disaster recovery funds are required to identify their proposed recovery activities in an Action Plan. HUD reviews and accepts the Action Plan, but also informs the grantee about technical assistance, training, and other resources that may be available to assist in the establishment of specific disaster recovery activities. Moreover, HUD will monitor DREF funds as part of the disaster recovery risk analysis and monitoring actions.

Neighborhood Stabilization Program (NSP)

NSP was authorized by the Housing and Economic Recovery Act of 2008 (HERA), which provided $3.92 billion in funding for the initial NSP effort (NSP1). NSP is intended to assist the nation’s communities in addressing the effects of abandoned and foreclosed properties, a problem that has increased significantly as a result of the recent economic recession and

problems in the housing market. HERA established an 18 month use period for the NSP1 funds which, for most grantees, expired in the 45 days preceding September 30, 2010. Through a significant technical assistance effort, CPD was able to assist NSP1 grantees in obligating 99.7 percent of NSP1 funds by grantee deadlines and disbursing approximately 42 percent of funds in that same period. This level of achievement was attributable to an exceptional level of dedication on the part of grantee and CPD staff as well as CPD's implementation approach to NSP1.

In FY 2010, CPD also completed the competition for $2 billion in NSP2 funding provided by the Recovery Act. On January 14, 2010, Secretary Donovan announced 56 awards under NSP2 and CPD has been working with this unique collection of local government, state government, and non-profit grantees to launch these programs. The $50 million in NSP2 funds, reserved for the NSP technical assistance effort, made a substantial impact on NSP1 performance and is also being use to aid NSP2 grantees in advancing their efforts. It should be noted that the OIG thoroughly reviewed the NSP2 competition process and issued an audit report with no findings or concerns. As a result, many processes and controls instituted in the NSP2 competition are being incorporated in other competitions throughout the Department.

In July, 2010, Congress has appropriated an additional $1 billion for NSP3, and CPD allocated those funds to 283 grantees on September 8, 2010. HUD has already issued guidance to those grantees on NSP3 program requirements and will support NSP3 with an additional $20 million in technical assistance funds.

Summary of Financial Statement Audit and Management Assurances

For FY 2010, 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 2010 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.

Improper Payments Information Act Reporting Details

The Requirements

Under the Improper Payments Information Act (IPIA) of 2002 (Public Law 107-300) 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 (Performance and Accountability Report or AFR) to OMB, along with plans to reduce improper payments. The statute defines a "significant" level of improper payments as annual improper payments exceeding a $10 million dollar threshold.

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 include:

- Any payment that was made to an ineligible recipient or for an ineligible service;
- Duplicate payments;
- Payments for 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

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 OCFO implemented the IPIA requirements and continues to address improper payment issues. 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. The EO will 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 of the requirements under the EO and the OMB implementing guidance in OMB Circular No. A-123, Part III of Appendix C. As such, HUD has established and reported supplemental measures for reducing improper payments in its designated high-priority program (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 EO do not unduly burden program access and participation by eligible beneficiaries.

HUD's Process

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

1) Conduct an initial survey of all program and administrative activities for potential indicators of significant improper payments. 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]. HUD identified 10 activities, representing 57 percent of all payments, as potentially "at risk" of a significant improper payment level during this initial assessment.
3) Independent reviewers test a statistical sample of payments in program activities determined to be susceptible to a significant improper payment level. Statistical sampling and analysis found that only 5 of the 10 activities actually had a significant improper payment problem.
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, 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 assessments to be at low risk of improper payments and to not warrant reporting. OMB subsequently revised its

[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 both 2.5 percent of program payments and $10 million. Based on the 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).

