FY 2012 AGENCY FINANCIAL REPORT




U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

ABOUT THIS REPORT

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

This AFR provides financial and high level 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.

This report, available at http://portal.hud.gov/hudportal/HUD, includes information that satisfies the reporting requirements contained in the following legislation:

- Federal Managers' Financial Integrity Act of 1982
- Chief Financial Officers Act of 1990
- Government Performance and Results Act of 1993
- Government Management Reform Act of 1994
- Reports Consolidation Act of 2000
- Accountability of Tax Dollars Act of 2002
- Improper Payments Information Act of 2002
- Improper Payment Elimination and Recovery Act of 2010
- GPRA Modernization Act of 2010

HUD receives the CEAR award for its FY 2011 Agency Financial Report

FY 2011 marked the sixth year that HUD participated in the Certificate of Excellence in Accountability Reporting (CEAR) review program, sponsored by the Association of Government Accountants, and it is a tribute to all those involved in the annual reporting process that HUD has received this prestigious award for the sixth consecutive year.

Message from the Secretary

November 16, 2012

During Fiscal Year (FY) 2012, the Department of Housing and Urban Development continued to meet its mission of creating strong, sustainable, inclusive communities and quality, affordable homes for all. This Agency Financial Report (AFR) describes HUD's financial results for the fiscal year and performance results as of the third quarter in support of that mission.

In HUD's Strategic Plan for FY 2010 – 2015, our mission is reflected in five strategic goals, as explained under the heading "Strategic Goals" in the early pages of this AFR. In FY 2012, we identified and designated five programmatic 2-year Agency Priority Goals associated with the Strategic Plan goals that are essential to achieving this mission. The corresponding measures and our results through June 30, 2012, are briefly described below.

Foreclosure Prevention: Through early delinquency intervention and loss mitigation programs, by the third quarter (June 30, 2012), HUD had already assisted 337,464 homeowners toward its annual goal of helping 350,000 homeowners avoid foreclosure.

Neighborhood Stabilization: To reduce vacancy rates in the neighborhoods hardest hit by the foreclosure crisis, the second round of Neighborhood Stabilization funding provided through the Recovery Act supports redevelopment of vacant homes and has successfully brought the vacancy rate below the rate in comparable neighborhoods nearly 78 percent of the time, exceeding HUD's goal of exceeding that rate 70 percent of the time.

Affordable Housing: Through the end of the third quarter of FY 2012, HUD had served an additional 89,861 families through its affordable rental housing programs, exceeding its September 30, 2013, goal of serving an additional 61,000 families. These programs seek to preserve affordable rental housing for the more than 5.3 million families assisted.

Reduce Homelessness: HUD continues to make progress in reducing homelessness. In particular, in partnership with the Department of Veterans Affairs, HUD assisted 9,443 homeless Veterans in obtaining or maintaining permanent housing through the HUD-Veterans Affairs Supportive Housing Program, exceeding its third quarter June 30, 2012, goal of 9,250 Veterans assisted. Additional program results toward this goal are reported annually and are not available for reporting at this time. Full year results will appear in the Annual Performance Report available in February 2013.

Sustainable Housing: With energy costs being a high portion of housing costs, including public and assisted housing, HUD completed energy retrofits for nearly 57,000 units toward its third quarter goal of upgrading 24,135 units. Progress for Energy Performance Contracts in public housing is reported annually, so annual results are not included in this figure.

HUD conducts top-level meetings quarterly to track progress and anticipate challenges in achieving its Agency Priority Goals. These meetings, called HUDStat, are noted as a "best practice" throughout the federal and state government communities.

With signs that our housing recovery is under way – with home sales, prices, and housing construction all showing significant improvement – it has become increasingly clear just how important the Federal Housing Administration (FHA) has been to this progress. With its dual mission of providing access to homeownership for underserved populations and supporting the housing market during tough times, there is little doubt that FHA prevented a much deeper crisis and provided access to homeownership to millions of Americans.

That progress has not been without stress, however. According to the latest findings of FHA's FY 2012 independent actuarial review, the capital reserve ratio of the Mutual Mortgage Insurance Fund (the Fund) used to fund FHA's single-family mortgage insurance programs fell below zero, to -1.44 percent. While this point-in-time valuation of the economic net worth of FHA's portfolio is obviously of concern, it does not mean that FHA will have to draw from the Treasury. In addition to the reforms made thus far to strengthen FHA's health – the most sweeping in the nearly 80-year history of FHA – the Department will launch a series of other actions designed to strengthen the Fund while ensuring that no harm comes to borrowers or to the emerging housing recovery. These measures emphasize maximizing recoveries on FHA's legacy loans, which are responsible for significant stress on the Fund, and will also provide assistance to distressed borrowers as the economic recovery continues. Throughout this crisis, when FHA's health has faced challenges, HUD has taken action designed to protect the FHA and the taxpayer alike. Indeed, the steps the Department has taken to date are estimated to have improved the health of the Fund by more than $20 billion. The additional measures to be implemented in FY 2013 will make the Fund even stronger over the long term.

HUD has also taken important steps toward holding mortgage servicers accountable for foreclosure processing abuses. The $25 billion settlement struck by the Administration and 49 bipartisan state attorneys general with the five largest servicers, between March 1 and June 30, 2012, provided 165,000 homeowners with almost $14 billion in relief – $76,000 on average. This includes homeowners currently in trial modifications who, only because of the settlement, can expect their bank to not simply reduce their monthly payments, but to actually write down more than $108,000 of mortgage debt, on average.

Further, to improve the supply of affordable rental housing at a time when HUD estimates that the capital needs backlog facing the public housing program comes to approximately $26 billion, HUD's new Rental Assistance Demonstration is helping public housing agencies and owners of Moderate Rehabilitation, Rent Supplement, and Rental Assistance Payment developments tap their equity to make physical improvements in up to 60,000 affordable homes.

During FY 2012, HUD recognized a material weakness in its Strategic Management of Human Capital Operations. HUD's Office of Inspector General (OIG) also identified a new material weakness in Achieving Substantial Compliance with the Federal Financial Management Improvement Act. HUD management disagrees with the conclusions of the OIG, and additional information is available regarding both of these findings in the Management Assurances chapter in Section 1 of this report.

I can provide reasonable assurance that the performance and financial data in this report is reliable and complete. A complete statement of assurances is contained in the Management's Discussion and Analysis section of this report. Data limitations are discussed in Appendix C.

Looking ahead, HUD will continue to work with Congress, public stakeholders, citizens, and state and local governments to find new ways to successfully create strong, sustainable, inclusive communities and quality, affordable homes for all.

Shaun Donovan
Secretary

HOW THIS REPORT IS ORGANIZED

Table Of Contents (Left Column Accessible Links)

SECTION 1:

Section 1, the Management's Discussion and Analysis section, presents an overview of the Department and its performance and financial results. It also includes management's assurances on internal controls and financial systems, and compliance with laws and regulations.

SECTION 2:

Section 2, the Financial Information section, presents the Department's financial statements and their accompanying notes and the independent auditors opinion on those statements. It also includes other required information.

SECTION 3:

Section 3, the Other Accompanying Information section, presents other useful information of interest to the public and the Department's stakeholders.

APPENDICES:

The Appendices section presents other useful information to the readers of this document.

WHAT DO THE FOLLOWING PEOPLE HAVE IN COMMON?

A Colorado borrower was nine months past due and in foreclosure, with a foreclosure sale pending within 30 days due to job loss and spousal illness. The borrower had regained employment and wanted to apply for loss mitigation. A National Service Center Housing Specialist contacted the servicer and requested a hold on the pending sale and a workout packet for the borrower to complete and return. After an expedited review and approval for a loan modification, the borrower's payment was reduced by over $200 per month, enabling them to stay in the house.

It is difficult for first-time homeowners to ensure their new homes are safe from potential hazards. With the support of a $2.99 million grant from HUD, the Washington D.C. Department of Housing and Community Development (DHCD) provides free testing for lead-based paint hazards to homeowners such as Jose Amaya, a now very happy father. On May 31st, after a complete remediation of the home he had purchased two years ago, Mr. Amaya said that he "can't find the words" to express his appreciation. "I am happy," he repeatedly said. One month after the remediation, elevated levels of lead found in the blood of his children had dropped into a normal range.

Jose Amaya with DHCD Director John E. Hall

In January 2012, the Justice Resource Institute (JRI) the launched Youth Housing Initiative, which will run for three years under the HUD grant. This innovative program provides housing and support for homeless youth ages 18-25 living with Human Immunodeficiency Virus (HIV). In addition to assisting youth in applying for housing vouchers, JRI will conduct individualized assessments and work with the individuals to access education and career opportunities, as well as to connect them to resources ranging from mental health to financial literacy. Susan Buoncuore, Program Director at JRI, applauds HUD's grants programs saying, "These funds gave us the opportunity to fund housing and supported services for youth; we wouldn't have done it without the support of the Department of Housing and Urban Development."

A senior couple in Des Moines toured a new facility in February, wondering if this was the place for them. The Residence at Christ the King had 28 garden-style units, an elevator, and common space, with surface parking available. What clinched their decision, however, was the library within walking distance.

While some of the names are omitted, these are real people, families, and communities that benefit from HUD programs. Primary beneficiaries include millions of families who receive rental assistance, millions who obtain insured mortgages, thousands of Veterans and families who are no longer homeless, occupants of thousands of dwellings made safer and more energy efficient, thousands protected from discrimination, and hundreds of communities injected with new life. Secondary beneficiaries include the millions of Americans whose living environment is friendlier as a result of helping to improve the quality of life for others.

AGENCY AND MISSION

Mission

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

As part of its mission, HUD is committed to creating places throughout the nation that effectively connect people to jobs, transportation, quality public schools, and other amenities — "geographies of opportunity."

Our Vision

Our vision is to improve lives and strengthen communities to deliver on America's dreams.

- **For our residents,** we pledge to improve lives by creating affordable homes in safe, healthy communities of opportunity, and by protecting the rights and affirming the values of a diverse society.
- **For our partners,** we will be a flexible, reliable problem solver and source of innovation.
- **For our employees**, we will be a great place to work, where employees are valued, mission driven, results oriented, innovative, and collaborative.
- **For the public,** we will be a good neighbor, building inclusive and sustainable communities that create value and investing public money responsibly to deliver results that matter.

Core Philosophy

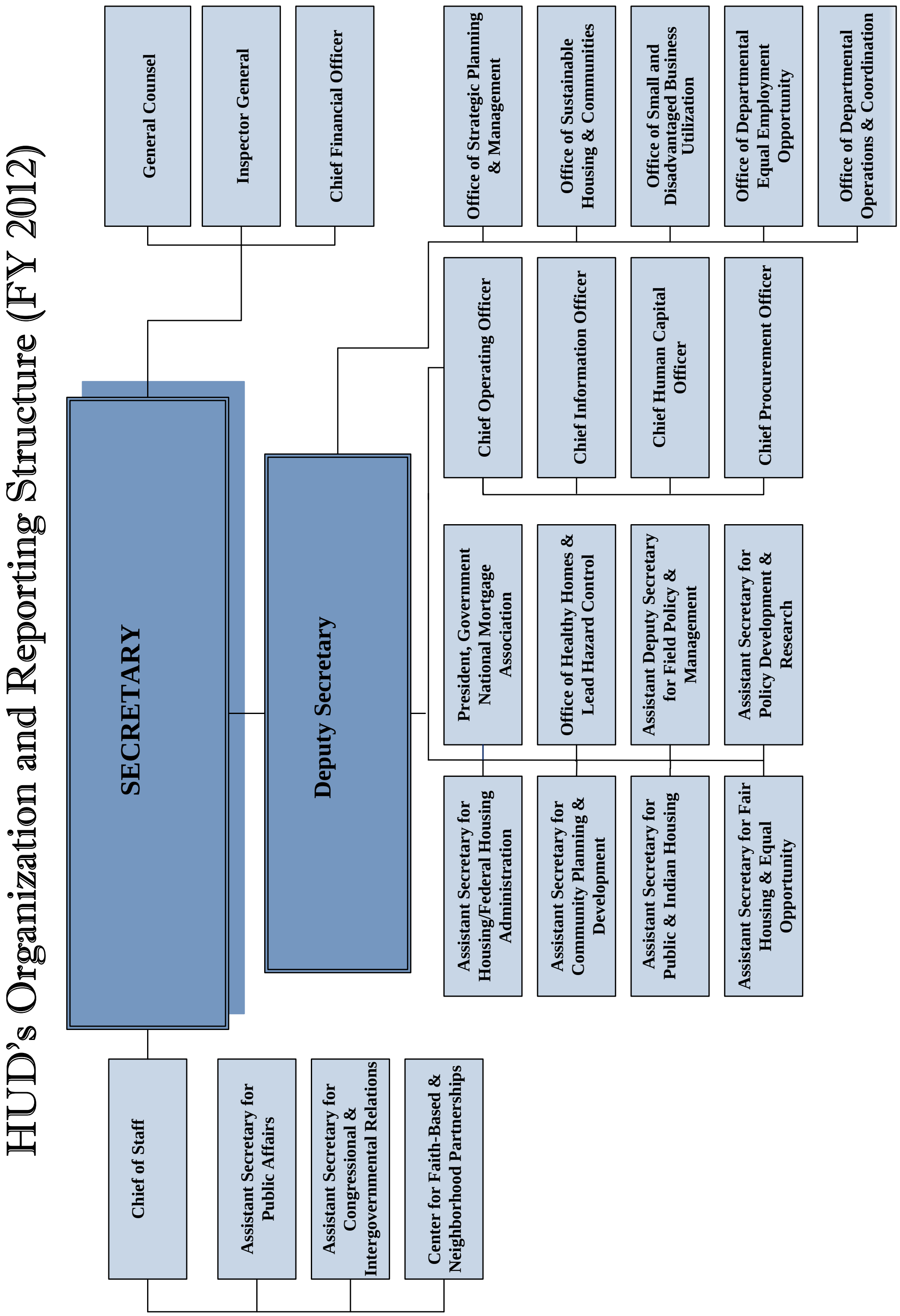
The scope and diversity of HUD's programs reflect a core philosophy at HUD.

When choosing a home, citizens are not only choosing a physical structure, but they also are choosing communities and the opportunities available in those communities, transportation to work, schools for their children, and public safety. Ensuring that every American family has those choices is what HUD has designed its programs to do.

Organizational Structure

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

HUD's organizational structure is reflected below and a description of its offices follows.



HUD's major organizations and scope of responsibilities include:

The Office of Housing is HUD's largest office. It primarily insures mortgages for single family homes, multifamily properties, and hospitals as the Federal Housing Administration (FHA), the largest mortgage insurer in the world. The office also oversees properties providing affordable rental housing to over 1.3 million poor households. Within the Office of Housing are multiple business areas:

- Single Family Housing — HUD's Single Family programs include mortgage insurance on loans to purchase new or existing homes, condominiums, manufactured housing, houses needing rehabilitation, reverse equity mortgages to elderly homeowners, servicing of Secretary-held mortgages, loss mitigation and property disposition programs.
- Office of Housing Counseling (OHC) — The OHC supports a national network of HUD-approved housing counseling agencies that provide consumers unbiased, expert information to enable them to understand their current financial and housing situation and meet their future goals regarding sustainable homeownership or affordable rental housing. The OHC is responsible for policy development, administration of grants for counseling services and counselor training, outreach and capacity building of new and existing HUD-approved agencies as well as oversight and monitoring of HUD approved agencies.
- Multifamily Housing — 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. Multifamily's Project-Based Rental Assistance (PBRA), Section 202 - Housing for the Elderly and Section 811 - Housing for Persons with Disabilities programs assist low- and very low-income households in obtaining decent, safe, and sanitary housing in privately owned rental housing.
- Healthcare Programs — HUD's healthcare programs consist of Section 242, which provides mortgage insurance for hospitals, and Section 232, which provides mortgage insurance for residential care facilities such as nursing homes, assisted living facilities, and board and care facilities.

The **Government National Mortgage Association** (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. Its mission is to expand affordable housing in America by linking global capital markets to the nation's housing markets. Specifically, the Ginnie Mae guaranty allows mortgage lenders to obtain attractive and abundant funding for their mortgage loans in the secondary market.

The lenders can then use the proceeds from their **Mortgage Backed Securities** issuance to make new mortgage loans available, so as to make affordable housing a reality for millions of low- and moderate-income households across America.

The **Office of Public and Indian Housing** (PIH) is responsible for overseeing and monitoring 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; assure fiscal integrity by all program participants; and support mixed income developments to replace distressed public housing. To this end, with a workforce of more than 1,500 within 10 major offices at Headquarters and 46 field offices, and an annual program budget representing approximately 57 percent of HUD's annual budget, PIH oversees three major business areas:

- **Housing Choice Voucher Program** (HCV) - provides housing subsidies to approximately 2.2 million low-income, elderly, and disabled families. A family who is issued a housing voucher is responsible for finding a suitable housing unit of the family's choice, the owner of which agrees to rent under the program (provided the rental unit passes a Housing Quality Standards (HQS) inspection performed by the PHA).

- **Public Housing Program** provides subsidy to over 1.1 million units to assist vulnerable low-income families, of which nearly half are either elderly, disabled, or both. Public Housing Agencies (PHAs) receive two separate funding streams, the Capital Fund and the Operating Fund, which were established in 1998 by the Quality Housing and Work Responsibility Act (QWHRA). The Capital Fund was established to support the development, financing, and modernization of public housing developments, while the Operating Fund provides for the operation and management of public housing.

- **Native American Programs** (ONAP) provide a coordinated and comprehensive response to Indian Country's housing and community development needs through work with tribal, state, and local governments, federal agencies, community organizations, and the private sector. More than 550 American Indian tribal governments and Alaska Native Villages receive an annual Indian Housing Block Grant to provide safe, decent, and affordable housing to low-income residents of Indian areas. The Native Hawaiian Housing Block Grant assists low-income native Hawaiians who are eligible to reside on the Hawaiian home lands. The loan guarantee programs for American Indians, Alaska Natives, native Hawaiians, and tribal governments ensure market-rate financing for housing is available in traditional native areas. ONAP also administers the competitive Indian Community Development Block Grant program.

The **Office of Community Planning and Development** (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 Community Development Block Grant (CDBG) program provides annual funding to more than 1200 jurisdictions to implement job creation activities, infrastructure investments, public services and improve housing in low- and moderate-income neighborhoods. The CDBG program serves as the basis for a range of other initiatives such as the Section 108 loan guarantee program, CDBG disaster recovery assistance and the Neighborhood Stabilization Program (NSP). These programs have a profound effect in assisting states and local governments in addressing critical community development needs.

- The HOME Investment Partnerships Program is the largest Federal block grant to state and local governments designed exclusively to produce affordable housing for low-income families and HUD's primary affordable housing production program. HOME funds may only be used for four primary purposes: production of new single or multifamily housing units, rehabilitation of housing, direct homeownership assistance, or time-limited tenant-based rental assistance (for up to 2 years with possibility of renewal). HOME provides annual funding to 644 state and local governments (known as participating jurisdictions (PJs)). For most of these PJs, HOME is the only reliable stream of affordable housing development funds and their principal tool for the production of rental and for-sale housing for low- to extremely low-income families, including mixed-income housing and housing for persons with special needs. In addition, HOME funds frequently provide the critical gap financing that make rental housing funded with Low-Income Housing Tax Credits or other Federal, State, or local housing projects feasible.

- The Office of Special Needs Assistance Programs provides grant funds to nonprofit organizations and State and local units of government to offer emergency, transitional, and permanent housing and supportive services to homeless and at-risk of homelessness families and individuals. The homeless assistance programs are designed to promote community-wide commitment to the goal of ending homelessness; provide funding to community homeless service providers to prevent and end homelessness; promote access to and effective utilization of mainstream programs by homeless individuals and families; and optimize self-sufficiency among individuals and families experiencing or about to experience homelessness. The Office also gathers and uses data to understand the nature and extent of homelessness throughout the country, report to Congress, and make funding decisions.

The **Office of Fair Housing and Equal Opportunity** (FHEO) works with partnering state and local governments as well as non-profit grantees to administer and enforce the Fair Housing Act, substantially equivalent state and local fair housing laws, and other federal laws; establishes policies that ensure all Americans have equal access to the housing of their choice; educates the public on fair housing issues; and enhances economic opportunity.

The **Office of Healthy Homes and Lead Hazard Control** (OHHLHC) seeks to eliminate lead-based paint hazards, particularly 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.

The **Office of Sustainable Housing and Communities** (OSHC) helps HUD manage its relationships with other Cabinet agencies to provide communities with the support they need to ensure housing, transportation, energy, and green building investments are working together to build strong neighborhoods. In addition to supporting performance measure 13 as described in this report, the Office has awarded some $250 million in grants in support of more livable urban and rural communities or metropolitan regions.

The **Office of Strategic Planning and Management** (OSPM) is responsible for driving organizational, programmatic, and operational change across the department, in order to maximize agency performance. The office facilitates the department-wide strategic planning process with external stakeholders, including the identification of strategic priorities and transformational change initiatives, the monitoring of key performance measures against established targets, the oversight of the American Recovery and Reinvestment Act of 2009 (Recovery Act), and management and oversight of the agency's grants.