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 two-year analysis determined that the CDBG Programs were below the annual $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 areas identified as having a significant level of improper payments, the Single Family Acquired Asset Management System and the Public Housing Capital Fund. These two areas were subsequently removed from the improper payments reporting requirement, leaving three high-risk program areas:

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

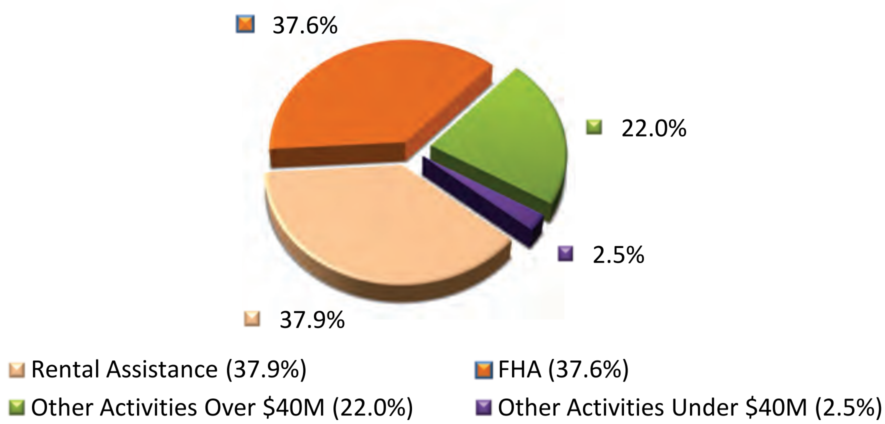
These programs are collectively referred to as HUD's rental housing assistance programs. HUD has reduced the combined baseline gross improper rental housing assistance payment estimates of $3.43 billion[2] to $925 million in Fiscal Year 2009, a reduction of 73 percent.

Results of Annual Risk Assessment Update and Continued Payment Testing

The FY 2010 risk assessment update was based on payment and other relevant activity that occurred during FY 2009. An inventory of over 200 distinct program and administrative payment activities was identified from all of HUD's financial management systems in FY 2009, with total payments of $79.2 billion. The payment universe consisted of the following general distribution:

[2] This figure combines the FY 2000 baseline estimate of $3.22 billion for two types of improper payments (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 (billing errors).

HUD's $79.2 Billion Payment Universe



HUD's risk assessment update in FY 2010 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 IPIA 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 Rental Housing Assistance Programs 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 $30 billion, or 38 percent, of HUD's total payments in FY 2009.

Prior to enactment of the IPIA, HUD had already established the Rental Housing Integrity Improvement Project in FY 2001 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 Rental Housing Assistance Programs are administered by over 26,000 PHAs and multifamily housing owners or management agents on HUD's behalf. In

[3] HUD's methodology for statistical sampling in FY 2009 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, for 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 540 distinct projects in 56 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.

general, beneficiaries pay 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 and improper payments in these complex programs:

1) Program administrator error – the program 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 2009, HUD reduced the gross improper payments for the first two of these three categories of error from $3.22 billion to $868 million, a reduction of 73 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. The FY 2008 billing error was estimated to be $59 million. In FY 2010, a billing study, based on FY 2009 expenditures was conducted for the Owner-administered Project-based Assistance Programs. The billing error was $57 million. The following chart provides a summary for all three error components for FY 2009 as compared to FY 2008 and the baseline year (FY 2000). Actual results are not presented for FY 2010 because HUD reports on prior year data (i.e. FY 2010 studies are conducted on FY 2009 data).