The **Office of Policy Development and Research** (PD&R) conducts research on priority housing and community development issues, provides objective program evaluation, data, and analysis to inform policy decisions and improve program results, and maintains a repository of resources on housing needs, market conditions, and existing programs.

The **Center for Faith-Based and Neighborhood Partnerships** supports internal and interdepartmental special event planning and execution, programs and projects that are cross-programmatic, and outreach to constituents for Secretarial priorities.

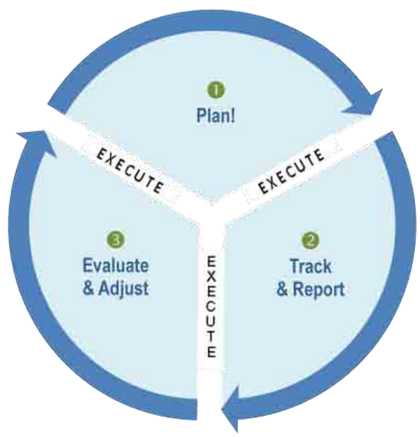
Performance Overview

This section presents HUD's strategic and performance planning framework and summarizes HUD's Agency Priority Goals (those measures critical to the accomplishment of HUD's mission).

Performance Management is defined as: "Use of **goals, measurement, analysis, and data-driven reviews** to **improve results** of programs and the **effectiveness** and **efficiency** of agency operations. Performance management activities often consist of **planning, goal setting, measurement, analysis, reporting, implementation** and **evaluation**" (Office of Management and Budget (OMB) Circular No. A-11, Part 6).

The foundation for the performance planning framework is the GPRA Modernization Act (GPRAMA) which requires agencies to address Agency Priority Goals (APGs) in their Strategic Plan and Annual Performance Plan (APP). In addition to the following performance discussions, please refer to Performance.gov for more information on HUD's APGs and its contributions to Federal Cross-Agency Priority Goals, where applicable. Also, the 2013 Cuts, Consolidations, and Savings (CCS) Volume of the President's Budget identifies the lower-priority program activities under the GPRAMA, 31 U.S.C. 1115(b)(10). The public can access the volume at: http://www.whitehouse.gov/omb/budget.

There are three phases in the performance planning process as shown in the graphic and defined below:



- Plan: Includes the development of the overarching Strategic Plan, the Management Action Plan, and APP. The APP states the Department's sub-goals, including the APGs, and performance measures in alignment with the Department's budget request. The placed-based aspect of the Department's goals is covered by the Headquarters and local field office operating plans.
- Track and Report: Includes the quarterly gathering of performance data and the reporting on the results, both internally and externally, in the AFR and APR.
- Evaluate and Adjust: Revolves around the Department's HUDStat, CityStat, and Quarterly Performance Reviews meetings.

As noted above, to facilitate the tracking and evaluation of the accomplishments of the Department's goals, HUD established an extensive review process including a high level monitoring process called HUDStat. HUDStat provides the information needed to hold goal-focused, data-driven discussions to identify, examine, and prevent or reduce problems, find patterns and casual relationships, speed progress, improve quality, and cut costs.

HUD's APR, which will be issued in February 2013 with the President's FY 2014 Budget, will report in detail, full accomplishments for FY 2012. For consistency, all results for the Department's APGs are also reported for the full year through the end of the third quarter. For some programs, performance results are only available 90 days after the end of the reporting period, therefore missing the window to be included in this AFR.

The data sources, limitations, and steps taken to ensure that performance information in this report is complete, accurate, and consistent are described in Appendix C of this document.

Strategic Plan

The HUD Strategic Plan FY 2010-2015, issued in May 2010, includes a reinvigorated mission statement that reflects a renewed focus on people and places, as well as a vision statement that paints a picture of what HUD will be to our partners, employees, and the American people, as a whole.

After an extensive process involving the input of more than 1,500 stakeholders, HUD issued the HUD Strategic Plan FY 2010-2015. The plan's five strategic goals and 22 key outcome measures – referred to as Measures of Success – reflect HUD's need to engage new local and federal partners, adjust policies and programs to address common problems across a broader metropolitan geography, and fundamentally change the agency's operating model.

Strategic Goals

To provide a framework for the delivery of its mission and vision, the Strategic Plan includes a set of five strategic goals shown below and a framework with strategic objectives reflected on the following page:

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

Agency Priority Goals (APGs)

The APGs serve as management improvement strategies, which represent challenging, generally two-year performance improvements under existing legislative and budgetary authority, specifically under the GPRAMA. The GPRAMA, which amended the Government Performance and Results Act (GPRA) of 1993, created a more defined performance framework by prescribing a governance structure and by better connecting plans, programs, and performance information, to include updated two-year APGs to commence in FY 2012. HUD selected four of its outcome measures as priority focus measures for FY 2010 and 2011 because they represented challenging, near-term, high-impact outcomes that reflected the Department's commitment to "moving the needle" on some of the most fundamental challenges facing America. Since then, the GPRAMA was enacted, which directs agencies to identify APGs that support improvements in near-term outcomes, customer service, or efficiencies, and advance progress toward longer-term outcome focus goals in an agency's strategic plan.

In FY 2012, HUD continued its implementation of these four earlier measures, but with new two-year targets that reflect progress made during the previous two years. In addition, HUD expanded the number of priority goals to include the Department's outcome measure to improve neighborhood stabilization within Strategic Goal 1. HUD has included as a priority goal, in Strategic Goal 5, an efficiency goal, to award funds more quickly to help improve our partners' ability to work with HUD to achieve our mission.

HUD's APP provides detailed information for each Strategic Goal including the problem to be addressed, the measure of success, strategies to achieve success, and a "Place" strategy. The APP includes two additional Strategic Goal 5 measures of success related to timeliness and quality of performance plan reviews and hiring. Also, HUD is focusing on additional sub-populations (families and the chronically homeless) to help end chronic homelessness by 2015 and to help end family homelessness by 2020, as targeted in *Opening Doors: The Federal Strategic Plan to Prevent and End Homelessness*.

The APGs, outlined and illustrated below, directly support HUD's Strategic Goals and the Strategic Plan's 31 measures of success, to focus on ongoing responsibilities and priorities to address foreclosure prevention, rental assistance, Veterans homelessness, and promote energy and green retrofits.

HUD's APGs are displayed below under the respective Strategic Goal that they apply.

Strategic Goal 1. Strengthen the Nation's Housing Market To Bolster the Economy and Protect Consumers

- **Prevent foreclosures.** By September 30, 2013, assist 700,000 homeowners who are at risk of losing their homes due to foreclosure. (**Measure 1a**)
- **Reduce vacancy rates.** By September 30, 2013, reduce average residential vacancy rate in 70 percent of the communities hardest hit by the foreclosure crisis relative to at least one comparable area. (**Measure 3a**)

Strategic Goal 2. Meet the Need for Quality Affordable Rental Homes

- **Preserve affordable rental housing.** By September 30, 2013, preserve affordable rental housing by continuing to serve 5.3M total families and serve an additional 61,000 families through HUD's affordable rental housing programs. (**Measure 5a**)

Strategic Goal 3. Utilize Housing as a Platform for Improving Quality of Life

- **Reduce homelessness.** By September 30 2013, in partnership with the VA, reduce the number of homeless Veterans to 35,000 by serving 35,735 additional homeless Veterans. HUD is also committed to making progress towards reducing family and chronic homelessness and is working towards milestones to allow for tracking of these populations. (**Measure 6**)

Strategic Goal 4. Build Inclusive and Sustainable Communities Free From Discrimination

- **Increase the energy efficiency and health of the nation's housing stock.** By September 30, 2013, HUD will enable a total of 159,000 cost effective energy efficient and healthy housing units, as a part of a joint HUD-DOE goal of 520,000. (**Measure 13**)

Strategic Goal 5. Transform the Way HUD Does Business

- **Improve program effectiveness by awarding funds fairly and quickly.** By September 30, 2013, HUD will improve internal processes to ensure that we can obligate 90 percent of NOFA programs within 180 calendar days from budget. (**Measure 27**)

APG - Measure 1a: Prevent foreclosures. By September 30, 2013, assist 700,000 homeowners who are at risk of losing their homes due to foreclosure.

Millions of homeowners are in danger of losing their homes to foreclosure, often after experiencing a decline in income due to the economic recession.

For the vast majority of Americans, their home is the single most expensive and valuable asset they own. As a result, losing a home through foreclosure is often a traumatic life experience that leads to significant deterioration in a person or family's living conditions, economic viability, neighborhood stability, and opportunities for improving quality of life. The housing market is a critical element of the American economy. Foreclosure prevention and the recovery of the housing market is a critical component of the Administration's broader plan for economic recovery.

Though the nation is no longer in a recession,[1] the impact of the housing crisis has been significant and protracted. At the end of the third quarter of 2012, about 5.4 million homeowners were past due by at

> The White House notified the National Servicing Center (NSC) in February 2012 of an FHA borrower in Ohio who had defaulted in May 2009 as a result of their servicer placing them on a suspended forbearance, even though their loan was current. This occurred three months prior to implementation of FHA-HUD Affordable Modification Program in August 2009. The NSC Housing Specialist determined that, in November 2009, the servicer approved a loan modification but did not conduct the required escrow analysis until late January 2010, resulting in a monthly payment increase of $123. The borrower was current and, on receiving notice of the increase, sent a check to cover the three months of extra amount due. The servicer, having never booked the loan modification, advised the borrower they needed to repeat the loan modification process. With this notice, and fearful after receiving calls and foreclosure letters, the borrower put their house on the market and moved with their two small sons to an apartment. The Housing Specialist contacted the borrower and learned that they desired to keep their home. Based on the multiple servicing errors, the servicer was assessed $50,593.98 in concessions and was required to complete a new loan modification at market rate, with the first payment due in September 2012. The borrowers are back in their home, and a foreclosure was avoided.

[1] Business Cycle Dating Committee of the National Bureau of Economic Research, Sept. 2010 (http://www.nber.org/cycles/sept2010.pdf).

least one mortgage payment. Of these homeowners, nearly 1.8 million are in the process of foreclosure and nearly 1.5 million others are seriously delinquent and at high risk of foreclosure. Further, at the end of August 2012, 10.9 million homeowners were estimated to be underwater borrowers; these underwater homeowners include some who are current on their mortgage payments and some who have missed at least one payment.

The Administration has undertaken substantial and varied efforts to assist struggling homeowners through its foreclosure prevention programs, and in addition the broader economy is gaining strength. Housing data through the third quarter of 2012 show a sustained trend of significant improvement across nearly all housing indicators, including fewer foreclosures, fewer distressed sales, rising home values, and increases in new housing starts.

Strategies

- **Assist homeowners facing foreclosure, using prevention, loan modification, and loan refinancing programs.**

Loan servicers most often offer early delinquency intervention assistance to homeowners who are less than 90 days in default. Providing assistance to homeowners who are in the early stages of mortgage payment distress averts the potential for more serious delinquencies, defaults, and foreclosures at a later date. These interventions include repayments and trial modifications.

The early delinquency interventions have been effective over the years, but as the housing crisis expanded, HUD implemented both new and improved loss mitigation programs to better assist homeowners most in danger of losing their homes. These loss mitigation products include:

- FHA Home Affordable Modification Program (HAMP).
- Special Forbearance.
- Mortgage Modifications.
- Partial Claims.
- Pre-foreclosure Sales.
- Deeds in Lieu.

Contributing programs include FHA-HAMP and the Housing Counseling program.

Results

Indicator	2010		2011		2012 Q3		Met?	Trend*
	Target	Actual	Target	Actual	Target	Actual		
Homeowners assisted through FHA early delinquency intervention	200,000	213,403	200,000	282,794	187,500	228,957	▲	
Homeowners assisted through loss mitigation	162,015	193,344	137,985	212,890	75,000	108,507	▲	
Consolidated Claim Workout Ratio	68.01	66.87	75.00	71.57	65.00	60.80	▼	
6-month Re-default Rate	23.40	17.80	20.00	13.61	11.00	14.49	▼	

* The solid trend line represents full year data for FY 2010 and FY 2011 and the dashed trend line represents results through Q3 of FY 2012.

The Department's efforts to mitigate the foreclosure crisis are led by the Assistant Secretary for Housing – Federal Housing Administration (FHA) Commissioner and also extend to its close relationships with the Treasury Department as well as third-party lenders of FHA-insured loans.

Through FY 2012 Q3, HUD is exceeding cumulative targets for early delinquency interventions and loss mitigation actions by 22 percent and 45 percent, respectively.

HUD is also on track to meet supporting measure targets by the end of FY 2012:

- At end of Q3, Consolidated Claims Workout (CCW) Ratio of 61 percent already exceeds the Q4 target of 50 percent.
- Although we did not meet the target at end of Q3, the 6 Month Re-default Rate is 1.49 percent above Q4 target (13 percent).

The large backlog of foreclosure completed non-conveyed properties held by Bank of America (BoA)(~23,500) continues to be a considerable risk to progress on this goal, especially to meeting targets on the CCW Ratios and 6 Month Re-default Rate measures.

HUD's National Servicing Center is working with BoA to assist those homeowners who are at risk for foreclosure to prevent as many foreclosures as possible. HUD is also asking BoA for estimates of the number of foreclosures they forecast that will come through the pipeline over the next year so that HUD can plan accordingly.

HUD is very confident that the goals will be met or exceeded by the end of FY 2014, as we are already on track to meet or exceed all of our goals.

APG - Measure 3a: Reduce residential vacancy rates. By September 30, 2013, reduce average residential vacancy rate in 70 percent of the communities hardest hit by the foreclosure crisis relative to at least one comparable area.

Vacant and abandoned properties that are the consequence of the foreclosure crisis de-stabilize neighborhoods with high foreclosure rates. The goal of the Neighborhood Stabilization Program (NSP) is to repurpose properties to stabilize neighborhoods. This agency priority goal serves as a second key measure of success in HUD's effort to strengthen the housing market to bolster the economy and protect consumers.

Strategies

- **Mitigate the effects of the foreclosure crisis on neighborhoods by assisting communities that have high rates of foreclosure.**

The goal is to ensure that 70 percent of the NSP2 Neighborhood Investment Clusters outperform at least one comparable neighborhood in vacancy rate reduction. The Department engaged the Reinvestment Fund under the Neighborhood Stabilization technical assistance program to analyze areas across the nation that received NSP investments. The purpose of this analysis was to: 1) analyze how markets treated with NSP investment have changed over time compared to similar markets that have not been touched by these investments; 2) identify "outstanding performers," markets treated with NSP investment where home sale price and vacancy indicators have trended better than their comparable markets; 3) develop a systematic process and automated report for updating this analysis on a quarterly basis using new home sales and vacancy statistics; and, 4) provide technical assistance to grantees on the relative effectiveness of their programs in achieving program goals.

The NSP is HUD's primary tool for mitigating the effects of foreclosures on neighborhoods, and this measure will show the progress of this program, specifically, whether vacant homes in NSP investment areas are occupied or converted into other viable uses. NSP2, a term that references the NSP funds authorized by Title XII of Division A of the American Recovery and Reinvestment Act of 2009, (the Recovery Act) provided grants to states, local governments, nonprofits and a consortium of public and/or private nonprofit entities on a competitive basis. NSP2 grantees are the main contributors to this goal.

Additionally, the Office of Single Family Housing monitors sales of FHA Real Estate Owned (REO) properties to ensure 100 percent of eligible REO properties are vacant for the least time possible. The Office of Single Family Housing will make these properties available to grantees of NSP programs as well as monitor how long it takes to list properties after acquisition and how long these properties stay in inventory to ensure expedited sale and occupancy of these properties.

Results

Indicator	2010/2011	2012 Q3 Target	2012 Q3 Actual	Met?	Trend
Percent of Neighborhood Investment Clusters (NICs) with improved vacancy rate outcomes over at least one comparable area	NA	70.00%	77.8%	▲	NA
NSP2 target areas units of service	NA	2,218	3,013	▲	NA
Average days to list REO properties to market	NA	44.0	24.0	▲	NA
Average time in inventory for REO properties	NA	188.0	144.0	▲	NA

Currently (through Q3), HUD is exceeding the expected level of performance.

APG – Measure 5a: Preserve affordable rental housing. By September 30, 2013, preserve affordable rental housing by continuing to serve 5.3 million total families and serve an additional 61,000 families through HUD's affordable rental housing programs.

HUD's rental assistance and some of the community development programs provide affordable rental housing, some with supportive services to vulnerable populations who are low-income, homeless or at risk of homelessness.

In an era when more than one-third of all American families rent their homes, we face a housing market that does not create and sustain a sufficient supply of affordable rental homes, especially for low-income households. In many communities, affordable rental housing does not exist without public support. Despite significant improvements in housing quality in recent decades, much of our rental housing stock is neither energy efficient nor accessible to people with disabilities, and pockets of severely substandard housing remain across the country.

Affordability problems have been exacerbated by the recession and the increasing demand for rental housing generated by the foreclosure crisis. According to the 2009 Worst Case Housing Needs Report published on February 1, 2011, HUD found the number of renters with worst case housing needs grew from 5.91 million in 2007 to 7.10 million in 2009, representing an increase of over 20 percent. These individuals and families were considered to have worst case housing needs if they were renters with incomes below 50 percent of the Area Median Income who do not receive government assistance and who either paid more than one-half of their income for rent, lived in severely inadequate conditions, or faced both of these challenges. At the same time, only about one in four families eligible for Federal rental assistance programs receives assistance. Federal housing programs have been financially unable to keep up with this demand over the years to help offset the limitations of the private rental market in providing housing that all families can afford. Given the current fiscal climate, it is critical that HUD maximize existing resources to maintain our current support to families and seek opportunities to expand that support where possible.

Strategies

- **Preserve affordable rental housing and serve additional families through HUD's affordable rental housing programs.**

To increase the total number of families served within available resources, HUD will improve program management and modify policies as necessary (and allowable) to preserve units, increase occupancy and utilization rates, and reduce the number of units converted to market rate housing (for example, in the private multifamily programs (see footnote 4 to the results table below for additional information)).

The agency-wide focus on achieving this goal will necessitate a coordinated approach across current program silos, with the potential to achieve cost savings that can be used to serve additional families.

All of HUD's programs that provide rental assistance are integral to achieving the goal, including programs administered by:

- **PIH**: Public Housing; Housing Choice Vouchers; Indian Housing Block Grants; and Indian Community Development Block Grant;
- **Housing**: privately-owned properties participating in multifamily programs, including Sections 8, 202, 236, and 811; Below Market Interest Rate; Rent Supplement; Rental Assistance Program; 202 and 811 Project Rental Assistance Contract; and Section 232; and
- **CPD**: HOME (including the Tax Credit Assistance Program [TCAP] and Tenant Based Rental Assistance [TBRA]); Housing Opportunities for Persons With AIDS (HOPWA); McKinney-Vento homeless programs; a portion of the Neighborhood Stabilization Program; and Community Development Block Grants-Disaster Recovery.

Because of the cross-cutting nature of the goal, the efforts of the responsible program offices are being coordinated centrally by the Office of the Secretary's designated goal owner.

Residents and other guests celebrated the grand opening of Sunflower Terrace, a 160-unit development located at 5050 Sunflower Street in the city of Houston.

Sunflower Terrace utilized financing from the City of Houston's Housing and Community Development Department, HUD's HOME Investment Partnerships (HOME) program and a permanent loan provided by Wells Fargo and the Houston HUD office.

Results

Indicator	2010		2011		2012 Q3		Met?	Trend*
	Target	Actual	Target	Actual	Target	Actual		
CPD occupied rental units	16,569	46,458	56,629	65,081	26,907	61,509	▲	
MFH occupied rental units (3)	-3,559	5,426	200	3,420	-11,926	-637	▲	
Public Housing occupied rental units	5,976	1,203	15,424	22,001	2,418	8,270	▲	
TBRA occupied rental units	63,183	30,847	35,994	40,679	0 (1)	20,480	▲	
ONAP occupied rental units	680	739	612	647	540	521	▼	
Other Contributing Programs	NA	NA	NA	NA	NA	-282	NA	NA
Total HUD families served (2)	82,849	84,673	108,859	131,955	17,939	89,861	▲	

* The solid trend line represents full year data for FY 2010 and FY 2011 and the dashed trend line represents results through Q3 of FY 2012.

(1) Establishing leasing targets for the TBRA program is a difficult task, as many factors come into play in determining the number of units leased during any period of time. For FY 2012 and FY 2013, TBRA's goal was to maintain the number of families currently served. The reason for the target of zero is that although the TBRA account receives new vouchers each fiscal year (typically tenant protection and HUD-VASH) the expected gains from the leasing of these new vouchers is anticipated to be eventually offset over the course of the 2012 and 2013 as a result of anticipated downward pro-rations in renewal funding due to necessary budgetary constraints in difficult fiscal years. The 2012 Appropriations Act rescinded $650 million through an offset against public housing agencies' program reserves, reducing the PHA's ability to significantly increase leasing or meet unanticipated cost increases without reducing the number of families served. The uncertainty of the timing of the 2013 Appropriations Act and the amount of renewal funding that will ultimately be made available will make maintaining current leasing in 2013 especially challenging. Additionally, projected further downward pro-rations in 2014 may cause decreased leasing in the final months of 2013.

(2) Total includes net change of all Agency Priority Goal results in addition to indicators listed in the table.

(3) The Multifamily Housing occupied unit targets are established as follows.

a. The number of units currently assisted under existing programs such as Section 8 Project Based Rental Assistance or Section 236 Below Market Interest Rate Rental Housing PLUS

b. The number of new affordable housing units coming on line from the Department's active affordable housing production programs such as Section 202 and 811 and Low Income Housing Tax Credit units combined with FHA Mortgage Insurance MINUS

c. The number of affordable housing units lost due to owners opting out of the Section 8 Project Based Rental Assistance Program or due to owners prepaying Section 236 Below Market Interest Rate Mortgages.

The number of units lost as a result of opt-out or prepayment was estimated to be more than the net new number of affordable housing units brought on-line. As a result, the Office of Multifamily Housing occupied unit target in certain years was negative. However, in those years Multifamily performance in limiting the loss of affordable units is exceeding expectations and as a result fewer than anticipated affordable units are lost due to opt-out or mortgage prepayment/maturity.

Currently (through Q3), HUD is exceeding expectations against the expected level of performance. The combined efforts of the many programs contributed to this goal meeting its target.

APG – Measure 6: Reduce homelessness. By September 30, 2013, in partnership with the VA, reduce the number of homeless Veterans to 35,000 by serving 35,735 additional homeless Veterans. HUD is also committed to making progress towards reducing family and chronic homelessness and is working towards milestones to allow for tracking of these populations.

Veterans are overrepresented in the homeless population, consisting of approximately 14 percent of homeless adults at a given point in time in 2011 and about 13 percent of the adult homeless population over the course of a year, while only 9.5 percent of the adult population has Veteran status. On a single night in January 2011, there were 67,495 homeless Veterans reported. Causes of homelessness among Veterans are similar to causes of homelessness among non-Veterans (interrelated economic and personal factors and a shortage of affordable housing). As for other populations, the complexity of navigating systems makes it difficult for Veterans to get their needs met.

HUD adds $2.5 million to help 380 homeless veterans: HUD and VA announced today that HUD will provide an additional $2.5 million to public housing agencies to supply housing and case management for 380 homeless Veterans. The government department says this funding "is part of a total $75M the Obama Administration is investing this year to house 10,450 homeless Veterans who might otherwise be living on the streets." http://portal.hud.gov/hudportal/HUD?src=/press/press_releases_media_advisories/2012/HUDNo.12-099

Many Veterans experiencing homelessness have distinct characteristics that make it difficult to regain stability. They are more likely to be unsheltered and to experience homelessness for longer periods of time than non-Veterans. Veterans have high rates of experiencing Post-Traumatic Stress Disorder, traumatic brain injury, and sexual assault, all of which increase the risk of homelessness. About 50 percent of Veterans experiencing homelessness have serious mental illness, approximately 50 percent have a history with the criminal justice system, and nearly 70 percent have substance abuse disorders.

As an agency priority for both HUD and the Department of Veterans Affairs (VA), the goal of ending Veterans' homelessness must build on the opportunity generated by political consensus and the availability of resources around this issue. Through collaboration at the federal, state, and local levels, community organizations can provide the opportunities and support necessary to ensure that those who served our country in the military will never have to sleep on its streets.

Strategies

Strategies include better targeting of rental subsidies to Veterans; increased access to permanent supportive housing with intensive support services to address mental health, substance abuse, health, and employment needs; more meaningful employment by coordinating housing with workforce training; better access to financial assistance; and encouraging community crisis response teams that focus on prevention and rapid re-housing activities.

- **Provide additional individuals and families with rental housing subsidies**
- **Provide and increase access to homelessness prevention services**

HUD is helping Veterans obtain or maintain HUD-assisted permanent housing through three primary programs: HUD-VASH (VA Supportive Housing); HUD Continuums of Care (CoC) Programs; and the Homelessness Prevention and Rapid Re-housing Program (HPRP).

Results

Indicator	2010		2011		2012 Q3		Met?	Trend*
	Target	Actual	Target	Actual	Target	Actual		
HUD-VASH Veterans assisted	7,325	11,140	7,175	14,621	9,250	9,443	▲	
Veterans who are homeless or at risk of homelessness assisted with HPRP funds*	NA	11,385	NA	11,049	3,750	No data	NA	
Homeless Veterans served through CoC permanent supportive housing programs	3724	4,053	5,250	6,982	3,728	No data	NA	

* The solid trend line represents full year data for FY 2010 and FY 2011 and the dashed trend line represents results through Q3 of FY 2012. The HPRP and CoC measures are only reported annually, thus FY 2012 data is not available at this time.

Currently (through Q3), HUD is exceeding the expected level of performance for the VASH program. The other indicators, reported annually, will be available in the APR published in February 2013.

APG - Measure 13: Increase the energy efficiency and health of the nation's housing stock. By September 30, 2013, HUD will enable a total of 159,000 cost-effective energy efficient and healthy housing units, as a part of a joint HUD-DOE goal of 520,000 in 2012-2013 and a total goal of 1.2 million units from 2010 through 2013.

Increasing energy efficiency, reducing greenhouse gas emissions, and reducing dependence on foreign oil are priorities of the Obama Administration. HUD has committed to creating energy efficient housing as part of a broader commitment to supporting the development of inclusive, sustainable communities.

HUD spends a significant share of its rental assistance budget on utilities (both water and energy) and assisted housing. Much of HUD's portfolio of public and assisted housing was built before the advent of energy codes, and therefore does not have the level of energy efficiency that has resulted from more recent energy codes.

This APG is aimed at making significant inroads in the energy efficiency and health of the housing stock, and sustaining the progress achieved through significant HUD investments of Recovery Act funds in energy efficient, healthy housing over the past two years. HUD exceeded the two-year FY 2010-11 goal of 159,000 energy retrofits, and is on track to meet the FY 2012 target as well.[2]

Photo courtesy of WORKSHOP8 architecture | planning | design. Photo credit: Jesse Martinez

Funds from HUD's Public Housing Capital Fund helped the Housing Authority of the City of El Paso build the Paisano Green Community (Paisano), the first net zero energy public housing development in the nation. Paisano, which serves very low-income seniors and disabled residents, is a model project for the Recovery Act Green Communities Initiative. Paisano generates its power with rooftop solar panels and two wind turbines and sells excess power to the local utility. The development, which opened in April 2012, is designed to achieve LEED Homes Platinum and Enterprise Green Communities Certification and aims with passive design strategies to cut overall energy needs in half!

Strategies

- **Strategy: Support and promote an energy-efficient, green, and healthy housing market by retrofitting existing housing, and supporting energy-efficient new construction, rehabilitation, and maintenance of housing and communities.**

Implementing this strategy involves continuing or strengthening incentives for energy efficiency and green building through a number of existing rental assistance and competitive or formula grant programs, as well as newly introduced or existing FHA multifamily and single family insurance programs.

Toward that end, HUD has been working toward standardizing energy efficiency and green goals as well as establishing uniform tracking and reporting systems across the Department. Building on the Recovery Act Management and Performance System , (RAMPS) for example, PIH developed the Energy Performance Information Center (EPIC) to collect energy-efficient-unit data for energy investments made through the Public Housing Capital Fund grant program and the Energy Performance Contracts. This effort also includes continuing or enhancing incentives through HUD's programs, strengthening the capacity of HUD-assisted property owners and managers to invest in energy efficiency, and testing innovative financing mechanisms that support energy efficient, healthy single-family and multifamily housing.

This performance goal involves every HUD program that produces, manages, or finances HUD's portfolio of affordable housing, including:

- OSHC. As the program lead OSHC coordinates a broad-based departmental effort aimed at reducing HUD's outlays for utilities (both energy and water).

[2] FY 2010-11 units completed include unit equivalents utilizing OMB-approved methodology for counting Energy Cost Effective Measures reported through the Recovery Act Management and Performance System (RAMPS).

- **Housing, Multifamily Housing**: the Green Retrofit Program, the Mark to Market Green Initiative, Sections 202 and 811 Supportive Housing programs, the PowerSaver program, Green Refinance Plus, and Multifamily Housing FHA endorsements with sustainability components;
- **CPD**: the HOME Program, the CDBG Program, the Tax Credit Assistance (TCAP) Program, and the NSP;
- **PIH**: Public Housing Capital Funds, HOPE VI, Energy Performance Contracting (EPC), Native American Housing Block Grants, and Indian Housing Block Grant; and
- OHHLHC: health and safety improvements to existing housing.

Results

Indicator	2010		2011		2012 Q3		Met?	Trend*
	Target	Actual	Target	Actual	Target	Actual		
CPD energy efficient new construction	6,076	5,999	6,086	9,349	4,694	12,755	▲	
Office of Housing retrofits or energy efficient new construction	8,500	5,155	25,000	21,484	9,459	12,259	▲	
OHHLHC lead hazard control or other healthy housing retrofits	15,897	16,738	17,317	22,754	8,900	9,784	▲	
PIH retrofits or energy efficient new construction	19,512	63,780	54,445	56,185	1,082	21,774	▲	
HUD total retrofits or energy efficient new construction	55,985	91,672	103,348	109,772	24,135	56,572	▲	

* The solid trend line represents full year data for FY 2010 and FY 2011 and the dashed trend line represents results through Q3 of FY 2012.

Currently (through Q3), HUD is exceeding the expected level of performance. HUD has completed 56,572 units through FY 2012 Q3, significantly ahead of a Q3 target of 24,135 units and the year-end Q4 target of 75,670 units for this goal. The Q3 actual units are 75 percent against the year-end (Q4) target.

Note that these Q3 figures do not include units completed through Energy Performance Contracts in public housing, which are reported annually and will contribute a significant share of the goal when reported. PIH units also include a number of "unit equivalents," using a methodology approved by OMB for counting the most cost-effective energy conservation measures (ECMs) reported through Capital Fund.[3]

Despite this success, ongoing risks include: the targets originally set for PowerSaver loans program appear to have been overly ambitious for this start-up program, and the Office of Housing has significantly modified its original PowerSaver goal to 2,150 PowerSaver loans in FY 2012-13. PowerSaver's projected volume has always been dependent on a viable liquidity option to lenders – and annual targets for the PowerSaver pilot have been adjusted downward to a volume that is more commensurate with liquidity expectations. This goal is also the overall target for the PowerSaver pilot, which is set to expire in 2013. If the program is extended beyond 2013, a new overall target goal will be set.

Despite the decreased PowerSaver contribution, HUD is still committed to maintaining the overall two-year agency target at 159,000 retrofits. This means that the number of units previously allocated to PowerSaver will need to be made up by other program offices. However, there are a number of other programs that are outperforming their targets; we therefore remain confident that the overall target will be reached.

APG - Measure 27: Improve program effectiveness by awarding funds fairly and quickly. By September 30, 2013, HUD will improve internal processes to ensure that we can obligate 90 percent of NOFA programs within 180 calendar days from budget, ensuring that America's neediest families have the shelter and services they need, when they need them. The timely obligation and subsequent disbursement of funds will positively impact the agency's ability to achieve all of our priority goals.

The obligation of a large portion of HUD's competitive program funds has historically been delayed. This delay can lead to the obligation of grant awards well after the fiscal year when the funds are appropriated. When delayed in the extreme, the failure to obligate and disburse funds has resulted in the rescission of funds and actual program de-funding (for example, Housing Counseling in FY 2011). This directly affects HUD's effectiveness as recipients of funds are often unable to execute their mission in a timely manner, if at all.

Strategies

- **Standardizing and Streamlining Processes and Procedures:**

The current NOFA process is hindered by bottlenecks and delays. Standardizing and streamlining NOFA processes and procedures will address many of the known root causes including: the heavy reliance on institutional knowledge, the lack of process documentation, multiple layers of review and approval, and the lack of an effective procedure to resolve points of disagreement.

[3] Only the top ten ECMs are counted, and adjusted by a factor of 6.

➢ Improving Governance, Coordination, and Communication:

Congress, OMB, and HUD all contribute to the policies related to NOFA governance and development. While relevant HUD offices strive to promptly communicate updates or changes to the NOFA policies and procedures, the primary means of communication are still primarily in person or by email. This creates undue errors, oversights, and inefficiencies. The development of a more effective means to communicate, educate, and collaborate is essential.

➢ Automating Workflow Tracking and Processes:

Currently, none of the NOFA processes are automated. Workflows, notifications and tracking are managed by various individuals using their personal Excel and PowerPoint files. This makes the processing and tracking of NOFAs unduly cumbersome and subject to error. It also hinders management's visibility into the process and status, impeding appropriate oversight. HUD is evaluating alternatives to automate workflows, provide improved document control, and improve NOFA tracking.

This performance goal will involve all programs within HUD that are responsible for managing NOFAs. This will include PIH, CPD, Housing, PD&R, FHEO, OSHC, and OHHLHC. It will also include the support areas that are critical to the NOFA process – the OSPM, the Office of the General Counsel (OGC), the Office of the Chief Information Officer (OCIO), and the Office of the Chief Financial Officer (OCFO).

Results

Indicator	2010	2011	2012 Q3 Target	2012 Q3 Actual	Met?	Trend*
Percent of NOFAs posted to Grants.gov within 180 days of budget passage	No Data	56%	90%	46%	▼	↘
Average days from budget passage to NOFA posting on grants.gov	No Data	60	No Target	79	NA	↗
Average days for Departmental Clearance	No Data	38	No Target	53	NA	↗
Average days for OMB Clearance	No Data	40	No Target	67	NA	↗
Average days for Signature Package	No Data	24	No Target	32	NA	↗
Average days for App Review and Award	No Data	128	No Target	93	NA	↘

* The trend line represents full year data for FY 2011 and results through Q3 of FY 2012.

HUD achieved 46 percent of NOFA programs obligated within 180 days of budget passage, well below the target of 90 percent. Causes for this include the absence of an automated workflow processing which slows HUD's ability to quickly process NOFAs through clearance, lack of a collaboration tool for concurrent editing, and the manual tracking of data which limits accuracy.

To address these issues, HUD is requesting that program offices input data for FY 2013 to improve accuracy and timeliness, and defining requirements for an automated workflow tool for future NOFA cycles.

Cross-Agency Priority Goals

A focus of the Obama Administration and the GPRAMA is cross-agency collaboration towards achievement of shared goals. Below is one Cross-Agency Priority Goal for which HUD is a partner.

Goal Statement: Reduce Energy Intensity (energy demand/$ real GDP) 50 percent by 2035 (2010 as base year).

Description: Increasing energy efficiency is one of the least expensive and most effective ways to enhance the nation's energy security, save money for American households, reduce our dependence on oil, and ensure a clean environment. To reduce the energy intensity of our economy, the Administration supports a range of cross-agency efforts to promote energy efficiency.

Transportation is the second costliest expense for most American households and is responsible for more than 70 percent of our petroleum consumption. One of the fastest, easiest, and most cost-effective ways to make our economy less dependent on oil – and save consumers money – is to make our transportation more efficient. The Administration has taken a number of actions to improve transportation energy efficiency, including investments in advanced vehicle and fuel technologies. In addition, the Administration has established historic new greenhouse gas and fuel economy standards for cars and trucks and the first-ever greenhouse gas and fuel economy standards for heavy-duty vehicles. Together, these new standards will reduce our dependence on oil, save consumers money at the pump, and reduce harmful air pollution.

In addition, American homes, businesses, and factories account for more than 70 percent of the energy we consume, so we need to invest in energy efficiency in the residential, commercial, and industrial sectors to improve U.S. competitiveness, lower electricity bills, and protect our environment. Because there is no "one size fits all" solution to energy efficiency, the Administration is supporting a variety of programs tailored to the unique challenges of each sector and will leverage public dollars to encourage private sector investment and job creation. Building on efficiency investments in the Recovery Act, which have already led to the weatherization of more than 750,000 homes, the Administration's ongoing efficiency agenda crosses these key sectors. It includes an ongoing commitment to passing HOMESTAR legislation to help homeowners finance retrofits, a "Better Buildings Initiative" to make commercial facilities 20 percent more efficient by 2020, and a range of steps to promote industrial efficiency and save U.S. manufacturers over $100 billion over the next decade.

Under the Obama Administration, the Federal Government and the U.S. Military are leading by example when it comes to energy efficiency. In October 2009, the President signed an Executive Order that directed every Federal agency to meet a number of greenhouse gas (GHG) emissions, energy, water, and waste reduction targets. President Obama also signed a Presidential Memorandum in May 2011 that set the goal of reducing petroleum consumption in the Federal fleet by 30 percent and mandating that, by 2015, 100 percent of fleet acquisitions are advanced vehicles. While these Federal-level programs contribute to reducing energy intensity, their progress will be tracked in the Cross Agency Priority Goal on Federal Sustainability.

Summary of Action Plan: This goal will be accomplished through strategies that address the need to reduce overall energy demand in order to reduce energy intensity (defined as energy demand per dollar of real GDP). The intent is to reduce energy intensity by 50 percent by 2035, using 2010 as a base year. These strategies include:

- **Reduce fuel use.** This is a primary strategy toward reducing energy intensity. There are currently several programs already operating with the intention of reducing fuel use. The Environmental Protection Agency (EPA) and the National Highway Traffic Safety Administration (NHTSA) have a goal to implement greenhouse gas emissions and Corporate Average Fuel Economy (CAFE) standard for model years 2011-2025 light duty vehicles, as well as the first-ever standards for greenhouse gas emissions and fuel efficiency in medium- and heavy-duty trucks. The Department of Energy (DOE) is also improving vehicle efficiency through advanced battery and fuel cell R&D as well as investing in a new generation of long-haul trucks.
- **Increase building and manufacturing energy efficiency.** There are currently several programs already operating that target this. HUD and DOE have a joint priority goal to weatherize 1.2 million homes, and are working to streamline the weatherization eligibility process for low income residents. The President has also set a goal of 20 percent energy use reduction in commercial buildings by 2020 through the DOE Better Buildings Initiative. In addition, DOE has a priority goal to reduce consumer energy use and costs for household appliances and other equipment. The ENERGY STAR program has already yielded significant results by saving consumers' money and avoiding significant carbon dioxide emissions. The President has also set energy saving and other goals for the Federal Government, which are detailed in the Federal Sustainability Cross Agency Priority Goal. In addition to the Advanced Manufacturing Partnership, the Administration has outlined a series of new initiatives to increase the energy efficiency of the industrial sector. The President's proposal would provide new incentives and break through regulatory barriers for manufacturers so they can upgrade equipment and

eliminate wasted energy in their facilities. Cumulatively, this effort could save the U.S. manufacturing sector over $100 billion in total energy costs over the next decade.

Every Federal agency is working to increase its own energy efficiency, including the development of sustainability plans. The Cross-Agency Priority goal on sustainability will focus on these Government-wide initiatives. In order to ensure effective and efficient implementation and coordination of these and other agency and private sector efforts, the Goal Leader will regularly convene agencies and review progress against performance targets.

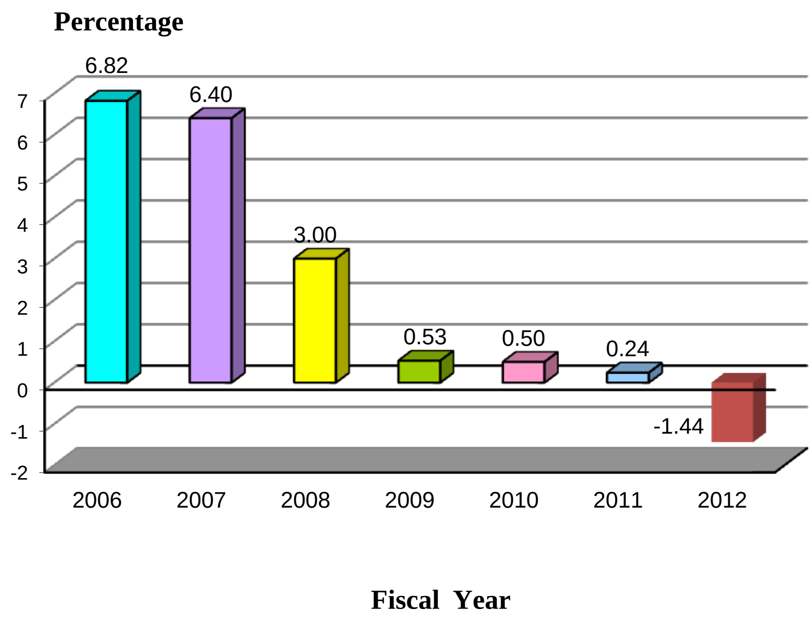
Contributing Agencies/Programs: In addition to HUD programs contributing in part, or in whole to this goal, include the **EPA**, the **Department of Transportation**, and the **DOE**. Other programs with potential to contribute to this goal may be identified over time.

Mutual Mortgage Insurance (MMI) Capital Ratio

In the National Affordable Housing Act of 1990, Congress created a capital ratio metric for gauging the financial status of FHA's Mutual Mortgage Insurance (MMI) Fund (12 USC 1711(f)(4)). Today, the MMI Fund encompasses nearly all of FHA's single family business, including reverse mortgages insured since FY 2009. The capital ratio compares the "economic net worth" of the MMI Fund to the dollar balance of active, insured loans, at a point in time. Economic net worth is defined as a net asset position, where an estimate of the present value of expected future revenues and net claim expenses is added to current balance sheet positions. The capital ratio computation is part of a valuation of the outstanding portfolio of insured loans under current market conditions at the end of each fiscal year.