IMPROPER RENTAL ASSISTANCE PAYMENTS

Administration/ Error Type	2009 Subsidy Over-Payments*	2009 Subsidy Under-Payments*	2009 Net Erroneous Payments*	2009 Gross Erroneous Payments*	2008 Gross Erroneous Payments*	2000 Gross Erroneous Payments*
Public Housing						
Administrator Error	-	-	-	-	-	$602,557
Income Reporting Error	-	-	-	-	-	$294,000
Billing Error	-	-	-	-	-	Not available
Subtotal:	**-**	**-**	**-**	**-**	**-**	**$896,557**
Section 8 Voucher						
Administrator Error	$268,791	$171,497	$97,294	$440,288	$400,248	$1,096,535
Income Reporting Error	$121,477	-	$121,477	$121,477	$232,557	$418,000
Billing Error**	-	-	-	-	-	Not available
Subtotal:	**$390,268**	**$171,497**	**$218,771**	**$561,765**	**$632,805**	**$1,514,535**
Total PHA Administered						
Administrator Error	$268,791	$171,497	$97,294	$440,288	$400,248	$1,699,092
Income Reporting Error	$121,477	-	$121,477	$121,477	$232,557	$712,000
Billing Error	-	-	-	-	-	Not available
PHA Subtotal:	**$390,268**	**$171,497**	**$218,771**	**$561,765**	**$632,805**	**$2,411,092**
Total Project Based/Owner Administered						
Administrator Error	$122,667	$86,788	$35,880	$209,455	$191,724	$539,160
Income Reporting Error	$96,326	-	$96,326	$96,326	$138,143	$266,000
Billing Error	$21,000	$36,000	($15,000)	$57,000	** $59,000	Not available
Project Based Subtotal:	**$239,993**	**$122,788**	**$117,206**	**$362,781**	**$388,867**	**$805,160**
Total Improper Payments						
Administrator Error	$391,458	$258,285	$133,174	$649,743	$591,972	$2,238,252
Income Reporting Error	$217,803	-	$217,803	$217,803	$370,700	$978,000
Billing Error	$21,000	$36,000	($15,000)	$57,000	** $59,000	Not available
GRAND Total:	**$630,261**	**$294,285**	**$335,977**	**$924,546**	**$1,021,672**	**$3,216,252**
TOTAL PROGRAM PAYMENTS				**$30,015,109**	**$29,035,284**	**$18,800,000**
IMPROPER PAYMENT RATE				**3.1%**	**3.5%**	**17.1%**

** Dollars in Thousands*

*** Billing error estimate is derived from the baseline established in FY 2005 for Owner Administrators.*

Percent Reductions in Improper Payments

Error Type	Baseline Estimates*	FY 2009 Estimates*	Percent Reduction
Administrator Error	** $2.238	$0.650	71%
Income Reporting Error	** $0.978	$0.218	78%
Billing Error	** $0.214	$0.057	73%
Total	**$3.430**	**$0.925**	**73%**

** Dollars in Billions*

*** 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 Rental Housing Assistance Programs over the past eight 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 in FY 2009, the findings were on par with the findings from FY 2004 through FY 2008, within the statistical margin of error, and do not represent statistically significant differences. The Department also has found a direct correlation in the reduction of improper payments to the number of monitoring reviews of PHAs and 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 PHAs, owners, management agents, and contract administrators for HUD's Rental Assistance programs also have a direct correlation to the reduction of improper payments associated with income reporting errors. Effective January 31, 2010, PHAs, owners, management agents, and contract administrators were mandated to use HUD's EIV system to reduce administrative and improper payment errors.

More recently, program structure changes have reduced the opportunities for improper payments in two of HUD's Rental Housing Assistance Programs. In HUD's Public Housing program, significant program structure changes were implemented 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, in the new structure, the effect of these errors would be borne by the PHA and HUD's subsidy payment would remain unchanged. Nonetheless, HUD retains program oversight responsibility to ensure the proper performance and benefits of the program, and will continue to focus on effective measures to reduce performance errors by PHAs. These changes were implemented in the second quarter of FY 2007 (i.e., error reductions affecting HUD were realized for three-quarters of the year). In addition, the establishment of a budget based funding methodology was implemented for the HCV Program in FY 2005 to eliminate the opportunity for billing errors in that program.

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 2009 and the outlook for improper payment percentages on a combined program basis from FY 2010 – FY 2012, as follows:

Rental Assistance Improper Payment Reduction Outlook
FY 2010 – FY 2012
(Dollars shown in billions)

Activity	FY 2008 Payments	FY 2008 IP	FY 2008 IP% Goal/Actual	FY 2009 Payments	FY 2009 IP	FY 2009 IP% Goal/Actual	FY 2010 IP% Goal	FY 2011 IP% Goal	FY 2012 IP% Goal
Rental Assistance	$29.035	$1.022	3.4/3.5	$30.015	$0.925	3.3/3.1	3.0	3.0	3.0
Estimated Payments							$33,000	$33,000	$33,000