The MMI Fund Capital Resources are comprised of two accounts: a Financing Account and a Capital Reserve account. The funds in the Financing Account cover estimated losses over the life of the loan cohorts while the Capital Reserve covers losses in excess of what is estimated to be needed in the Financing Account. The housing crisis that began in FY 2008 has resulted in the capital ratio falling below the 2 percent threshold for four years in a row. This fiscal year, the ratio fell below zero, to -1.44 percent.

MMI Capital Ratio



Note: The FY 2006 – FY 2008 ratios are based on unamortized IIF and do not include HECM loans. The FY 2009 – 2012 ratio calculations use amortized IIF and include HECM loans endorsed starting in fiscal year 2009.

The low capital ratio today reflects an expectation that FHA's current pool of insured loans still has significant foreclosure and claim activity yet to occur. Projected losses are particularly large for the FY 2006 – 2009 loans. These loan cohorts were negatively impacted both by the severe recession and unemployment as well as the large presence of seller-assisted down payment loans. In contrast, FY 2011 and 2012 loans are expected to produce significant net revenues that can be used to offset some losses from earlier years. At this point in time, FY 2010 endorsements are expected to be close to break-even.

Although a capital ratio of less than zero suggests that FHA may need to call upon its permanent-and-indefinite budget authority with the Treasury for additional support, this result is not necessarily assured. The capital reserve ratio is calculated by an independent actuarial firm, using FHA data and applying an independent economic forecast while the president's budget, which incorporates a re-estimate of the economic value of the FHA book, applies the forecast developed by the President's Council of Economic Advisors. In years past, due in part to evolving economic forecast between the time each measure is prepared, there has been some difference in the results yielded in each review.

Due to a series of changes to the program made since 2009, FHA continues to benefit from much stronger borrower credit quality than was experienced in prior fiscal years. Further, FHA will continue insuring loans, and the independent actuary projects that FY 2013 commitments will provide about $11 billion in additional capital resources. In addition, FHA is undertaking a number of initiatives to reduce losses from legacy loans originated during the height of the crisis.

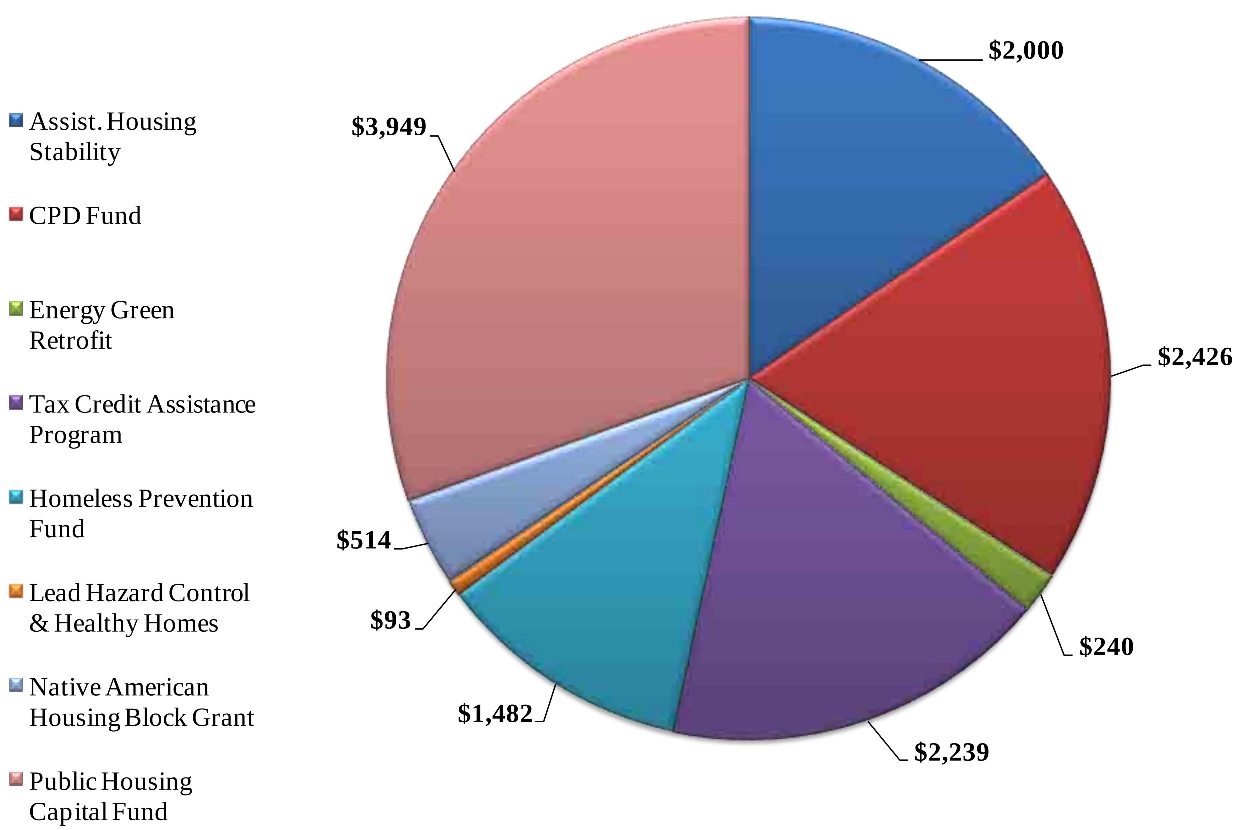
The FY 2012 independent actuarial study predicts that, absent any changes made by FHA, the capital ratio will be above zero in FY 2014 and return to 2.0 percent in FY 2017. In order to accelerate this timeline, FHA will continue implementing policy changes with a goal of managing risks to the MMIF and replenishing the capital reserve account while ensuring that it continues to serve its role of providing liquidity and access to the market.

American Recovery and Reinvestment Act

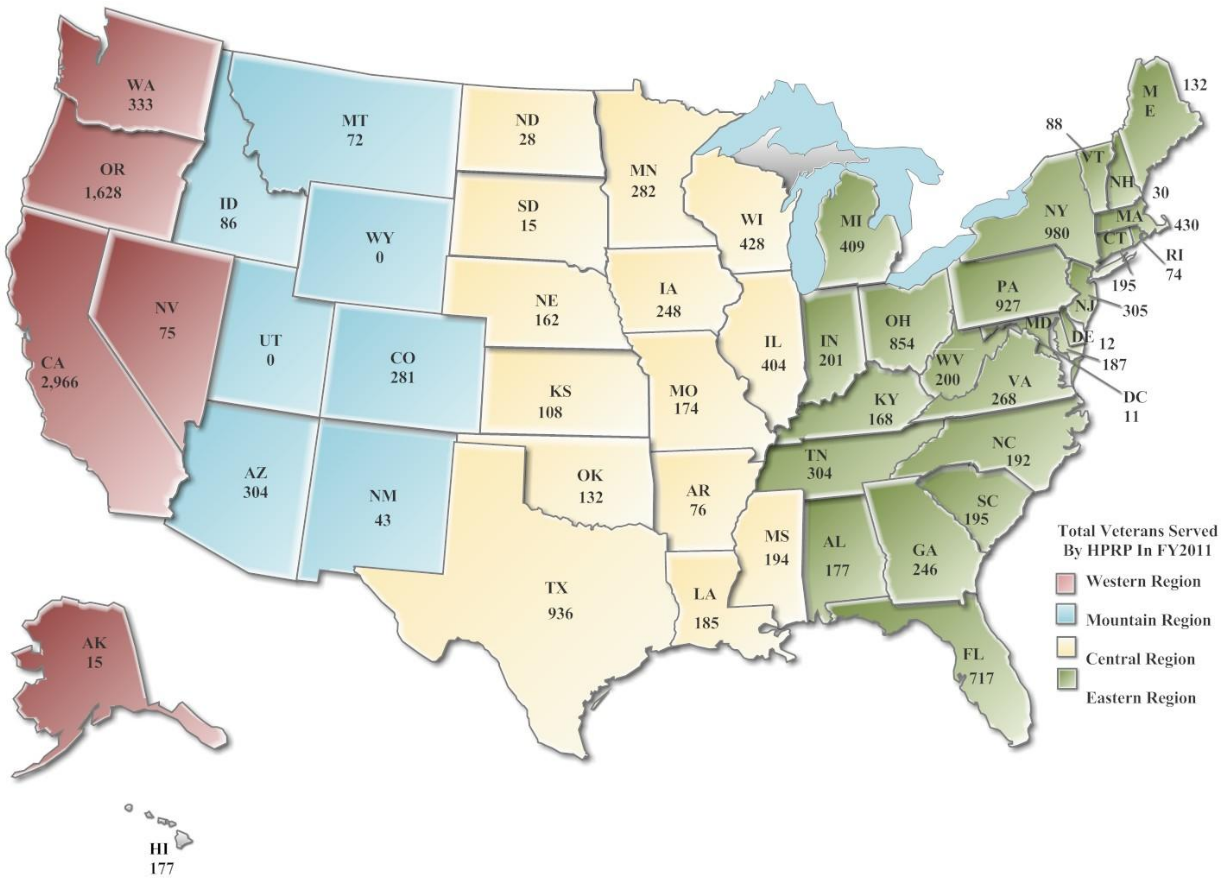
Overview

The American Recovery and Reinvestment Act (Recovery Act) provided $13.6 billion for projects and programs administered by HUD, of which nearly 75 percent was allocated via formula grants to state and local recipients and the remaining 25 percent of funds were awarded via competition, with 100 percent of grant and loan funds obligated, and $12.9 billion (or 95.0 percent) disbursed to grantees by September 30, 2012.

Recovery Act Program Expenditures
Ending September 30, 2012
Dollars In Millions



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, 37,425 homes being developed, and 559,878 units of housing being renovated, many of which have improved energy efficiency. In the third quarter of FY 2012, HUD Recovery Act recipients reported 6,948 jobs saved or created.



Accomplishments

Helping America's Cities Recover

Local homelessness programs, such as the Homeless Prevention and Rapid Re-Housing Program (HPRP) that is funded by the Recovery Act, have enabled homeless Veterans to pay for security deposits, in combination with HUD-VASH's rental assistance, as well as VA's case management and clinical services. In doing so, HUD-VASH has helped more than 35,204 Veterans through the end of Q3 FY 2012. In addition, HPRP has allowed families to confront homelessness brought on by the economic crisis, serving many people who have never before faced the prospect of being out on the street and providing them with rental payments and/or assistance to get them back in their homes. Through HPRP, individuals and families are able to take advantage of targeted payments to cover rent and supportive services that will keep them in housing and out of shelters. In a 2009 survey by the U.S. Conference of Mayors, 72 percent of cities reported that HPRP is changing the way they provide support to people who are homeless or at risk of being homeless—by enabling these communities to help people before or soon after they become homeless. As of June 30, 2012, HUD has helped 1,359,721 people nationwide through HPRP.

The restoration of the **Franklin Building** was an integral step in the revitalization of downtown Watertown, creating jobs and opportunities for small businesses, while meeting the community's most critical affordable housing needs. The project was funded through the tax Credit Assistance Program. It is one of many projects in which New York State leveraged creative partnerships to maximize federal Recovery Act resources.

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

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.

Forward Looking Information

Understanding the external factors that form and affect HUD's operating environment is crucial for identifying risks to future mission performance. External economic and legislative factors outside of HUD's control affect its ability to influence key performance goals. These external factors include economic conditions, unemployment rates, financial lending environment, tax regulations, as well as other federal, state and local conditions.

Sustained unemployment is a significant barrier to mitigating the foreclosure crisis and is subject to macroeconomic conditions that cannot be controlled by the Department. High unemployment rates continue to exacerbate the foreclosure crisis by putting pressure on household incomes and credit ratings, and thereby reducing demand for home purchase and keeping many current homeowners underwater. The continued economic weaknesses will hinder and create barriers to the ability of first-time home buyers to enter the housing market. However, recent reductions in unemployment and the return of confidence to the residential construction market could indicate strengthening of the homeownership market.

The expiration of the Mortgage Debt Relief Act of 2007 at the end of 2012 will have short-term impacts including a rush to complete short-sales and foreclosure actions prior to the end of 2012 in order to avoid 2013 tax consequences. Forced foreclosures and short-sales will have long-term negative impacts on the ability of millions of homeowners who go through this process to qualify for future home loans.

The Federal Reserve continues to establish policies that have resulted in reducing interest rates for 30-year mortgages to 50-year historic lows. Low mortgage interest rates enable more potential homeowners to qualify for loans. Significant upward movements in interest rates related to macroeconomic shocks could adversely affect the market for homeownership.

Shrinking incomes and loss of homeownership have a direct effect on the growing need for affordable rental homes. Although the supply of affordable rental units is relatively fixed in the short run, the demand for these units is greatly increased by the number of former owners now requiring affordable rental housing and by shifts in household formation. This greater rental demand increases average rents and conversely reduces the availability for renters with very low incomes. The most recent estimates from HUD's *Worst Case Housing Needs: A Report to Congress* shows that only 67.2 affordable rental units were available per 100 very low income renters in 2009. This unmet demand for affordable housing increases the prevalence of severe rent burdens and puts pressure on waiting lists for public and assisted housing, fair market rents, and HUD's subsidy costs.

In addition to the above noted factors, budget constraints could have a direct impact on homelessness (and all HUD programs). Homeless veterans are overrepresented in the homeless population and account for a substantial proportion of chronically homeless individuals. Causes of homelessness among Veterans are similar to causes of homelessness among non-veterans. The Administration has set an aggressive goal of eliminating veteran homelessness by 2015 and family homelessness by 2020. Interrelated budgetary, economic, personal factors and a shortage of affordable housing caused by uncontrollable external economic factors will affect HUD's ability to meet these goals.

Analysis of Financial Condition and Results

In order to help the reader to understand the Department's financial results, position, and condition, the following analysis addresses the relevance of particular balances and amounts as well as major changes in types and/or amounts of assets, liabilities, costs, revenues, obligations, and outlays.

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

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

This part provides a summary of HUD's:

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

Summarized Financial Data
(Dollars in Billions)

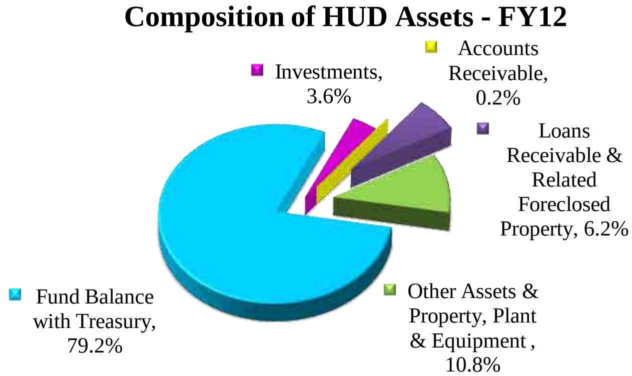
	2012	2011
Total Assets	$136.7	$135.9
Total Liabilities	$80.0	$51.0
Net Position	$56.7	$84.8
FHA Insurance-In-Force	$1,264.0	$1,181.5
Ginnie Mae Mortgage-Backed Securities Guarantees	$1,341.4	$1,221.7
Other HUD Program Commitments	$49.8	$56.9

Analysis of Financial Position

Assets - Major Accounts

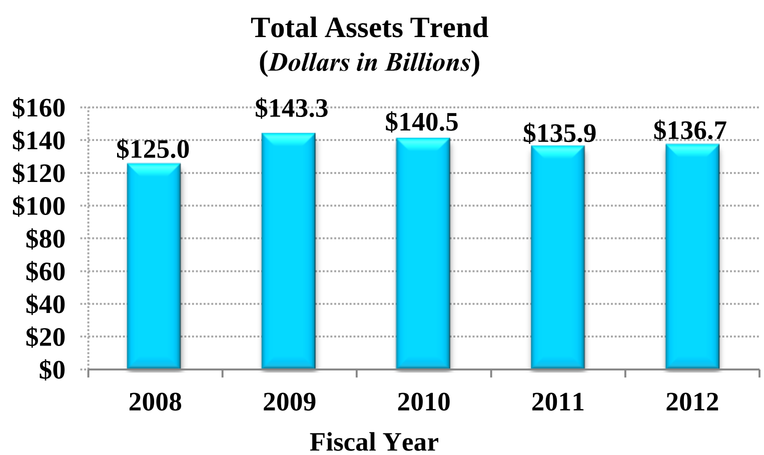
Total Assets for FY 2012, as reported in the Consolidated Balance Sheet, are displayed in the graph below. *Total Assets* of $136.7 billion are comprised primarily of *Fund Balance with Treasury* of $108.2 billion (79.2 percent), *Loans Receivable & Related Foreclosed Property* of

$8.5 billion, *Investments* of $5.0 billion, and *Other Assets and Property, Plant & Equipment* of $15.0 billion at September 30, 2012.



Total Assets increased $0.8 billion (0.6 percent) from $135.9 billion at September 30, 2011. The net increase was due primarily to a decrease of $2.9 billion (2.6 percent) in *Fund Balance with Treasury*, and $1.4 billion (21.9 percent) in *Intragovernmental Investments*, being offset by an increase of $5.1 billion (52.2 percent) in *Other Assets and Property, Plant & Equipment.*

The table below shows *Total Assets* for FY 2012 and the four preceding years. The changes and trends affecting *Total Assets* are discussed below.



Fund Balance with Treasury of $108.2 billion represents HUD's aggregate amount of funds available to make authorized expenditures and pay liabilities. *Fund Balance with Treasury* decreased $2.9 billion due to expenditures of $3.4 billion for CDBG, $1.0 billion for PIH, $0.8 billion for HOME, $3.3 billion for All Others including Recovery Act Funding, Neighborhood Stabilization Program, Homeless Program, and Emergency Homeowner's Relief Program with an offset increase of FHA's fund balance of $5.6 billion. The FHA increase is primarily attributed to upward re-estimates in both the Mutual Mortgage Insurance (MMI) and

General Insurance (GI) financing account, single family claims, miscellaneous income from a mortgage fraud settlement, and premium collections.

Investments of $5.0 billion consist primarily of investments by FHA's MMI/Cooperative Management Housing Insurance Fund (CMHI) and by Ginnie Mae, in non-marketable, intra-governmental, Treasury securities (i.e., investments not sold in public markets). FHA investments decreased by $1.4 billion (21.9 percent). The decrease is primarily caused by the decrease in net value of Federal Non-Marketable securities. The decreased net value was due to the maturity and the sale of several large bonds, to pay for FHA's MMI upward re-estimate.

Accounts Receivable of $0.2 billion primarily consists of claims to cash from the public and state and local authorities for bond refunding, Ginnie Mae fees, 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.

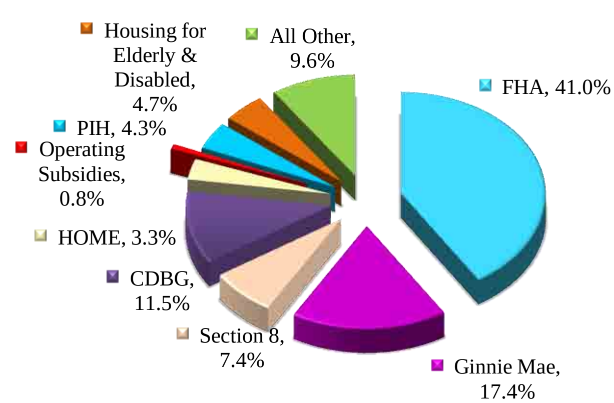
Loans Receivable and Related Foreclosed Property of $8.5 billion are generated by FHA credit program receivables and by HUD's support of construction and rehabilitation of low-rent housing, principally for the elderly and disabled under the Section 202/811 programs. The increase of $0.1 billion is primarily attributed to an adjustment to the allowance for loss under the Flex Subsidy Fund (86X4044) of $0.5 billion and a decrease by $0.4 billion of normal repayment process for Sec 202/811 programs.

Remaining Assets of $14.8 billion, comprising (10.8 percent) of *Total Assets*, include fixed assets and other assets. The net change pertaining to the *Remaining Assets* balance was an increase of $5.1 billion (52.2 percent) compared to the prior fiscal year, due primarily to a $5.0 billion increase in Ginnie Mae's *Remaining Assets.* The increase in Ginnie Mae is due to an increase of $4.6 guaranty asset/FASB Interpretation Number 45 and the rest in loans and advances receivables.

Assets - Major Programs

The chart below presents *Total Assets* for FY 2012 by major responsibility segment or program.

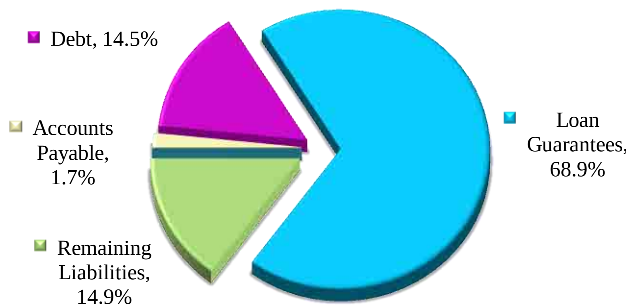
Assets by Responsibility Segments



Liabilities – Major Accounts

Total Liabilities for FY 2012, as reported in the Consolidated Balance Sheets, are displayed in the chart below.