Note: *The annual Improper Payments calculation is based on prior year data. Accordingly, the FY 2010, FY 2011, and FY 2012 results will be reported in the FY 2011, FY 2012, and FY 2013 PARs respectively.*

During FY 2008, the improper payment rate remained steady at 3.5 percent (as in FY 2007), thus missing HUD's FY 2008 goal by one-tenth of one percent. An increase in income reporting errors caused HUD to miss its goal. The improper payment rate for FY 2009 was 3.1 percent, thus exceeding HUD's FY 2009 goal of 3.3 percent. Actions taken to reduce improper payments included full implementation and the mandatory use of the EIV system, the efficient use of funding in the Public Housing Operating Fund, the establishment of a budget based funding methodology in the HCV 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. Therefore, HUD believes that the goals for FY 2010 and beyond are realistic and achievable. In addition, program simplification, via revised legislation, could lend to further significant improper payment reductions for HUD's Rental Housing Assistance Programs.

Further information on HUD's efforts to reduce improper rental housing assistance payments is provided in the Annual Performance Plan to be issued in FY 2011.

Recovery Auditing Activity

Under the requirements of the IPIA, recovery audits of each program and activity of an agency that expends more than $1 million or more annually shall be conducted if performing such audits would be cost-effective. The IPIA significantly increases agency payment recapture efforts by expanding the scope of recovery audits to all programs and activities (e.g., grants, loans, benefit, 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 validated these payments as proper.

The current internal controls present in HUD's contract payment and contract close-out process are adequate to reduce the risks of overpayments. HUD continues to focus on strengthening its funds control processes, increasing training classes for Government Technical Representatives and Government Technical Monitors, and further improving the contract close-out process. Therefore, HUD concluded that a recovery auditing program would not be beneficial and is not warranted. However, as required by the IPIA, HUD will submit a payment recapture audit plan to OMB in November 2010, and will re-assess the cost effectiveness of recovery auditing. The plan will demonstrate how HUD is prioritizing payment recapture activities to maximize recoveries, and describe how HUD is leveraging and exploring new processes and/or technologies in these efforts.

HUD Assisted Housing Units by Program

	2007	2008	2009	2010 a/
Section 8 Low Income Rental Assistance Program:				
Tenant-based assistance: b/	1,988,365	2,050,285	2,104,490	2,116,718
Project-based assistance c/	1,183,884	1,196,747	1,198,519	1,202,660
Sub-total	3,172,249	3,247,032	3,303,009	3,319,378
Public Housing Program d/	1,155,377	1,140,294	1,128,891	1,124,009
Sub-total	4,327,626	4,387,326	4,431,900	4,443,387
Housing for the Elderly Sec. 202	116,297	123,653	132,305	134,235
Housing for the Disabled Sec. 811	24,464	26,438	27,257	28,000
Tenant-based 811 b/	13,995	14,189	14,099	13,980
Sub-total	154,756	164,280	173,661	176,215
Other Assistance Programs				
Homeownership Assistance Program (Section 235)	4,758	4,302	3,557	3,912
Rental Housing Assistance Program (Section 236)	204,389	190,463	178,659	171,756
Rent Supplement	10,555	9,843	9,293	9,082
Sub-total	219,702	204,608	191,509	184,750
Total, Public and Assisted Housing	4,702,084	4,756,214	4,797,070	4,804,352
HOME Tenant-Based Assistance	18,172	25,381	18,763	10,132
HOME Rental Units Completed	28,039	23,170	19,098	12,936
HOME Homebuyer Units Completed	34,985	26,790	23,711	18,325
HOME Existing Homeowners Completed	11,221	10,847	9,737	5,656
Sub-total	92,417	86,188	71,309	47,049
CDBG Households (homeownership assistance) e/	6,919	4,521	2,441	4,845
CDBG Households (owner-occupied rehabilitation) e/	117,830	121,158	103,926	84,734
Self-Help Homeownership Opportunity Program New Homebuyers	1,887	1,927	1,809	889
Housing Opportunities for Person With AIDS Households f/	24,895	20,803	23,862	20,576
Indian Housing Block Grant Households g/	6,212	6,486	7,757	4,324
Rural Housing & Economic Development e/	784	1,210	1,789	544
Native Hawaiian Homeland Block Grant Households	23	65	95	49
ADDI (American Dream Downpayment Initiative)	6,094	4,209	2,162	410
Sub-total	164,644	160,379	143,841	116,371
Total of CDBG, HOME, Self-Help Homeownership Opportunity Program, Housing Opportunities for Persons With AIDS, Indian Housing Block Grant, Rural, Title VI Native Hawaiian Homeland Block Grant, Households Served	257,061	246,567	215,150	163,420
GRAND TOTAL h/	**4,959,145**	**5,002,781**	**5,012,220**	**4,967,772**

a/ Fiscal years 2007-2009 represent 4th quarter data (year-to-date through September 30th), unless otherwise noted. Fiscal year 2010 data reflects 3rd quarter data (year-to-date through June 30th), unless otherwise noted.

b/ Figures represent HUD's estimate of funded units. Unit Months Leased (UML) count is drawn from Voucher Management System (VMS) and include Veterans Affairs Supportive Housing Program (VASH). Moving to Work Program (MTW) units under Annual Contributions Contracts (ACC) are assumed to be at 100 percent utilization and are drawn from HUD's Central Accounting and Program System (HUDCAPS). Annual data is through June 30th (year-to-date through the third quarter) of each year. This method of data collection has been the same logic employed for Priority Goal/HUDSTAT reporting.

c/ FY 2007 data is not available for Community Planning and Development units.

d/ The calculation used for the Performance Accountability Report (FY 2007-2009) and Annual Financial Report (FY 2010) is based on Eligible Unit Months (EUMs), which is the basic unit for the Operating Fund formula. This figure represents units that were eligible for operating subsidy during Calendar Year 2010. In addition, most formula elements are paid based on Per Unit Month (PUM) in accordance with the formula regulation.

e/ Provides data through September 30th (year-to-date through the 4th quarter) rather than through June 30th (year-to-date through the 3rd quarter), which reflects actual data collection schedule.

f/ Housing Opportunities for Persons with HIV/AIDS (HOPWA) unit figures updated to include only permanent housing units.

g/ As of October 19, 2010, pre FY 2010 figures have been revised from those reported in the Performance and Accountability Report due to subsequent adjustments in the database.

h/ Totals reflect the same program as in previous years and are not identical to the programs included on Performance.gov and HUD's Priority Performance goals for Rental Housing.

NA-Not Available

Compliance Status of Financial Management Systems

As of September 30, 2010

Total Systems: 42 Total Compliant Systems: 39 Total Non-compliant Systems: 3

COMPLIANT SYSTEMS – 39

Office of Chief Financial Officer (14)

A21 Loan Accounting System (LAS)
A39 HUD Consolidated Financial Statement System (HCFSS)
A67 Line of Credit Control System (LOCCS)
A75 HUD Central Accounting and Program System (HUDCAPS) **
A75I Personnel Services Cost Reporting Subsystem (PSCRS) ***
A75R Financial Data Mart (FDM) ***
A91 Consolidated Cost and FTE Files (CCFF)
A96 Program Accounting System (PAS)
D08 Bond Payment System (BONDMAPPER)
D61 EZBudget Budget Formulation System (EZB)
D65A Section 8 Budget Outlay Support System (BOSS)
D91A Total Estimation and Allocation Mechanism–Resource Estimation and Allocation Process (TEAM-REAP)
H18 Integrated Automated Travel System (IATS)
P221 Electronic Travel System Interface (eTravel)
A100 HUD Integrated Core Financial System (ICFS) *

Office of Chief Human Capital Officer (1)

P162 HUD Integrated Human Resources Training System (HIHRTS)

Office of Chief Procurement Officer

P273 HUD Integrated Acquisition Management System (HIAMS) *

Community Planning and Development (3)

C04 Integrated Disbursement & Information System (IDIS)
C38 Electronic Special Needs Assistance Program (eSNAPS)
C08A Disaster Recovery Grant Reporting System (DRGR)