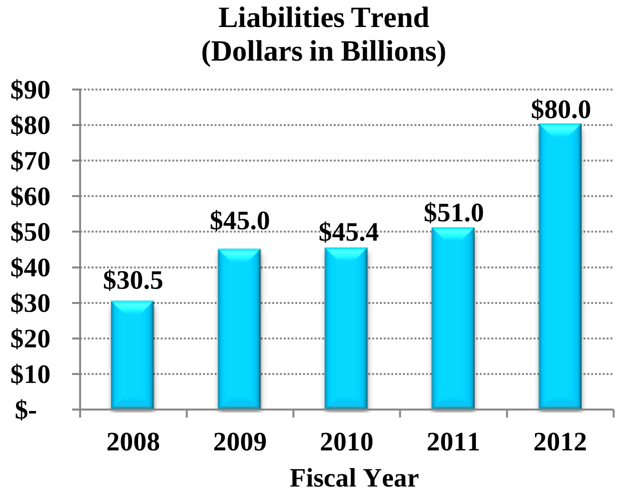
Composition of HUD Liabilities



Total Liabilities of $80.0 billion consist primarily of *Loan Guarantees* of $55.1 billion (68.9 percent), *Debt* in the amount of $11.6 billion (14.5 percent), *Accounts Payable* of $1.3 billion (1.6 percent), and *Remaining Liabilities* amounting to $11.9 billion (15.0 percent) at September 30, 2012.

Total Liabilities increased $29.0 billion (56.8 percent) from $51.0 billion at September 30, 2011, due primarily to an increase of $18.9 billion in *Loan Guarantees,* $5.5 billion of *Intragovernmental Debt*, offset by a decrease of $0.1 billion of *Debt Held by the Public*, and an increase of $4.5 billion in *Remaining Liabilities*. This increase in *Total Liabilities* is a result of an increase in the principal debt with the Treasury. It is due primarily to an upward re-estimate of FHA's MMI and GI funds, an increase in FHA's Single Family liability attributed to historically low interest rates and decreased revenue, an increase in Home Equity Conversion Mortgage (HECM) liability due to revised estimates, loan longevity, and the recessionary effect of more properties being conveyed to HUD. Additionally, there was a change in the run-off variable in the calculation of Ginnie Mae's liability, as accounted for under the Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) topic 460.

The chart below presents *Total Liabilities* for FY 2012 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 (LLG)* 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 *LLG* 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. The $18.9 billion (52 percent) increase in *Loan Guaranty Liability* is caused primarily by FHA reporting a $11.6 billion increase in single family LLG attributed to historically low interest rates and decreased revenues, and a $7.8 billion increase in HECM/LLG attributed to revised estimates, loan longevity and the recessionary effect of more properties being conveyed to HUD, offset by a $0.5 billion decrease in multifamily LLG attributed to a decrease in several multifamily programs.

Debt includes *Intragovernmental Debt* of $11.6 billion and *Debt Held by the Public* of $0.1 billion. The *Intragovernmental Debt* consists primarily of loans from the Treasury but also includes funds borrowed from the Federal Financing Bank by Public Housing Authorities and Tribally Designated Housing Entities to finance construction and rehabilitation of low-rent housing. *Debt Held by the Public* consists of existing housing authority bonds and debentures issued in lieu of cash disbursements to the public at par by FHA to pay claims. The $5.4 billion increase in *Intragovernmental Debt* (new borrowings exceed repayments) from $6.1 billion at September 30, 2011, was due to an increase in MMI borrowing with the Treasury needed for negative subsidy transfers. In accordance with Federal Credit Reform Act accounting, FHA borrows from the U.S. Treasury when cash is needed in its financing accounts. FHA needed cash because of the change in premium collections from up-front to monthly. In addition, cash was needed for the Emergency Homeowners' Relief Program.

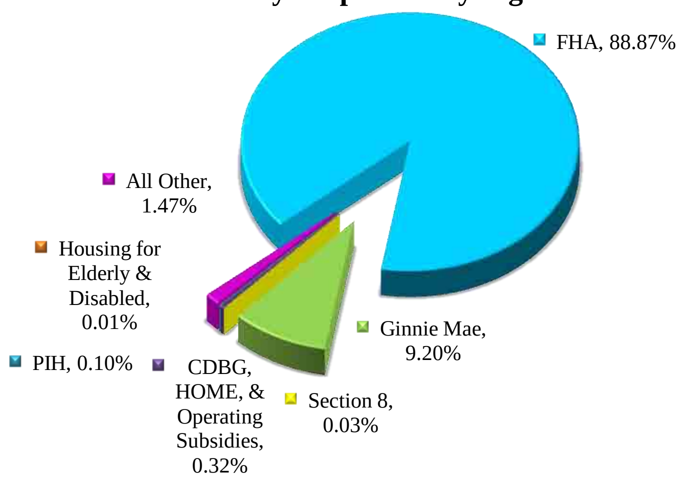
Accounts Payable consist primarily of pending grants payments.

Remaining Liabilities of $11.9 billion consist of *Intragovernmental Liabilities, Federal Employee and Veteran Benefits, Loan Reserves* and *Other Liabilities*. The FHA increase of $0.4 billion is due to an increase in GI downward re-estimate transfers. The Ginnie Mae increase of $4.3 billion is due primarily to their change in valuation of the ASC 460 liability. The model was updated to utilize FHA's econometric model to predict loan behavior.

Liabilities – Major Programs

The chart below presents *Total Liabilities* for FY 2012 by responsibility segment.

Liabilities by Responsibility Segment



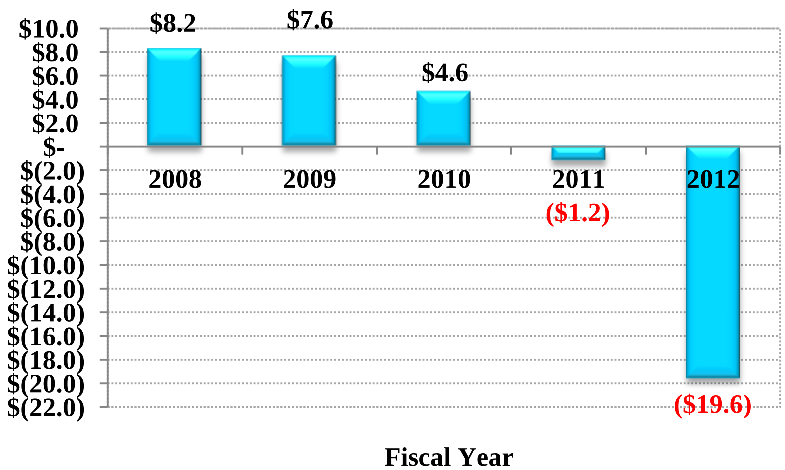
Changes in Net Position

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 $28.2 billion or (33.2 percent) from the prior fiscal year. The net decrease in *Net Position* is primarily attributable to an $8.6 billion decrease in *Unexpended Appropriations* and a $19.6 billion decrease in *Cumulative Results of Operations*.

The combined effect of HUD's *Net Cost of Operations* and *Financing Sources* resulted in a decrease in *Net Change in Cumulative Results of Operations* of $18.4 billion (from $1.2 billion to $19.6 billion) during FY 2012. The large decrease in FY 2012 is due primarily to an increase in the Loan Guarantee liability which was as a result of a large upward re-estimate in FHA's MMI and GI funds. The factors include an increase in FHA's Single Family liability attributed to historically low interest rates and decreased revenues, and an increase in HECM liability due to revised estimates, loan longevity, and the recessionary effect of more properties conveyed to HUD.

This chart presents HUD's *Net Change in Cumulative Results of Operations* for FY 2012 and the four preceding years.

Net Change in Cumulative Results of Operations for FY 2008 - 2012 (*Dollars in Billions*)

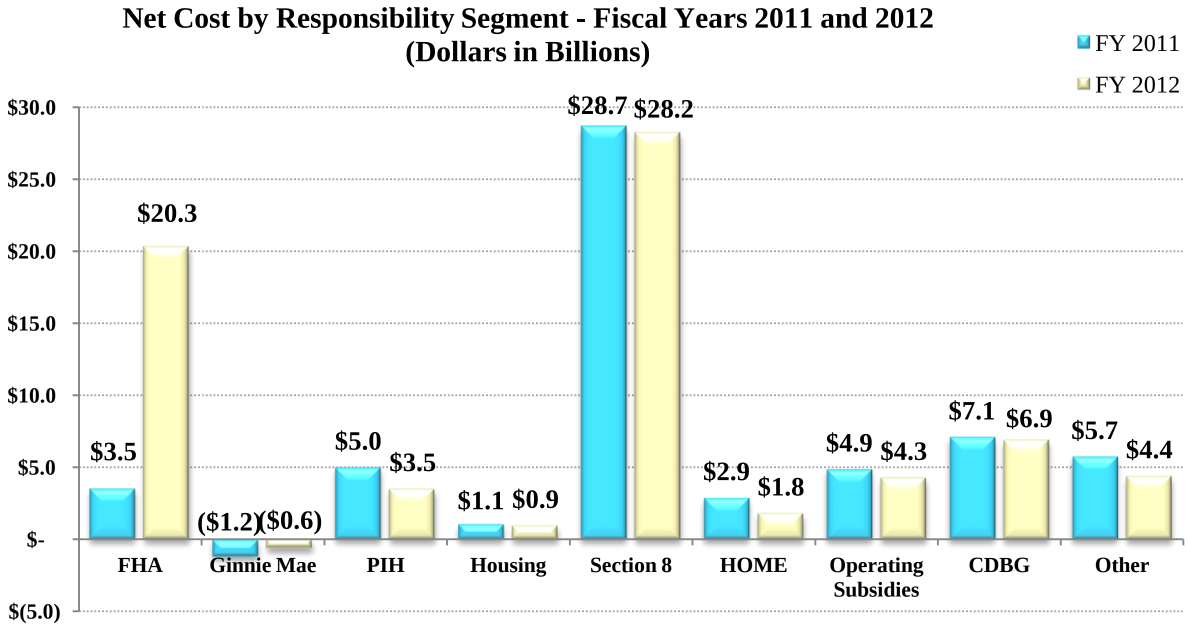


Unexpended Appropriations: The decrease by 14.0 percent from $61.0 billion in FY 2011 to $52.5 billion in FY 2012 is due primarily to expenditures of $3.4 billion for CDBG, $1.0 billion for PIH, $0.8 billion for HOME, $3.3 billion for All Others including Recovery Act Funding, Neighborhood Stabilization Program, Homeless Program, and Emergency Homeowner's Relief Program.

Financing Sources: As shown in HUD's *Statement of Changes in Net Position*, HUD's financing sources for FY 2012 totaled $50.2 billion. This amount is comprised primarily of $52.3 billion in *Appropriations Used*, offset by approximately $1.4 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 Statement of Net Cost, Net Cost of Operations* amounts to $69.8 billion for FY 2012, an increase of $12.2 billion (21.1 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 2012 by responsibility segment.



As shown in the chart, *Cost of Operations* was primarily a result of spending of $28.2 billion, (40.4 percent) of *Net Cost*, in support of the Section 8 program (administered jointly by the Housing, Community Planning and Development, and PIH programs) and $20.3 billion (29.0 percent) of *Net Cost*, in support of FHA programs. The current fiscal year change in *Net Cost* for the Section 8 programs was $0.5 billion (1.5 percent) less than the prior fiscal year. FHA *Net Cost* increased by $16.8 billion, due primarily to a $17.8 billion increase in gross costs, offset by a $1.0 billion increase in earned revenue. There was a large increase in gross costs which was due to an increase in FHA's upward subsidy re-estimate in both MMI and GI financing accounts. The increase in earned revenue is due to FHA's increase in gains on the disposition of investments.

Analysis of Off-Balance-Sheet Risk

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

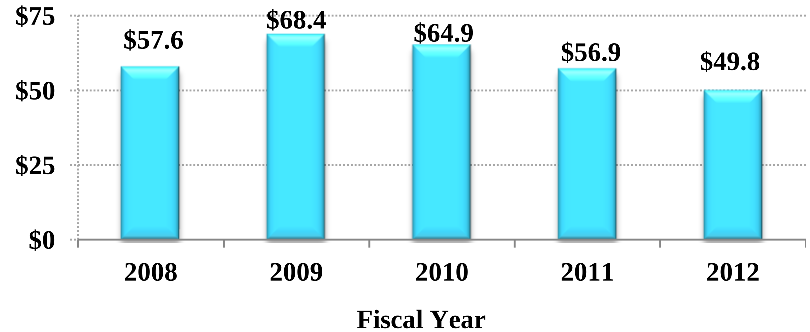
Contractual and Administrative Commitments

HUD's *Contractual Commitments* of $49.8 billion in FY 2012 represents HUD's commitment to provide funds in future periods under existing contracts for its grant, loan, and subsidy programs.

Administrative Commitments (reservations) of $1.3 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 2012 and the four preceding years.

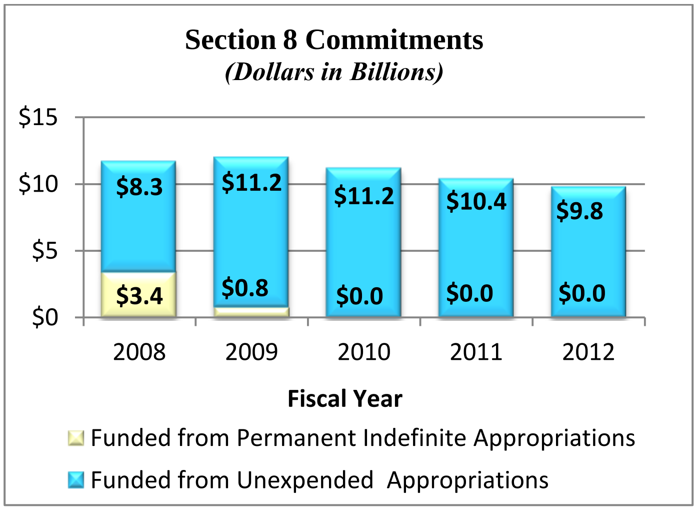
Commitments Under HUD's Grants, Subsidy, and Loan Programs
(*Dollars in Billions*)



These commitments are funded primarily 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 $7.7 billion (13.1 percent) during FY 2012. The change is primarily attributable to a decrease of $1.1 billion in PIH commitments, a decrease of $0.8 billion in HOME program commitments, and a decrease of $3.3 billion in CDBG program commitments. *All Other Commitments* reflect a decrease of $2.7 billion with a slight offset by an increase in commitments of $0.2 billion for FHA.

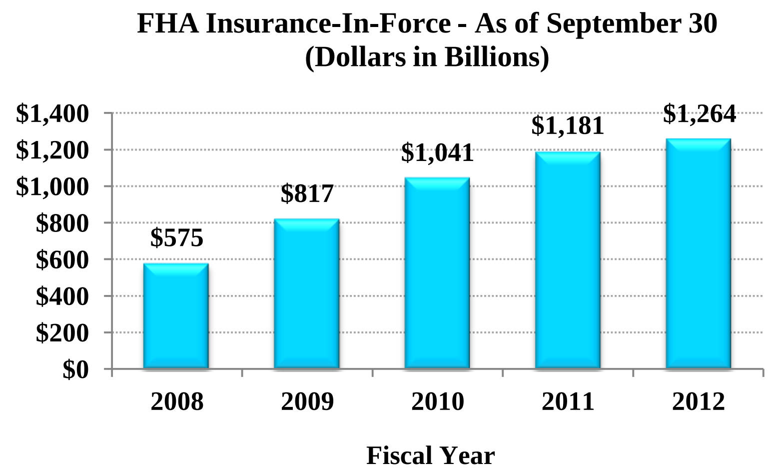
The chart below presents HUD's Section 8 *Contractual Commitments* for FY 2012 and the four preceding years.



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

Multifamily Housing Programs provide FHA insurance to approved lenders to facilitate the construction, rehabilitation, repair, refinancing, and purchase of multifamily housing projects such as apartment rentals, and cooperatives. The chart on the next page presents FHA's Insurance-In-Force (including the Outstanding Balance of HECM loans) of $1,264 billion for FY 2012 and the four preceding years. This is an increase of $83 billion (7.0 percent) from the FY 2011 FHA Insurance-In-Force of $1,181.5 billion. FHA's volume has grown significantly during the mortgage crisis, as a result of constrained activity by private mortgage insurers and private lenders.

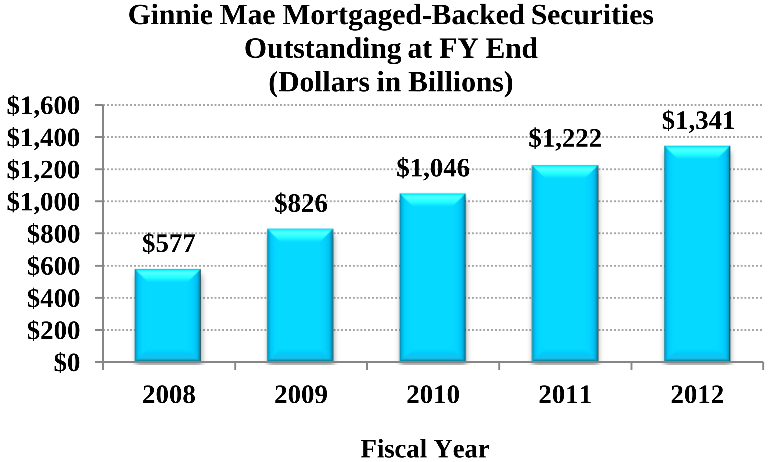


Ginnie Mae Guarantees

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, 2012 and 2011, were approximately $1,341.4 billion and $1,221.7 billion, respectively. In the event of default, the underlying mortgages serve as primary collateral, and FHA, USDA, VA and PIH insurance or guarantee indemnifies Ginnie Mae for most losses.

During the mortgage closing period and prior to granting its guaranty, Ginnie Mae enters into commitments to guarantee MBS. The commitment ends when the MBS are issued or when the commitment period expires. Ginnie Mae's risks related to outstanding commitments are much less than 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, 2012 and 2011 were $115.7 billion and $102.6 billion, respectively.

The chart below presents Ginnie Mae MBS for FY 2012 and the four preceding years.



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 2012 and 2011, Ginnie Mae issued a total of $107.0 billion and $153.0 billion, respectively, in its multi-class securities program. The estimated outstanding balance of multi-class securities in the total MBS securities balance at September 30, 2012 and 2011 were $522.6 billion and $547.5 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

FY 2012 Annual Assurance Statement

The Department of Housing and Urban Development's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act of 1982 (FMFIA), Sections 2 and 4. HUD conducted its annual assessment of the effectiveness of internal control to support effective and efficient programmatic operations and compliance with applicable laws and regulations. Based on the results of this evaluation, HUD can provide a qualified statement of assurance that its internal controls over operations (Section 2) and financial management systems (Section 4) meet the objectives of FMFIA, as of September 30, 2012, with the exception of a material weakness. While HUD believes that it has a sound system of internal controls, one area requires improvement. In FY 2012, HUD recognized that a material weakness exists in HUD's strategic management of its Human Capital Management operations. HUD has faced challenges in the effective and efficient operation of this support area and is vigorously addressing the issues identified during the assessment.

In addition, HUD conducted its assessment of the effectiveness of 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 as of June 30, 2012, its internal control over financial reporting 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.

FY 2012 Annual Assurance Statement

As a result of auditing HUD's FY 2012 financial statements, OIG concluded that a previously recognized significant deficiency regarding a HUD financial management system not complying with FFMIA had risen to the level of a material weakness. OIG also included a second system, HIAMS, in their non-compliance determination. HUD disagrees with OIG's material weakness conclusion and states that these systems comply with FFMIA. HUD hereby provides reasonable assurance that its financial management systems substantially comply with FFMIA for FY 2012.

Shaun Donovan
Secretary

November 16, 2012

Management Assurances

The **Federal Managers' Financial Integrity Act of 1982 (FMFIA)** and OMB Circular A-123, *Management's Responsibility for Internal Control*, require ongoing evaluations of the adequacy of the systems of internal accounting and administrative controls and the annual reporting of the results of the evaluations. Section 2 of FMFIA requires reporting on the assessment of the effectiveness of the organization's internal controls to support effective and efficient programmatic operations, reliable financial reporting, and compliance with applicable laws and regulations and a summary of material weaknesses while Section 4 of FMFIA requires reporting on whether HUD's financial management systems conform to financial systems requirements. HUD can provide a qualified statement of assurance that its internal control over operations (Section 2) and financial management systems (Section 4) meet the objectives of FMFIA, as of September 30, 2012 with the exception of one material weakness which is described further in Section 2 below.

Section 2: The Federal Managers' Financial Integrity Act (FMFIA) of 1982

FMFIA explains management's responsibility for, and its role in, the assessment of accounting and administrative internal controls. Guidance for implementing FMFIA is provided through OMB Circular A-123. Internal controls are an integral component of HUD's management that provides reasonable assurance that objectives are being achieved.

Senior management throughout the Department annually provide assurance statements concerning the effectiveness and efficiency of internal controls within their programs, the reliability of internal control over financial reporting, and compliance with applicable laws and regulations. These assurance statements provide the foundation for the Secretary's assurance statement. Upon review of the results from both internal and external evaluations, HUD has determined that a material weakness exists in the strategic management of its Human Capital Management operations. A remediation plan has been developed to correct the internal control weakness recognized in this function. Implementation of the plan began during the fiscal year and its implementation continues. As part of HUD's effort to strengthen controls in our human capital operations, HUD initiated a pilot shared service provider (SSP) agreement with Treasury. HUD is utilizing the expertise of Treasury to assist in human resources management. Furthermore, HUD partnered with the U.S. Office of Personnel Management (OPM) to strengthen the controls within HUD's human capital management practices, as well as its policies and procedures.

Section 4: The Federal Managers' Financial Integrity Act (FMFIA) of 1982

Section 4 of FMFIA requires agencies to report on whether their accounting system conforms to the mandated federal financial management system requirements. Agencies must report instances of material non-conformance, including the preparation of remediation plans that address the non-conformance. During FY 2012, the Department assessed its financial management systems for conformance with financial management system requirements and determined that the Department conforms to such requirements.

Federal Financial Management Improvement Act of 1996 (FFMIA)

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

During FY 2012, the Department assessed its financial management systems for compliance with the FFMIA and determined that, when taken as a whole, the Department is in compliance with FFMIA. This determination is based on the results of FISMA reviews and testing performed for OMB Circular A-123, Appendix A. Although our auditor has determined that the Department's financial management systems did not substantially comply with FFMIA, HUD management disagrees with this determination, and asserts that our financial management systems satisfy OMB's three-part requirement needed to report substantial compliance with FFMIA. The Act specifically requires agencies to implement and maintain financial systems that comply substantially with:

- Federal financial management system requirements;
- Applicable Federal accounting standards; and
- The U.S. Government Standard General Ledger (USSGL) at the transaction level.

HUD's financial management systems satisfy all of these requirements.

At the end of FY 2012, HUD declared three financial management systems, HUD Procurement System (HPS), Small Purchase System (SPS), and Facilities Integrated Resources Management System (FIRMS) as non-conforming systems. HPS and SPS were identified as non-compliant as part of HUD's FY 2006 financial statement audit, while FIRMS was identified as non-compliant in FY 2009.

In addition, the FY 2012 financial statement audit conducted by OIG determined a material weakness exists in HUD's achievement of substantial compliance with FFMIA. OIG specifically cited HUD's Integrated Disbursement Information System (IDIS) and the HUD Integrated Acquisition Management System (HIAMS). HUD disagrees and asserts that these systems do in fact meet the requirements as outlined in FFMIA and OMB Circular A-127. HUD therefore provides reasonable assurance that its financial management systems substantially comply with FFMIA for FY 2012.

In FY 2012, the Department implemented the HIAMS, a single end-to-end acquisition solution. The system consolidated the dual procurement systems' (replaced HPS and SPS) functionality, while simultaneously eliminating most manual and duplicative business processes. HUD plans to decommission HPS and SPS during FY 2013. The OIG's determination that HIAMS was non-compliant was based on obligation balances between HUDCAPS and HIAMS not matching during FY 2012. For information on HUD's disagreement with OIG's non-compliance determination for HIAMS and IDIS, see information provided under the Other Management Information, Initiatives, and Issues section below.

Federal Information Security Management Act of 2002 (FISMA)

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

HUD relies extensively on Information Technology to carry out its operations. The agency continues to improve on its Information System Security Program. The improvements implemented during FY 2012 include strengthening the Department's cyber security awareness and training program, developing a comprehensive enterprise-wide Cyber Security Continuous Monitoring Strategy program, implementing a configurations management baseline, and refining the capital planning and investment control process to comply with Federal guidance.

HUD's priority is to improve its entity-wide security measures by updating current policies and procedures to ensure compliance with the NIST-800-53 Rev 3. This project is 95 percent complete with 13 of the 18 control families updated. The estimated completion date for updating the policies is December 2012.

Other Management Information, Initiatives, and Issues

FY 2012 Financial Statement Audit Material Weakness

HUD OIG's FY 2012 financial statement audit report determined that a material weakness existed in HUD's ability to achieve substantial compliance with FFMIA. The report specifically mentions two systems, the HUD Integrated Acquisition Management System (HIAMS) and Integrated Disbursement and Information System (IDIS), as being non-compliant with FFMIA. HUD does not agree with this determination. For IDIS, OIG states that the use of the First-In, First-Out (FIFO) methodology employed by IDIS for disbursing formula grant funds caused it to be non-compliant with FFMIA. The report also states that FIFO was not supported by accounting standards. This disagreement is regarding whether the FIFO methodology conforms with Generally Accepted Accounting Principles. Since OIG first reported this issue in FY 2009, HUD's position has been that IDIS' use of the FIFO accounting method keeps the flexibility intended by Congress in terms of how formula grant funds are disbursed and tracked by the Department. Moreover, a June 10, 2010 joint memorandum from HUD's General Counsel and Chief Financial Officer concluded that the use of FIFO methodology to account for formula grant funds represents a reasonable interpretation of the statutory duties imposed on the Secretary. The report also discusses "irreconcilable" differences, which are the result of an audit procedure employed by the OIG to obtain grant disbursement and remaining balance information from grantees' accounting records. If the grantee does not use the same FIFO methodology to account for grant funds, we would expect the records to differ. HUD through its IDIS system can account for every dollar disbursed for their formula grant funds and has on numerous occasions told both their grantees and the OIG that HUD's records are the official records for grant disbursements and balances.

For HIAMS, OIG expressed concern regarding variances in obligation balances between HIAMS and HUDCAPS. During FY 2012, substantial progress has been made in improving the HIAMS/HUDCAPS financial interface. HUD staff made major strides to reconcile HUDCAPS and HIAMS, utilizing the OCFO Financial Data Mart. Obligation data within HUDCAPS is traceable to HIAMS. Each day, HIAMS delivers to the OCFO Financial Data Mart a data file of all HIAMS records. The file is loaded and utilized by software which analyzes the obligations in both systems to determine any differences, and then addressed as appropriate.

<u>HUD's Financial Management Systems Framework</u>

HUD's current financial systems environment is comprised of a combination of aging, legacy mixed programmatic systems and a core financial system (HUDCAPS) that performs all budgetary, accounting, and financial statement preparation for the Department. Many of the legacy systems are COBOL-based mainframe systems and operate on multiple platforms. HUD has developed a structure of compensating controls to ensure that the systems operate successfully, can maintain and deliver accurate, reliable, and timely financial information, and can meet federal financial management system requirements.

In FY 2010, the Department initiated a major financial systems modernization project, the HUD Integrated Financial Management Improvement Project (HIFMIP) to replace the legacy core accounting and subsidiary ledger systems. HIFMIP establishes an enterprise vision to achieve a core Integrated Financial Management Solution (IFMS) with a single financial system infrastructure to accomplish the Department's integration and modernization goals. Targeted to be fully implemented in FY 2012, the Department assembled an independent government assessment review of the HIFMIP project and determined that a course correction was essential to achieving a successful outcome. For this revamped effort, and in alignment with OMB Memorandum M-10-26, Immediate Review of Financial Systems IT Projects, HUD has multiple options under consideration for the path forward, one of which is a Shared Service Provider (SSP), which could limit costs and reduce risks. HUD is initiating a discovery effort with a Federal SSP as part of a formal Alternatives Analysis which will determine the plan for a new path forward to include detailed activities and milestones to move HUD's financial management systems to an SSP. HUD will be following basic guidelines and best practices by segmenting the project efforts into smaller and attainable deliverables, focusing on prioritizing needs and functionality, and establishing consistent senior executive monitoring of the project's progress.

A successful transition from the legacy systems is critical for the Department to carry out its mission-critical financial accounting and reporting responsibilities. The key stakeholders and customers of HUD's financial results include Department management, program areas, Congress, other federal agencies, and the general public.

Office of Inspector General's Management and Performance Challenges for Fiscal Year 2013 and Beyond Summary

In accordance with the Reports Consolidation Act of 2000, HUD's Office of Inspector General (OIG) annually identifies the most significant management and performance challenges facing the Department. Below are seven challenges identified by the OIG for FY 2012 along with a summary of Departmental progress in addressing each of the noted issues. [The complete OIG memorandum and management's comments are located in Section 3.]

Single Family Programs - *Effective management of the Federal Housing Administration's single family mortgage insurance programs represents a continuing challenge.*

Progress

- To address sustained losses in this program due to taking on additional risk, FHA increased mortgage insurance premiums, established minimum Fair Isaac Company (FICO) score standards, increasing the minimum down payment, reducing the amount of equity withdrawn on reverse mortgages, and modifying the role of former loan correspondents so they are responsible to direct lenders. Additionally, FHA established polices that require lenders to review borrowers credit, collateral, capacity and cash assets to determine borrower eligibility for FHA insurance.

- FHA developed a new claims review process.

- HUD, OIG, and the Department of Justice collaboratively conducted a nationwide effort to review the foreclosure and claims process of the five largest FHA mortgage servicers that resulted in a negotiated national mortgage settlement agreement with the servicers.

- Ginnie Mae increased their management capacity to address the increase in demand to the FHA program and the collateral implications on the integrity of the Ginnie Mae mortgage-backed securities program. In addition, Ginnie Mae has detective and preventative controls in place to minimize the probability of potential fraud. Ginnie Mae personnel assess the financial condition of MBS issuers through a risk grade methodology, annual credit reviews, maintenance of a MBS Issuer watchlist, and, monitoring of news and events.

Oversight of American Recovery and Reinvestment Act funds – *Is a significant challenge while dealing with increased mortgage activity and conducting normal operations.*

Progress

- Increased on-site monitoring and technical assistance while continuing to review quarterly progress reports and to audit files,

- Monitoring and oversight is better documented in HUD's funds control plans.
- Funds for return to Treasury have been/will continue to be identified and will be returned in accordance with OMB and Treasury's instructions.

Human Capital Management **–** ***O****ne of the Department's major challenges has been to effectively manage its limited staff to accomplish its primary mission.*

Progress

- HUD included a Strategic Goal in its FY 2012- 2015 Strategic Plan to transform the way HUD does business to address this issue including sub-goals to (1) build capacity, (2) focus on results, (3) reduce bureaucracy, and (4) change its culture.
- Implemented Town Hall meetings, a Changemakers Campaign, and Feedback Focus Days to improve performance and culture.
- Improved the salaries and expenses budget development with better estimations, more collaboration and communication, and fewer lapsed funds.

Financial management systems *– The Department lacks an integrated financial management system, including the need to enhance FHA's management controls over its portfolio of integrated insurance and financial systems.*

- Partially implemented a new core financial system at FHA, and addressed most of the previous weaknesses that OIG identified causing OIG to reclassify a material weakness to a significant deficiency.
- Deployed the Federal Financial Services Infrastructure Platform.
- Automated the lender application approval process and developed an underwriting fraud detection or prevention tool into the Post Endorsement Technical Review process.
- Improved its information security environment via an effective incident response and reporting program and maintained a plan of action and milestone system that effectively tracked weaknesses.

HOME Program **–** *HUD faces challenges over the controls, monitoring, and information systems related to the HOME program.*

- HUD proposed new rules which should strengthen HUD's future enforcement authority, providing significant reforms to Community Housing Development Organizations performance and underwriting standards for rental housing and homeownership, developer selection, property standards, deadlines for completing projects, and ongoing monitoring of financial conditions of HOME-assisted projects.

- Implemented significant changes for HOME functionality in its Integrated Disbursement and Information System (IDIS). This is HUD's system used by the grantees to request funds and report accomplishments. These changes greatly enhance the accountability of the HOME Participating Jurisdictions, and improve HUD's ability to track the progress of HOME projects.

Public and Assisted Housing Program Administration *– HUD has a challenge in (1) monitoring the Housing Choice Voucher (HCV) program and (2) monitoring and oversight of PHAs participating in the Moving to Work (MTW) demonstration program.*

- Developing a Next Generation Management System and Portfolio Management Tool to assist in oversight of the HCV program.

- Improved the quality of its remote monitoring and have stepped up the onsite monitoring and oversight of the HCV Program as a result of several new initiatives that have been incorporated in all PIH field offices. These initiatives include the Portfolio Management Tool, the Voucher Forecasting Tool, and implementation of a HCV Utilization Protocol.

- Revised the methodology for calculating the gross error rate for improper payments in the rental housing assistance programs.

- The expansion of the MTW program contemplated by Affordable Housing and Self Sufficiency Improvement Act takes the challenges noted in monitoring the current MTW program (both those raised by internal and external stakeholders and those identified through various reviews by GAO, HUD's OIG and other entities) and incorporates legislative language to address them.

Administering Programs Directed Toward Victims of Natural Disasters *–The Department has a significant management challenge in monitoring disaster program funds provided to various states, cities, and local governments under its purview. This challenge is particularly pressing because of limited resources to perform the oversight, the broad nature of HUD projects, the length of time needed to complete some of these projects, the ability to waive certain HUD program requirements, and the lack of understanding of the Community Development Block Grant-Disaster Recovery (CDBG-DR)grants by the recipients.*

- Revised the risk CDBG-DR analysis to include the entire CDBG-DR portfolio.

- Significantly revised its CDBG-DR monitoring policies to focus on the specific legislative requirements of each CDBG-DR appropriation; added monitoring review guidance for procurement, written agreements, and core recovery activities (e.g., infrastructure, buyouts, economic development).

- Increased the number and frequency of CDBG-DR monitoring reviews and focused on expenditure rates and overall performance.

- Published uniform guidance in the Federal Register on preventing the duplication of benefits when administering CDBG-DR activities.
- Instituted a specific requirement in the FY 2012 CDBG-DR disaster appropriation that grantees establish a performance schedule with benchmarks and timelines and publish this information in their public action plans.
- Provided training for all of seventeen of the FY 2012 CDBG-DR grantees prior to their receipt of funds to reduce risk by educating grantees on CDBG-DR requirement.

Message from the Deputy Chief Financial Officer

November 16, 2012

I am honored to present the FY 2012 financial statements of the Department and to report HUD's receipt of its thirteenth consecutive unqualified audit opinion on those statements.

HUD continues to employ sound financial management practices to help meet the Department's mission to create strong, sustainable, inclusive communities and quality affordable homes for all during this difficult economic period for our country. The Office of the Chief Financial Officer emphasizes the critical importance of a positive and supportive attitude toward internal control and conscientious management to all HUD employees.

In addition to its supportive role of the Department's mission and programs, during FY 2012, other notable financial management achievements include:

- Modified payment processes, in accordance with the OMB Memorandum M-11-32, Accelerating Payments to Small Businesses for Goods and Services, to expedite payments to small businesses and contractors to improve their cash flow and to spur job creation and economic growth across the country.
- Developed a draft Do Not Pay Implementation plan, in accordance with OMB Memorandum M-12-11, Reducing Improper Payments through the "Do Not Pay" List, issued in April 2012. The draft, currently under review by OMB, provides a means to identify, at the pre-award stage, eligibility of recipients to receive Federal funds. Additionally, HUD intends to use the Do Not Pay portal in its pre- and post-payment processes to prevent or recover improper payments.
- Improved the salaries and expenses budget development with better estimations, more collaboration and communication, and fewer lapsed funds.
- Reduced administrative spending in accordance with the Campaign to Cut Waste Executive Order that promotes efficient spending in the federal government.
- Earned the Certificate of Excellence in Accountability Reporting for the sixth consecutive year from the Association of Government Accountants for HUD's outstanding efforts in preparing the FY 2011 Agency Financial Report.

While the Department received an unqualified opinion on its financial statements, the OIG concluded that a previously identified significant deficiency had risen to the level of a material weakness. The material weakness relates to the OIG's assertion of non-compliance with the Federal Financial Management Improvement Act (FFMIA). As in the past, HUD disagrees with the OIG's conclusion concerning this finding. This disagreement is discussed in the Management Assurances subsection of this report, and discussed in detail in Management's Response to the Independent Auditors' Report for Fiscal Year 2012 that is included in the Audit Report found at http://www.hudoig.gov/Audit_Reports/2013-FO-0003.pdf. In addition, the audit report identified seven significant deficiencies (SDs), two of which were new this fiscal year. During the past fiscal year, the Department succeeded in resolving four SD's from prior years.

We take internal control weaknesses very seriously, committing significant resources throughout the agency into numerous efforts and processes to correct and resolve the above issues and strengthen controls. HUD is developing an aggressive remediation strategy with an aim to put in place a new core financial management system as rapidly as possible to address one key OIG concern. This topic is further discussed in the Management Assurances subsection of this report.

In addition to the Material Weakness and SDs, the OIG noted three areas in which HUD did not substantially comply with laws and regulations. For information on the Department's non-compliance with laws and regulations, please refer to the Management Assurances and the Summary of Financial Statement Audit subsections of this report.

During FY 2012, the Office of Personnel Management (OPM) performed an evaluation of HUD's Human Capital Management Operations. The purpose of the review was to assess HUD's strategic management of human capital, the efficiency and effectiveness of human resource programs, and compliance with certain laws and regulations. As a result of OPM's review, HUD recognized an operational material weakness in its Strategic Management of Human Capital Operations. HUD has developed a remediation plan to correct the internal control weaknesses recognized and will continue to implement corrective actions. Additional information can be found in the Management Assurances subsection of this report.

I want to highlight the talented financial and accounting personnel at HUD, the FHA, Ginnie Mae, and in the Office of Inspector General who together have made valuable contributions in the critical role of supporting the accomplishment of HUD's key mission during these difficult economic times for our country. I credit all of these individuals for the above successes and thank each of them for their hard work and dedication.

David P. Sidari

Financial Statements

Introduction

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

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

The financial statements presented herein are:

The **Consolidated Balance Sheet**, as of September 30, 2012 and 2011, 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, 2012 and 2011. 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, 2012 and 2011.

The **Combined Statement of Budgetary Resources,** which presents the budgetary resources available to HUD during FY 2012 and 2011, the status of these resources at September 30, 2012 and 2011, and the outlay of budgetary resources for the years ended September 30, 2012 and 2011.

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

Department of Housing and Urban Development
Consolidated Balance Sheet
As of September 2012 and 2011
(Dollars in Millions)

	2012	2011
ASSETS		
Intragovernmental		
Fund Balance with Treasury (Note 4)	$ 108,217	$ 111,154
Investments (Note 5)	4,899	6,273
Other Assets (Note 9)	27	29
Total Intragovernmental Assets	113,143	117,456
Investments (Note 5)	60	63
Accounts Receivable (Note 6)	213	230
Credit Program Receivables and Related Foreclosed Property (Note 7)	8,534	8,414
General Property Plant and Equipment (Note 8)	367	301
Other Assets (Note 9)	14,387	9,392
TOTAL ASSETS	**$ 136,704**	**$ 135,856**
LIABILITIES		
Intragovernmental Liabilities		
Accounts Payable (Note 10)	15	8
Debt (Note 11)	11,567	6,091
Other Intragovernmental Liabilities (Note 14)	4,117	3,748
Total Intragovernmental Liabilities	15,699	9,847
Accounts Payable (Note 10)	1,303	1,365
Loan Guarantees (Note 7)	55,144	36,214
Debt Held by the Public (Note 11)	60	153
Federal Employee and Veterans' Benefits (Note 12)	76	76
Loss Reserves (Note 13)	357	396
Other Governmental Liabilities (Note 14)	7,370	2,964
TOTAL LIABILITIES	**$ 80,009**	**$ 51,015**
NET POSITION		
Unexpended Appropriations - Earmarked Funds (Note 17)	240	2,213
Unexpended Appropriations	52,229	58,829
Cumulative Results of Operations - Earmarked Funds (Note 17)	17,586	16,434
Cumulative Results of Operations	(13,360)	7,365
TOTAL NET POSITION	56,695	84,841
TOTAL LIABILITIES AND NET POSITION	**$ 136,704**	**$ 135,856**

The accompanying notes are an integral part of these statements.

Department of Housing and Urban Development
Consolidating Statement of Net Cost
For the Period Ending September 2012 and 2011
(Dollars in Millions)

	2012	2011
COSTS		
Federal Housing Administration		
Gross Cost (Note 19)	$ 23,523	$ 5,699
Less: Earned Revenue	(3,226)	(2,179)
Net Program Costs	20,297	3,520
Government National Mortgage Association		
Gross Cost (Note 19)	600	(121)
Less: Earned Revenue	(1,209)	(1,062)
Net Program Costs	(609)	(1,183)
Section 8 Rental Assistance		
Gross Cost (Note 19)	28,226	28,653
Less: Earned Revenue	-	-
Net Program Costs	28,226	28,653
Low Rent Public Housing Loans and Grants		
Gross Cost (Note 19)	3,512	4,996
Less: Earned Revenue	-	-
Net Program Costs	3,512	4,996
Operating Subsidies		
Gross Cost (Note 19)	4,283	4,866
Less: Earned Revenue	-	-
Net Program Costs	4,283	4,866
Housing for the Elderly and Disabled		
Gross Cost (Note 19)	1,177	1,312
Less: Earned Revenue	(228)	(262)
Net Program Costs	949	1,050
Community Development Block Grants		
Gross Cost (Note 19)	6,901	7,093
Less: Earned Revenue	-	-
Net Program Costs	6,901	7,093
HOME		
Gross Cost (Note 19)	1,814	2,879
Less: Earned Revenue	-	-
Net Program Costs	1,814	2,879
All Other		
Gross Cost (Note 19)	4,219	5,601
Less: Earned Revenue	(21)	(34)
Net Program Costs	4,198	5,567
Costs Not Assigned to Programs	199	170
Consolidated		
Gross Cost (Note 19)	74,454	61,148
Less: Earned Revenue	(4,684)	(3,537)
NET COST OF OPERATIONS	**$ 69,770**	**$ 57,611**

The accompanying notes are an integral part of these statements.