NON COMPLIANT SYSTEMS – 3

Office of Chief Procurement Officer (3)

A35 HUD Procurement System (HPS)
P035 Small Purchase System (SPS)
D67A Facilities Integrated Resources Management System (FIRMS)

Public and Indian Housing (2)

P113 Inventory Management System (IMS)
P232 Subsidy and Grants Info System (SAGIS)

Office of Housing (18)

A43 Single Family Insurance System (SFIS)
A43C Single Family Insurance Claims Subsystem (CLAIMS)
A80B Single Family Premium Collection System-Periodic (SFPCS-P)
A80D Distributive Shares and Refund Subsystem (DSRS)
A80H Single Family Mortgage Asset Recovery Technology System (SMART)
A80N Single Family Mortgage Notes (SFMN)
A80R Single Family Premium Collection System-Upfront (SFPCS-U)
A80S Single Family Acquired Asset Management System (SAMS)
D64A Single Family Housing Enterprise Data Warehouse (SFHEDW)
F12 Home Equity Conversion Mortgages (HECM)
F17 Computerized Home Underwriting Management System (CHUMS)
F42D Single Family Default Monitoring Subsystem (SFDMS)****
F51 Institution Master File (IMF)
F71 Debt Collection & Assets Management System – Title 1 Notes (DCAMS)
F72 Title I Insurance and Claims (TIIS)
F87 Tenant Rental Assistance Certification System (TRACS)
P013 FHA Subsidiary Ledger (FHA-SL)**
P057 Multifamily Delinquency and Default Reporting System (MDDR) ****

Ginnie Mae (1)

P237 Ginnie Mae Financial & Accounting System (GFAS)**

* In development; these systems are not included in the total inventory count of 42.
** Core Financial System
*** These systems were not reported as a Financial Management System before FY 2010. However, they are not newly implemented systems.
**** During FY 2009, the Office of Housing reported these systems as non financial. However, they need to be validated by independent reviews.

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
DREF	Disaster Recovery Enhancement Fund
ED	U.S. Department of Education
EVS	Employee Viewpoint Survey
EIV	Enterprise Income Verification System
EPA	U.S. Environmental Protection Agency
EO	Executive Order
Fannie Mae	Federal National Mortgage Association
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 (Pub. L. No. 103.62)
HCV	Housing Choice Voucher
HHS	U.S. Department of Health & Human Services
HIFMIP	HUD Integrated Financial Management Improvement Project
HUD	U.S. Department of Housing and Urban Development
IPIA	Improper Payments Information Act of 2002 (Pub. L. No. 107-300)
IT	Information Technology
MBS	Mortgage-Backed Securities
MHA	Making Home Affordable Program
MD&A	Management's Discussion and Analysis
MMI	Mutual Mortgage Insurance Fund
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
OFPM	Office of Field Policy and Management
OHHLHC	Office of Healthy Homes and Lead Hazard Control
OIG	Office of Inspector General
OMB	Office of Management and Budget
OSPM	Office of Strategic Planning and Management
PBRA	Project-Based Rental Assistance
PD&R	Office of Policy Development and Research
PHA	Public Housing Agency
PIH	Office of Public and Indian Housing
Recovery Act	American Recovery and Reinvestment Act of 2009
SNAPS	Special Needs Assistance Program
SRI	Special Risk Insurance Fund
TDHEs	Tribally Designated Housing Entities
TI	Transformation Initiative

TRA	Transforming Rental Assistance
Treasury	U.S. Department of the Treasury
VA	U.S. Department of Veterans Affairs

Appendix B: Table of Websites

Mission, Organizations, Major Program Activities, and Strategic Plan

1. http://portal.hud.gov/portal/page/portal/HUD/localoffices
2. http://portal.hud.gov/portal/page/portal/HUD/program_offices/housing
3. http://www.hud.gov/offices/hsg/sfh/hsgsingle.cfm
4. http://portal.hud.gov/portal/page/portal/HUD/i_want_to/talk_to_a_housing_counselor
5. http://www.hud.gov/offices/hsg/hsgmulti.cfm
6. http://portal.hud.gov/portal/page/portal/HUD/federal_housing_administration/healthcare_facilities/mortgage_insurance/about_the_office_of_healthcare_programs
7. http://www.hud.gov/offices/hsg/ramh/reguprog.cfm
8. http://www.ginniemae.gov/about/about.asp?Section=About
9. http://portal.hud.gov/portal/page/portal/HUD/program_offices/public_indian_housing
10. http://www.hud.gov/offices/pih/programs/ph/
11. http://www.hud.gov/offices/pih/programs/hcv/index.cfm
12. http://www.hud.gov/offices/pih/ih/index.cfm
13. http://portal.hud.gov/portal/page/portal/HUD/program_offices/comm_planning
14. http://portal.hud.gov/portal/page/portal/HUD/program_offices/fair_housing_equal_opp
15. http://portal.hud.gov/portal/page/portal/HUD/program_offices/healthy_homes
16. http://portal.hud.gov/portal/page/portal/HUD/program_offices/sustainable_housing_communities
17. http://portal.hud.gov/portal/page/portal/HUD/program_offices/cfo/stratplan
18. http://www.huduser.org/portal/
19. http://portal.hud.gov/portal/page/portal/HUD/program_offices/faith_based
20. http://portal.hud.gov/portal/page/portal/HUD/press/press_releases_media_advisories/2010/HUDNo.10-145
21. http://portal.hud.gov/portal/page/portal/HUD/program_offices/cfo/stratplan
22. http://portal.hud.gov/portal/page/portal/HUD/program_offices/cfo/stratplan/HUD_Strategic_Plan_C_goal1.pdf
23. http://portal.hud.gov/portal/page/portal/HUD/program_offices/cfo/stratplan/HUD_Strategic_Plan_D_goal2.pdf
24. http://portal.hud.gov/portal/page/portal/HUD/program_offices/cfo/stratplan/HUD_Strategic_Plan_E_goal3.pdf
25. http://portal.hud.gov/portal/page/portal/HUD/program_offices/cfo/stratplan/HUD_Strategic_Plan_F_goal4.pdf
26. http://portal.hud.gov/portal/page/portal/HUD/program_offices/cfo/stratplan/HUD_Strategic_Plan_G_goal5.pdf

Foreclosure Prevention

1. http://portal.hud.gov/portal/page/portal/HUD/program_offices/cfo/stratplan/HUD_Strategic_Plan_C_goal1.pdf
2. http://makinghomeaffordable.gov/
3. http://portal.hud.gov/portal/page/portal/HUD/program_offices/cfo/stratplan/HUD%20Strategic%20Plan%20060810.pdf#page=22

Rental Assistance

1. http://www.hud.gov/offices/cpd/communitydevelopment/programs/
2. http://www.hud.gov/offices/cpd/affordablehousing/programs/home/
3. http://www.hud.gov/offices/cpd/aidshousing/programs/

4. http://www.hud.gov/offices/hsg/mfh/progdesc/eld202.cfm
5. http://www.hud.gov/offices/hsg/mfh/progdesc/disab811.cfm
6. http://www.hud.gov/offices/hsg/mfh/mfbroch/mfbroc3.cfm
7. http://www.hud.gov/offices/pih/ih/grants/
8. http://www.hud.gov/offices/pih/programs/hcv/pwd/mainstream.cfm
9. http://portal.hud.gov/portal/page/portal/HUD/program_offices/cfo/stratplan/HUD_Strategic_Plan_D_goal2.pdf
10. http://hud.gov/budgetsummary2011/affordable-rental-homes.pdf

Veterans' Homelessness

1. http://www.usich.gov/PDF/OpeningDoors_2010_FSPPreventEndHomeless.pdf
2. http://portal.hud.gov/portal/page/portal/HUD/program_offices/cfo/stratplan/HUD%20Strategic%20Plan%20060810.pdf#page=29
3. http://hud.gov/budgetsummary2011/utilizing-housing.pdf