Department of Housing and Urban Development
Consolidated Statement of Changes in Net Position
For the Years Ended September 2012 and 2011
(Dollars in Millions)

	2012 EARMARKED FUNDS	2012 ALL OTHER FUNDS	2012 CONSOLIDATED TOTAL	2011 EARMARKED FUNDS	2011 ALL OTHER FUNDS	2011 CONSOLIDATED TOTAL
CUMULATIVE RESULTS OF OPERATIONS:						
Beginning of Period	$ 16,434	$ 7,365	$ 23,799	$ 15,218	$ 9,756	$ 24,974
Adjustments:						
Corrections of Errors	-	7	7	-	(1)	(1)
Beginning Balances, As Adjusted	16,434	7,372	23,806	15,218	9,755	24,973
BUDGETARY FINANCING SOURCES:						
Other Adjustments	-	-	-	-	3	3
Appropriations Used	1,962	50,381	52,343	4,578	54,905	59,483
Non-exchange Revenue	2	-	2	-	-	-
Donations/Forfeitures-Cash & Cash Equivalents	-	-	-	2	-	2
Transfers In/Out Without Reimbursement	3	(397)	(395)	9	(501)	(492)
OTHER FINANCING SOURCES (NON-EXCHANGE):						
Transfers In/Out Without Reimbursement	-	(1,045)	(1,045)	-	(1,824)	(1,824)
Imputed Financing	-	80	80	1	90	91
Other	-	(795)	(795)	-	(826)	(826)
Total Financing Sources	1,967	48,224	50,190	4,590	51,847	56,437
Net Cost of Operations	(815)	(68,956)	(69,770)	(3,374)	(54,237)	(57,611)
Net Change	1,152	(20,732)	(19,580)	1,216	(2,390)	(1,174)
CUMULATIVE RESULTS OF OPERATIONS	**$ 17,586**	**$ (13,360)**	**$ 4,226**	**$ 16,434**	**$ 7,365**	**$ 23,799**
UNEXPENDED APPROPRIATIONS:						
Beginning of Period	$ 2,213	$ 58,831	$ 61,044	$ 6,819	$ 63,231	$ 70,050
Adjustments:						
Corrections of Errors	-	(7)	(7)	-	1	1
Beginning Balances, As Adjusted	2,213	58,824	61,037	6,819	63,232	70,051
BUDGETARY FINANCING SOURCES:						
Appropriations Received	-	45,566	45,566	-	51,123	51,123
Appropriations Transfers In/Out	-	-	-	1	(1)	-
Other Adjustments	(11)	(1,780)	(1,791)	(29)	(620)	(649)
Appropriations Used	(1,962)	(50,381)	(52,343)	(4,578)	(54,905)	(59,483)
Total Budgetary Financing Sources	(1,973)	(6,595)	(8,568)	(4,606)	(4,403)	(9,009)
UNEXPENDED APPROPRIATIONS	**240**	**52,229**	**52,469**	**2,213**	**58,829**	**61,042**
NET POSITION	**$ 17,826**	**$ 38,869**	**$ 56,695**	**$ 18,647**	**$ 66,194**	**$ 84,841**

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 2012 and 2011
(Dollars in Millions)

	2012		2011	
	Budgetary	NonBudgetary Credit Program Financing Accounts	Budgetary	NonBudgetary Credit Program Financing Accounts
Budgetary Resources:				
Unobligated Balance Brought Foward, October	$ 21,762	$ 36,428	$ 23,564	$ 34,809
Adjustments to Unobligated Balance, Brought Forward, October 1	(18)	(6)	-	-
Unobligated balance brought forward, October 1, adjusted	21,744	36,422	23,564	34,809
Recoveries of prior year unpaid obligations	1,116	121	823	26
Other changes in unobligated balance	(1,080)	-	(2,103)	(2,579)
Unobligated balance from prior year budget authority, net	21,780	36,543	22,284	32,256
Appropriations (discretionary and mandatory)	44,047	-	51,148	3
Borrowing Authority (discretionary and mandatory)	-	5,760	23	3,869
Spending Authority from offsetting collections	16,784	34,385	13,075	27,907
Total Budgetary Resources	**$ 82,611**	**$ 76,688**	**$ 86,530**	**$ 64,035**
Status of Budgetary Resources:				
Obligations Incurred				
Direct	60,220	36,216	59,703	27,607
Reimbursable	3,955	-	5,068	-
Subtotal	64,175	36,216	64,770	27,607
Unobligated Balances				
Apportioned	4,338	18,374	6,357	13,198
Unapportioned	14,098	22,098	15,403	23,230
Subtotal	18,436	40,472	21,760	36,428
Total Status of Budgetary Resources	**$ 82,611**	**$ 76,688**	**$ 86,530**	**$ 64,035**
Change in Obligated Balance				
Unpaid obligations, brought forward, October 1 (gross)	56,634	2,319	64,662	1,891
Uncollected customer payments from Federal sources, brought forward, Oct. 1 (-)	(244)	(17)	(74)	(15)
Obligated balance start of year (net), before adjustments (+ or -)	56,390	2,302	64,588	1,876
Obligated blance, start of year (net), as adjusted	56,390	2,302	64,588	1,876
Obligations incurred	64,175	36,216	64,770	27,607
Outlays, (gross) (-)	(70,493)	(35,940)	(71,976)	(27,151)
Change in uncollected customer payments from Federal sources (+ or -)	160	9	(169)	(1)
Recoveries of prior year unpaid obligations (-)	(1,116)	(122)	(823)	(26)
Unpaid Obligations, end of year (gross)	49,136	2,537	56,633	2,321
Uncollected customer payments from Federal sources, end of year (-)	(72)	(19)	(244)	(17)
Obligated balance, end of year (net)	**$ 49,064**	**$ 2,518**	**$ 56,390**	**$ 2,305**
Budget Authority and Outlays, Net:				
Budget authority, gross (discretionary and mandatory)	60,832	40,145	64,246	31,778
Actual offsetting collections (discretionary and mandatory) (-)	(17,490)	(34,659)	(12,066)	(27,904)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	160	9	(182)	-
Budget Authority, net (discretionary and mandatory)	**$ 43,502**	**$ 5,495**	**$ 51,998**	**$ 3,874**
Outlays, gross (discretionary and mandatory)	70,493	35,940	71,976	27,151
Actual offsetting collections (discretionary and mandatory) (-)	(16,753)	(34,659)	(12,066)	(27,904)
Outlays, net (discretionary and mandatory)	53,740	1,281	59,910	(753)
Distributed offsetting receipts	(3,426)	-	(1,921)	-
Agency Outlays, net (discretionary and mandatory)	**$ 50,314**	**$ 1,281**	**$ 57,989**	**$ (753)**

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

September 30, 2012 and 2011

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 (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 (Ginnie Mae) guarantees the timely payment of principal and interest on Mortgage-Backed Securities (MBS) issued by approved private mortgage institutions and backed by pools of mortgages insured or guaranteed by FHA, the Department of Agriculture (USDA), the Department of Veterans Affairs (VA), and HUD's Office of Public and Indian Housing (PIH).

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

The Low Rent Public Housing Grants program provides grants to Public Housing Agencies (PHAs) and Tribally Designated Housing Entities (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.

Operating Subsidies are provided to PHAs and TDHEs to help finance the operations and maintenance costs of their housing projects.

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

The Community Development Block Grant (CDBG) programs provide funds for metropolitan cities, urban counties, and other communities to use for neighborhood revitalization, economic development, and improved community facilities and services. The United States Congress appropriated $17.5 billion in FY 2008 and $150 million in emergency supplemental appropriations in FY 2005 for the "Community Development Fund" for emergency expenses to respond to the Hurricane Katrina relief efforts. Funds of $868 million were disbursed in FY 2012 and $2.1 billion in FY 2011. Any remaining un-obligated balances remain available until expended.

The Home Investments Partnerships 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 7 percent of HUD's consolidated revenues and financing sources for FY 2012 and 12 percent of HUD's consolidated revenues and financing sources for FY 2011.

Note 2: Summary of Significant Accounting Policies

A. Basis of Consolidation

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

The Department's FY 2012 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 2012 financial statements include the accounts and transactions of FHA, Ginnie Mae, and its grant, subsidy and loan programs.

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

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

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

C. Use of Estimates

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

Amounts reported for net loans receivable and related foreclosed property and the loan guarantee liability represent the Department's best estimates based on pertinent information available.

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

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

D. Credit Reform Accounting

The primary purpose of the FCRA, which became effective on October 1, 1991, is to more accurately measure the cost of Federal credit programs and to place the cost of such credit programs on a basis equivalent with other Federal spending. *OMB Circular A-11, Preparation, Execution, and Submission of the Budget*, Part 5, 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 FCRA 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 guarantee of MBS are recognized as earned. Commitment fees represent income that Ginnie Mae earns for providing approved issuers with authority to pool mortgages into Ginnie Mae MBS. 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 Affordable Housing Act (NAHA) 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 an dprofits, 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.

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, 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 FCRA 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-estimates from the GI/SRI financing account to the GI/SRI receipt account or when available cash is less than claim payments due.

J. Liability for Loan Guarantees

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

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

HUD records loss estimates for its single family LLR and multifamily LLR mortgage insurance programs operated through FHA. FHA records loss estimates for its single family programs to provide for anticipated losses incurred (e.g., claims on insured mortgages where defaults have taken place but claims have not yet been filed). Using the net cash flows (cash inflows less cash outflows), FHA computes an estimate based on conditional claim rates and loss experience data, and adjusts the estimates to incorporate management assumptions about current economic factors. FHA records loss estimates for its multifamily programs to provide for anticipated outflows less anticipated inflows. Using the net present value of claims less premiums, fees, and recoveries, FHA computes an estimate based on conditional claim rates, prepayment rates, and recovery assumptions based on historical experience.

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

K. Full Cost Reporting

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

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

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

M. Retirement Plans

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

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

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

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

At inception of the guaranty, Ginnie Mae recognizes a liability for the guaranty it provides on MBS issued by third-party issuers. Generally, a guaranty liability is initially measured at fair value. However, Ginnie Mae applies the practical expedient in ASC 460-10-30-2a (ASC Topic 460, Guarantees (ASC 460)), which allows the guaranty liability to be recognized at inception based on the premium received or receivable by the guarantor, provided the guaranty is issued in a standalone arm's-length transaction with an unrelated party. Ginnie Mae initially recognizes a guaranty liability at fair value for its obligation to stand ready to perform on these upon issuance of a guaranty. Subsequently, the guaranty liability is measured by a systematic and rational amortization method. We have computed the value of our guarantee based on the life of the MBS and their underlying loans. Based on this evaluation, we have disclosed a liability of \$6,634 million as of September 30, 2012, and \$2,175 million as of September 30, 2011 categorized as other liabilities, see Note 14.

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

O. Mortgage Servicing Rights

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

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

P. Subsequent Events

Ginnie Mae management has evaluated potential subsequent events through October 31, 2012, the date through which the financial statements were made available to be issued. Based on the evaluation, Ginnie Mae management identified one subsequent event. On September 28, 2012, Ginnie Mae approved a Transfer of Servicing Agreement between two issuers. The transfer is scheduled to occur on November 1, 2012. Ginnie Mae identified the issuer, who transferred their servicing rights to the other Ginnie Mae approved issuer in this transaction, as a probable risk of default during the MBS Loss Liability analysis. However, as a result of the Transfer of Servicing Agreement, Ginnie Mae no longer assesses the risk of default as probable. Accordingly, no liability related to this issuer has been included in the MBS loss liability calculation. Any estimate of this liability would be insignificant.

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, 2012 and 2011 were as follows (dollars in millions):

Description	2012 Entity	2012 Non-Entity	2012 Total	2011 Entity	2011 Non-Entity	2011 Total
Intragovernmental						
Fund Balance with Treasury (Note 4)	$ 104,693	$ 3,524	$ 108,217	$ 109,191	$ 1,963	$ 111,154
Investments (Note 5)	4,896	3	4,899	6,270	3	6,273
Accounts Receivable, Net (Note 6)	-	-	-	-	-	-
Other Assets (Note 9)	27	-	27	29	-	29
Total Intragovernmental Assets	$ 109,616	$ 3,527	$ 113,143	$ 115,490	$ 1,966	$ 117,456
Investments (Note 5)	60	-	60	63	-	63
Accounts Receivable, Net (Note 6)	193	20	213	197	33	230
Loan Receivables and Related Foreclosed Property, Net (Note 7)	8,534	-	8,534	8,414	-	8,414
General Property, Plant and Equipment, Net (Note 8)	367	-	367	301	-	301
Other Assets (Note 9)	14,387	-	14,387	9,326	66	9,392
Total Assets	**$ 133,157**	**$ 3,547**	**$ 136,704**	**$ 133,791**	**$ 2,065**	**$ 135,856**

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, 2012 and 2011 were as follows (dollars in millions):

Description	2012	2011
Revolving Funds	$ 45,021	$ 41,578
Appropriated Funds	53,067	61,576
Trust Funds	6,101	5,505
Other	4,028	2,495
Total - Fund Balance	**$ 108,217**	**$ 111,154**

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

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

HUD's fund balances with the U.S. Treasury as reflected in the entity's general ledger as of September 30, 2012 and 2011 were as follows (dollars in millions):

Status of Resources - 2012

Description	Unobligated Available	Unobligated Unavailable	Obligated Not Yet Disbursed	Unfilled Customer Orders	Status of Total Resources	Fund Balance	Other Authority	Total Resources
FHA	$ 18,405	$ 25,944	$ 3,202	$ (2)	$ 47,549	$ 44,775	$ 2,774	$ 47,549
Ginnie Mae	5	8,860	334	(18)	9,181	7,075	2,106	9,181
Section 8 Rental Assistance	290	70	9,751	-	10,111	10,111	-	10,111
PIH Loans and Grants	99	48	5,792	-	5,939	5,939	-	5,939
Operating Subsidies	5	15	1,048	-	1,068	1,068	-	1,068
Section 202/811	367	100	3,476	-	3,943	3,943	-	3,943
CDBG	733	13	15,037	-	15,783	15,783	-	15,783
Home	149	13	4,340	-	4,502	4,502	-	4,502
Section 235/236	49	14	1,952	-	2,015	1,142	873	2,015
All Other	2,610	1,119	6,739	(71)	10,397	10,385	12	10,397
Total	**$ 22,712**	**$ 36,196**	**$ 51,671**	**$ (91)**	**$ 110,488**	**$ 104,723**	**$ 5,765**	**$ 110,488**

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	$ 18,405	$ 23,170	$ 3,202	$ (2)	44,775	$ 2,866	$ 47,641
Ginnie Mae	5	6,754	334	(18)	7,075	-	7,075
Section 8 Rental Assistance	290	70	9,751	-	10,111	9	10,120
PIH Loans and Grants	99	48	5,792	-	5,939	-	5,939
Operating Subsidies	5	15	1,048	-	1,068	-	1,068
Section 202/811	367	100	3,476	-	3,943	-	3,943
CDBG	733	13	15,037	-	15,783	-	15,783
Home	149	13	4,340	-	4,502	-	4,502
Section 235/236	4	6	1,132	-	1,142	-	1,142
All Other	2,610	1,107	6,739	(71)	10,385	619	11,004
Total	**$ 22,667**	**$ 31,296**	**$ 50,851**	**$ (91)**	**$ 104,723**	**$ 3,494**	**$ 108,217**

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	$ -	$ 2,774	$ -	$ -	$ -	$ 2,774	$ -
Ginnie Mae	-	2,105	-	-	-	2,105	-
Section 8 Rental Assistance	-	-	-	-	-	-	-
PIH Loans and Grants	-	-	-	-	-	-	-
Section 202/811	-	-	-	-	-	-	-
Section 235/236	-	-	-	-	-	-	-
All Other	-	12	-	-	-	-	12
Total	**$ -**	**$ 4,891**	**$ -**	**$ -**	**$ -**	**$ 4,879**	**$ 12**

Status of Receipt Account Balances

Description	Fund Balance
FHA	$ 2,866
Section 8 Rental Assistance	9
All Other	619
Total	**$ 3,494**

Breakdown of All Other

Description	Fund Balance
Other Repayments of Capital Investments and Recoveries and Manufactured Housing Fees Trust Fund	$ 543
Negative Subsidies and Downward Restimates of Subsidies	76
Total	**$ 619**

Status of Resources - 2011

Description	Unobligated Available	Unobligated Unavailable	Obligated Not Yet Disbursed	Unfilled Customer Orders	Status of Total Resources	Fund Balance	Other Authority	Total Resources
FHA	$ 13,392	$ 28,421	$ 3,057	$ (21)	$ 44,849	$ 40,755	$ 4,094	$ 44,849
Ginnie Mae	1	8,825	518	(14)	9,330	7,210	2,120	9,330
Section 8 Rental Assistance	296	50	10,441	-	10,787	10,782	5	10,787
PIH Loans and Grants	139	42	6,805	-	6,986	6,986	12	6,998
Operating Subsidies	2	13	1,312	-	1,327	1,327	-	1,327
Section 202/811	1,125	40	3,299	-	4,464	4,464	-	4,464
CDBG	1,042	18	18,135	-	19,195	19,195	-	19,195
Home	355	3	4,932	-	5,290	5,290	-	5,290
Section 235/236	55	264	2,476	-	2,795	1,380	1,415	2,795
All Other	3,148	957	7,980	(225)	11,860	11,848	-	11,848
Total	**$ 19,555**	**$ 38,633**	**$ 58,955**	**$ (260)**	**$ 116,883**	**$ 109,237**	**$ 7,646**	**$ 116,883**

Status of Resources Covered by Fund Balance

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

Status of Resources Covered by Other Authority

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

Status of Receipt Account Balances

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

Breakdown of All Other

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

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

Of the $3,729 million of HUD's unobligated balances reported in HUD's ALL Other Programs, $185 million represents funds from the Emergency Homeowners' Loan Program (EHLP). Of the $472 million unobligated as of September 30, 2011, $375 million was returned to the Department of Treasury in FY 2012.

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 2012 ranged from 0.44 percent to 2.00 percent. During FY 2011 interest rates ranged from 0.63 percent to 1.88 percent. The amortized cost and estimated market value of investments in debt securities as of September 30, 2012 and 2011 were as follows (dollars in millions):

	Cost	Amortized (Premium)/ Discount, Net	Accrued Interest	Net Investments	Market Value
FY 2012	$ 4,892	$ (3)	$ 10	$ 4,899	$ 4,960
FY 2011	$ 6,228	$ 16	$ 29	$ 6,273	$ 7,354

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, 2012 and 2011 (dollars in millions):

	Beginning Balance	New Acquisitions	Share of Earnings or Losses	Return of Investment	Redeemed	Ending Balance
2012						
601 Program	$ 6	$ 21	$ 7	$ (31)	$ -	$ 3
Risk Sharing Debentures	57	-	-	-	-	57
Total	**$ 63**	**$ 21**	**$ 7**	**$ (31)**	**$ -**	**$ 60**
2011						
601 Program	$ 9	$ -	$ (1)	$ (2)	$ -	$ 6
Risk Sharing Debentures	127	1	-	-	(71)	57
Total	**$ 136**	**$ 1**	**$ (1)**	**$ (2)**	**$ (71)**	**$ 63**

Note 6: Accounts Receivable (Net)

The Department's accounts receivable represents Section 8 year-end settlements, claims to cash from the public, state and local authorities for bond refundings, Section 236 excess rental income, sustained audit findings, refunds of overpayment, FHA insurance premiums, and foreclosed property proceeds.

A 100 percent allowance for loss is established for all delinquent accounts 90 days and over for bond refundings. The allowance for loss methodology is the total delinquencies greater than 90 days plus/or minus economic stress factors. The economic stress factors include payoff, foreclosure, bankruptcy and hardship of the project. Adjustments to the bond refundings allowance for loss account are done every quarter to ensure they are deemed to be necessary.

For Section 236 excess rental income, the allowance for loss consists of 10 percent of the receivables with a repayment plan plus 95 percent of the receivables without a repayment plan. Adjustments to the excess rental income allowance for loss account are done biannually to ensure they are deemed necessary.

Section 8 Settlements

Prior to January 1, 2005, the Housing Choice Voucher (HCV) Program's Section 8 subsidies were disbursed based on estimated amounts due under the contracts. At the end of each year, the actual amount due under the contracts was determined. The excess of subsidies paid to PHAs during the year over the actual amount due was reflected as an accounts receivable in the balance sheet. These receivable amounts were "collected" by offsetting such amounts with subsidies due to the PHAs in subsequent periods. On January 1, 2005, Congress changed the basis of the program funding from a "unit-based" process with program variables that affected the total annual Federal funding need, to a "budget-based" process that limits the Federal funding to PHAs to a fixed amount. Under this "budget-based" process, a year-end settlement process to determine actual amounts due is no longer applicable. Effective January 1, 2012, PIH reinstated the year-end settlement process for the HCV Program.