Energy and Green Retrofits

1. http://portal.hud.gov/portal/page/portal/HUD/recovery/partnerships/HUD_DOE
2. http://www.usgbc.org/DisplayPage.aspx?CategoryID=19
3. http://www.hud.gov/offices/pih/programs/ph/capfund/ocir.cfm
4. http://portal.hud.gov/portal/page/portal/RECOVERY/PLANS/Indian%20Community%20Development%20Block%20Grants%20(Formula).pdf
5. http://www.hud.gov/offices/pih/programs/ph/hope6/index.cfm
6. http://www.hud.gov/offices/pih/programs/ph/am/index.cfm
7. http://www.huduser.org/portal/publications/hsgfin/energy.html
8. http://portal.hud.gov/portal/page/portal/HUD/recovery/programs/green
9. http://www.hud.gov/offices/hsg/omhar/paes/greenini.cfm
10. http://www.hud.gov/offices/hsg/mfh/progdesc/eld202.cfm
11. http://www.hud.gov/offices/hsg/mfh/progdesc/disab811.cfm
12. http://portal.hud.gov/portal/page/portal/HUD/program_offices/healthy_homes
13. http://www.hud.gov/offices/cpd/affordablehousing/programs/home/
14. http://www.hud.gov/offices/cpd/communitydevelopment/programs/
15. http://hudatwork.hud.gov/inhouse/recoveryact/jan10.cfm
16. http://www.hud.gov/recovery/weatherization
17. http://portal.hud.gov/portal/page/portal/HUD/program_offices/sustainable_housing_communities
18. http://portal.hud.gov/portal/page/portal/HUD/program_offices/sustainable_housing_communities/SustainableCommunitiesPrograms4-29-10.pdf

Transform the Way HUD Does Business

1. http://portal.hud.gov/portal/page/portal/HUD/program_offices/cfo/stratplan/HUD_Strategic_Plan_G_goal5.pdf
2. http://portal.hud.gov/portal/page/portal/HUD/program_offices/cfo/stratplan/HUD_Strategic_Plan_G_goal5.pdf#page=6
3. http://www.hud.gov/budgetsummary2010/fy10budget.pdf#page=30
4. http://portal.hud.gov/portal/page/portal/HUD/program_offices/cfo/stratplan/HUD_Strategic_Plan_G_goal5.pdf#page=6
5. http://portal.hud.gov/portal/page/portal/HUD/program_offices/cfo/stratplan/HUD_Strategic_Plan_G_goal5.pdf#page=6

Recovery Act

1. http://www.recovery.gov/

Notes to Financial Statements

1. http://www.hud.gov/offices/hsg/fhahistory.cfm
2. http://www.ginniemae.gov/about/about.asp?Section=About
3. http://www.hud.gov/offices/hsg/mfh/rfp/s8bkinfo.cfm
4. http://www.hud.gov/offices/pih/programs/ph/am/of/opfnd2010.cfm
5. http://www.hud.gov/offices/cpd/communitydevelopment/programs/
6. http://www.hud.gov/offices/pih/programs/ph/capfund/index.cfm
7. http://www.hud.gov/offices/hsg/mfh/progdesc/eld202.cfm
8. http://www.hud.gov/offices/hsg/mfh/progdesc/disab811.cfm
9. http://www.hud.gov/offices/cpd/affordablehousing/programs/home/

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:

U.S. Department of Housing and Urban Development
451 7th St. SW, Room 2210
Washington, DC 20410
Attention: Jerome A. Vaiana
Acting Assistant Chief Financial Officer for Financial Management

Or by e-mail to
Jerome.A.Vaiana@hud.gov

For additional copies of this report, please call the
Office of the Chief Financial Officer
at 202-402-6411
or e-mail Anthony.A.Twyman@hud.gov

To view the report on the internet, go to the following website:
http://www.hud.gov/offices/cfo/reports/2010AFR.cfm

This Report is Available on the Web at:
http://www.hud.gov/offices/cfo/reports/2010AFR.cfm

EQUAL HOUSING OPPORTUNITY

U.S. Department of Housing and Urban Development