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, 2012 and 2011, HUD was due $16 million and $28 million, respectively.

Section 236 Excess Rental Income

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

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, 2012 and 2011 (dollars in millions):

	2012			2011		
Description	Gross Accounts Receivable	Allowance for Loss	Total, Net	Gross Accounts Receivable	Allowance for Loss	Total, Net
Public						
Section 8 Settlements	$ 8	$ -	$ 8	$ 12	$ (4)	$ 8
Bond Refundings	23	(7)	16	32	(4)	28
Section 236 Excess Rental Income	7	(3)	4	10	(4)	6
Other Receivables:						
FHA	103	(79)	24	112	(80)	32
Ginnie Mae	736	(581)	155	583	(437)	146
Other Receivables	15	(9)	6	13	(3)	10
Total Assets	**$ 892**	**$ (679)**	**$ 213**	**$ 762**	**$ (532)**	**$ 230**

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.

The FHA insures 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 allowance for loan losses for the Flexible Subsidy Fund and the Housing for the Elderly and Disabled Program is determined as follows. Prior to FY 2012, the allowance for loss calculation for the Flexible Subsidy Program was based on 90% of the outstanding principal and interest balances associated with both permanent and construction loans reported by HUD. Beginning in FY 2012, HUD changed its methodology for computing the allowance for losses. The new methodology implemented by HUD resulted in a net change in the allowance account of $515 million for the Flexible Subsidy Fund.

Flexible Subsidy Fund

There are four parts to the calculation of allowance for loss: (1) loss rate for loans written-off, (2) loss rate for restructured loans, (3) loss rate for loans paid-off, and (4) loss rate for loans delinquent or without repayment activity for 30 years. Loss rates for Parts 1 and 3 are based on actual historical data derived from the previous three years. The loss rates for Parts 2 and 4 are provided by or agreed to by the Housing Office of Evaluation.

Housing for the Elderly and Disabled Program

There are three parts to the calculation of allowance for loss: (1) loss rate for loans issued a Foreclosure Hearing Letter, (2) loss rate for the estimated number of foreclosures in the current year, and (3) loss rate for loans delinquent for more than 180 days. Loss rates for parts 1 and 2 are determined by actual historical data from the previous five years. Loss rate for part 3 is determined or approved by the Housing Office of Evaluation.

Direct loan obligations or loan guarantee commitments made after FY 1991, and the resulting direct loans or defaulted guaranteed loans, are governed by the FCRA 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 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 2012 and FY 2011:

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

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

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

2012					
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	15	11	(6)	-	20
Housing for the Elderly and Disabled	2,493	25	(19)	-	2,499
All Other					
a) CPD Revolving Fund	5	-	(5)	1	1
b) Flexible Subsidy Fund	508	89	(37)	-	560
Total	**$ 3,021**	**$ 125**	**$ (72)**	**$ 1**	**$ 3,075**

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

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

Direct Loan Programs	2012 Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans
All Other					
a) Green Retrofit Program	$ 80	$ 1	$ (69)	$ -	$ 12
b) Emergency Homeowners' Loan Program	69	-	(67)	-	2
Total	**$ 149**	**$ 1**	**$ (136)**	**$ -**	**$ 14**

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

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

Direct Loan Programs	Current Year	Prior Year
All Other		
a) Green Retrofit Program	$ -	$ 28
b) Emergency Homeowners' Loan Program	69	-
Total	**$ 69**	**$ 28**

E. Subsidy Expense for Direct Loans by Program and Component:

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

Direct Loan Programs	2012 Interest Differential	Defaults	Fees and Other Collections	Other	Total
All Other					
a) Green Retrofit Program	$ -	$ -	$ -	$ -	$ -
b) Emergency Homeowners' Loan Program	-	-	-	67	67
Total	**$ -**	**$ -**	**$ -**	**$ 67**	**$ 67**

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

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

Direct Loan Programs	2012 Total Modification	2012 Interest Rate Re-estimates	2012 Technical Re-stimates	2012 Total Re-estimates
All Other				
a) Green Retrofit Program	$ -	$ -	$ -	$ -
b) Emergency Homeowners' Loan Program	-	-	-	-
Total	**$ -**	**$ -**	**$ -**	**$ -**

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

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

Direct Loan Programs	Current Year	Prior Year
All Other		
a) Green Retrofit Program	$ -	$ 23
b) Emergency Homeowners' Loan Program	67	-
Total	**$ 67**	**$ 23**

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

Budget Subsidy Rates for Direct Loans

Direct Loan Programs	2012 Interest Differential	2012 Defaults	2012 Fees and Other Collections	2012 Other	2012 Total
All Other					
a) Green Retrofit Program	41.0%	42.7%	0.0%	(1.3%)	82.4%
b) Emergency Homeowners' Loan Program	0.0%	0.0%	0.0%	97.7%	97.7%

Direct Loan Programs	2011 Interest Differential	2011 Defaults	2011 Fees and Other Collections	2011 Other	2011 Total
All Other					
a) Green Retrofit Program	41.0%	42.7%	0.0%	(1.3%)	82.4%
b) Emergency Homeowners' Loan Program	0.0%	0.0%	0.0%	97.7%	97.7%

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

Beginning Balance, Changes, and Ending Balance	FY 2012	FY 2011
Beginning balance of the subsidy cost allowance	$ 69	$ 46
Add: subsidy expense for direct loans disbursed		
during the reporting years by component:	-	-
a) Interest rate differential costs	-	11
b) Default costs (net of recoveries)	-	12
c) Fees and other collections	-	-
d) Other subsidy costs	67	-
Total of the above subsidy expense components	67	23
Adjustments:		
a) Loan modifications	-	-
b) Fees received	-	-
c) Foreclosed properties acquired	-	-
d) Loans written off	-	-
e) Subsidy allowance amortization	1	1
f) Other	-	-
Ending balance of the subsidy cost allowance before re-estimates	137	70
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	**$ 137**	**$ 70**

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

2012	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan and Interest Losses	Foreclosed Property, Net	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
FHA					
a) MMI/CMHI Funds	$ 17	$ -	$ (33)	$ 24	$ 8
b) GI/SRI Funds, Excluding HECM	2,339	219	(1,378)	10	1,190
c) GI/SRI Funds, HECM	5	1	(2)	5	9
Total	**$ 2,361**	**$ 220**	**$ (1,413)**	**$ 39**	**$ 1,207**

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

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

2012

	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property, Gross	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
FHA					
a) MMI/CMHI Funds	$ 1,744	$ 41	$ (4,482)	$ 4,888	$ 2,191
b) GI/SRI Funds, Excluding HECM	683	2	(559)	201	327
c) GI/SRI Funds, HECM	1,775	806	(934)	53	1,700
All Other	-	-	-	20	20
Total	**$ 4,202**	**$ 849**	**$ (5,975)**	**$ 5,162**	**$ 4,238**

2011

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

	2012	**2011**
Total Credit Program Receivables and Related Foreclosed Property, Net	$8,534	$8,414

J. Guaranteed Loans Outstanding:

J1. Guaranteed Loans Outstanding (dollars in millions):

	2012	
Loan Guarantee Programs	**Outstanding Principal, Guaranteed Loans, Face Value**	**Amount of Outstanding Principal Guaranteed**
FHA Programs		
a) MMI/CMHI Funds	$ 1,141,718	$ 1,069,419
b) GI/SRI Funds	111,586	100,720
c) H4H Progam	124	122
All Other	5,190	5,185
Total	**$ 1,258,618**	**$ 1,175,446**

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

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

		Cumulative	
Loan Guarantee Programs	**2012 Current Year Endorsements**	**Current Outstanding Balance**	**Maximun Potential Liability**
FHA Programs	$ 13,111	$ 93,565	$ 139,858

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

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

Loan Guarantee Programs	2012 Outstanding Principal, Guaranteed Loans, Face Value	2012 Amount of Outstanding Principal Guaranteed
FHA Programs		
a) MMI/CMHI Funds	$ 213,267	$ 211,043
b) GI/SRI Funds	18,806	18,709
c) H4H Program	-	-
All Other	869	869
Total	**$ 232,942**	**$ 230,621**

New Guaranteed Loans Disbursed (Prior Reporting Year):

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

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

Loan Guarantee Programs	2012 Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims	2012 Liabilities for Loan Guarantees for Post-1991 Guarantees (Present Value)	2012 Total Liabilities For Loan Guarantees
FHA Programs	$ 17	$ 54,967	$ 54,984
All Other	-	160	160
Total	**$ 17**	**$ 55,127**	**$ 55,144**

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

L. Subsidy Expense for Post-1991 Guarantees:

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

	2012				
Loan Guarantee Programs	**Endorsement Amount**	**Default Component**	**Fees Component**	**Other Component**	**Subsidy Amount**
FHA					
a) MMI/CMHI Funds, Excluding HECM	$ 213,267	$ 6,829	$ (13,203)	$ 993	$ (5,381)
b) MMI/CMHI Funds, HECM	13,111	754	(954)	-	(200)
c) GI/SRI Funds	18,806	647	(1,041)	-	(394)
d) H4H Program	-	-	-	-	-
All Other	-	16	-	-	16
Total	**$ 245,184**	**$ 8,246**	**$ (15,198)**	**$ 993**	**$ (5,959)**

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

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

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

	2012			
Loan Guarantee Programs	**Total Modifications**	**Interest Rate Re-estimates**	**Technical Re-estimates**	**Total Re-estimates**
FHA				
a) MMI/CMHI Funds	$ -	$ -	$ 16,636	$ 16,636
b) GI/SRI Funds	-	-	3,993	3,993
All Other	-	-	13	13
Total	**$ -**	**$ -**	**$ 20,642**	**$ 20,642**

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

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

Loan Guarantee Programs	Current Year	Prior Year
FHA		
a) MMI/CMHI Funds	$ 11,055	$ 1,656
b) GI/SRI Funds	3,599	(1,062)
c) H4H Program	-	11
All Other	$ 29	$ (7)
Total	**$ 14,683**	**$ 598**

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

Budget Subsidy Rates for Loan Guarantees for FY 2012 Cohorts

Loan Guarantee Program	Default	Fees and Other Collections	Other	Total
FHA Programs				
MMI/CMHI				
Single Family - Forward	3.7%	(6.4%)	0.0%	(2.7%)
Single Family - HECM	5.7%	(7.3%)	0.0%	(1.6%)
Multi Family - Section 213	3.7%	(6.4%)	0.0%	(2.7%)
GI/SRI				
Multifamily				
Section 221(d)(4)	5.3%	(6.4%)		(1.1%)
Section 207/223(f)	3.5%	(5.6%)		(2.1%)
Section 223(a)(7)	3.5%	(5.6%)		(2.1%)
Section 232	3.6%	(5.6%)		(2.0%)
Section 242	1.8%	(5.6%)		(3.8%)
H4H				
Single Family - Section 257	0.0%	0.0%	0.0%	0.0%
All Other Programs				
CDBG, Section 108(b)	2.5%			2.5%
Loan Guarantee Recovery	50.0%			50.0%
Indian Housing	1.5%	0.0%		1.5%
Native Hawaiian Housing	0.9%	0.0%		0.9%
Title VI Indian Housing	10.8%			10.8%

Budget Subsidy Rates for Loan Guarantees for FY 2011 Cohorts

Loan Guarantee Program	Default	Fees and Other Collections	Other	Total
FHA Programs				
MMI/CMHI				
Single Family - Forward	4.7%	(13.1%)	2.0%	(6.4%)
Single Family - HECM	5.1%	(5.1%)	0.0%	(0.0%)
Multi Family - Section 213	5.2%	(12.7%)	2.0%	(5.4%)
GI/SRI				
Multifamily				
Section 221(d)(4)	7.3%	(11.0%)		(3.7%)
Section 207/223(f)	3.9%	(10.7%)		(6.8%)
Section 223(a)(7)	3.9%	(10.7%)		(6.8%)
Section 232	9.1%	(0.1%)		9.1%
Section 242	1.8%	(5.5%)		(3.7%)
H4H				
Single Family - Section 257	16.0%	(6.1%)	1.1%	10.9%
All Other Programs				
CDBG, Section 108(b)	2.3%			2.3%
Loan Guarantee Recovery	50.0%			50.0%
Indian Housing	1.8%	(1.0%)		0.8%
Native Hawaiian Housing	1.8%	(1.0%)		0.8%
Title VI Indian Housing	10.2%			10.2%

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

Beginning Balance, Changes, and Ending Balance	2012	2011
Beginning balance of the loan guarantee liability	$ 36,214	$ 35,073
Add: subsidy expense for guaranteed loans disbursed during the reporting years by component:		
(a) Interest supplement costs	-	-
(b) Default costs (net of recoveries)	8,246	6,588
(c) Fees and other collections	(15,198)	(15,929)
(d) Othe subsidy costs	993	2,172
Total of the above subsidy expense components	$ (5,959)	$ (7,169)
Adjustments:		
(a) Loan guarantee modifications	-	-
(b) Fees Received	10,743	8,589
(c) Interest supplemental paid	-	-
(d) Foreclosed property and loans acquired	5,888	5,088
(e) Claim payments to lenders	(20,275)	(17,217)
(f) Interest accumulation on the liability balance	1,425	1,401
(g) Other	(51)	6
Ending balance of the subsidy cost allowance before re-estimates	$ 27,985	$ 25,771
Add or Subtract subsidy re-estimates by component:		
(a) Interest rate re-estimate	-	-
(b) Technical/default re-estimate	20,167	(287)
(c) Adjustment of prior years credit subsidy re-estimates	6,992	10,730
Total of the above re-estimate components	27,159	10,443
Ending balance of the subsidy cost allowance	**$ 55,144**	**$ 36,214**

O. Administrative Expenses (dollars in millions):

Loan Guarantee Program	2012	2011
FHA	$ 647	$ 673
All Other	-	-
Total	**$ 647**	**$ 673**

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

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

The following shows general property, plant, and equipment as of September 30, 2012 and September 30, 2011 (dollars in millions):

Description	2012			2011		
	Cost	Accumulated Depreciation and Amortization	Book Value	Cost	Accumulated Depreciation and Amortization	Book Value
Equipment	$ 3	$ (1)	$ 2	$ 2	$ (1)	$ 1
Leasehold Improvements	-	-	-	-	-	-
Internal Use Software	175	(143)	32	170	(125)	45
Internal Use Software in Development	333	-	333	255	-	255
Total Assets	**$ 511**	**$ (144)**	**$ 367**	**$ 427**	**$ (126)**	**$ 301**

Note 9: Other Assets

The following shows HUD's Other Assets as of September 30, 2012 and September 30, 2011 (dollars in millions):

Description	2012			
	FHA	Ginnie Mae	All Other	Total
Intragovernmental Assets:				
Other Assets	$ 3	$ -	$ 24	$ 27
Total Intragovernmental Assets	**3**	**-**	**24**	**27**
Mortgagor Reserves for Replacement - Cash	$ 58	-	-	58
Financial Accounting Standards Board Interpretation No 45	-	6,634	-	6,634
Mortgage Loans Held for Investment, net	-	6,689	-	6,689
Mortgage Loans Held for Sale, net	-	-	-	-
Advances Against Defaulted Mortgage-Backed Security Pools, net	-	933	-	933
Properties Held for Sale, net	-	12	-	12
Mortgage Servicing Rights	-	61	-	61
Other Assets	2	-	(2)	-
Total	**$ 63**	**$ 14,329**	**$ 22**	**$ 14,414**

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

Mortgage Loans Held for Investment, net

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

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

During FY 2012, following the guidelines outlined in the Ginnie Mae MBS Guide, a large number of loans were repurchased out of pools due to delinquencies of greater than 120 days. Ginnie Mae also acquires mortgages ineligible to remain in pools. In addition, Ginnie Mae bought loans out of pools in order to complete modifications in accordance with FHA guidelines. Ginnie Mae bought out $705 million in mortgage loans primarily from the single family defaulted portfolio.

Ginnie Mae performs periodic and systematic reviews of its loan portfolios to identify credit risks and assess the overall collectability of the portfolios. The allowance for loss on mortgage loans HFI represents management's estimate of probable credit losses inherent in Ginnie Mae's mortgage loan portfolio. The allowance for loss on mortgage loans HFI is netted against the balance of mortgage loans HFI, representing the net realizable value of these loans.

As of September 30, 2012 and 2011 approximately $6.2 billion and $5.9 billion of the mortgage loans HFI, net, were insured by FHA.

Advances Against Defaulted Mortgage-Backed Security Pools

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

Of the total advances balance as of September 30, 2012 and 2011, approximately $829.4 million and $568.3 million, respectively, were foreclosed properties / pre-claim submission to FHA. In addition, of the total advances balance, approximately $14.8 million and $25.6 million, respectively, were short sales claims receivable pre-claim submission to FHA. As component entities of HUD, certain intra-entity eliminating entries between FHA and Ginnie Mae could not be eliminated in HUD's consolidated financial statements. See Financial Statement Note 16.

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 a servicing asset or servicing liability each time it undertakes an obligation that does not relate to the servicer or its affiliates.

The following table displays the fair value of the MSR for fiscal year ended September 30, 2012 (dollars in millions):

Description		MSR
Balance, October 1, 2011	$	111
Additions/Sales		-
Issuer defaulted August 4, 2009		-
Issuer defaulted December 17, 2009		-
Impact of customer payments		-
Other changes in market value		(50)
		61

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

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

The key economic assumptions used in determining the fair value of MSRs are as follows for fiscal years ended September 30, 2012 and September 30, 2011 (dollars in millions):

	September 30	
Description	2012	2011
Valuation at period end:		
Fair value (in millions)	$ 61	$ 111
Weighted-average life (years)	2.4	4.0
Prepayment rate assumptions:		
Rate assumption	32.9%	20.6%
Impact on fair value of a 10% adverse change (in millions)	(4)	(6)
Impact on fair value of a 20% adverse change (in millions)	(8)	(12)
Discount rate assumptions:		
Rate assumption	12.5%	12.5%
Impact on fair value of a 10% adverse change (in millions)	(1)	(4)
Impact on fair value of a 20% adverse change (in millions)	(3)	(7)

Note 10: Liabilities Covered and Not Covered by Budgetary Resources

The following shows HUD's liabilities as of September 30, 2012 and 2011 (dollars in millions):

Description	2012			2011		
	Covered	Not-Covered	Total	Covered	Not-Covered	Total
Intragovernmental						
Accounts Payable	$ 15	$ -	$ 15	$ 8	$ -	$ 8
Debt	11,567	-	11,567	6,091	-	6,091
Other Intragovernmental Liabilities	4,098	19	4,117	3,730	18	3,748
Total Intragovernmental Liabilities	$ 15,680	$ 19	$ 15,699	$ 9,829	$ 18	$ 9,847
Accounts Payable	1,303	-	1,303	1,365	-	1,365
Liabilities for Loan Guarantees	55,144	-	55,144	36,214	-	36,214
Debt	60	-	60	153	-	153
Federal Employee and Veterans' Benefits	76	-	76	-	76	76
Loss Reserves	357	-	357	396	-	396
Other Liabilities	7,370	-	7,370	2,865	99	2,964
Total Liabilities	**$ 79,990**	**$ 19**	**$ 80,009**	**$ 50,822**	**$ 193**	**$ 51,015**

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, 2012 (dollars in millions):

Description	Beginning Balance	Net Borrowings	Ending Balance
Debt to the U.S. Treasury	$ 6,091	$ 5,476	$ 11,567
Held by the Public	153	(93)	60
Total Debt	$ 6,244	$ 5,383	$ 11,627
Classification of Debt:			
Intragovernmental Debt			$ 11,567
Debt held by the Public			60
Total Debt			**$ 11,627**

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

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

Interest paid on borrowings as of September 30, 2012 and 2011 was $463 million and $412 million, respectively. The purpose of these borrowings is discussed in the following paragraphs.

Borrowings from the U.S. Treasury

In FY 2012 and FY 2011, FHA borrowed $5,670 billion and $3,835 billion, respectively, from the U.S. Treasury. In accordance with Credit Reform accounting, FHA borrows from the U.S. Treasury when cash is needed in its financing accounts. Usually, the need for cash arises when FHA has to transfer the negative credit subsidy amounts related to new loan disbursements and existing loan modifications from the financing accounts to the general fund receipt account (for cases in GI/SRI funds) or to the capital reserve account (for cases in MMI/CMHI funds). In some instances, borrowings are also needed to transfer the credit subsidy related to downward re-estimates when available cash is less than claim payments due. These borrowings carried interest rates ranging from 1.68 percent to 7.39 percent during FY 2012 and 2.42 percent to 7.59 percent during FY 2011.

In FY 2012, HUD borrowed $0.5 million for the Emergency Homeowners' Relief Program. These borrowings earned an interest rate of 1.667 percent. As in FHA's credit reform programs, all borrowings were made in the financing accounts.

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

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

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

Debentures Issued To Claimants

The National Housing Act authorizes FHA, in certain cases, to issue debentures in lieu of cash to settle claims. FHA-issued debentures bear interest at rates established by the U.S. Treasury. There were no debentures issued in FY 2012. Interest rates related to the outstanding debentures ranged from 4.00 percent to 13.375 percent in FY 2011. 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, it 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 2012, HUD recorded imputed costs of $81 million which consisted of $37 million for pension and $44 million for health care benefits. During FY 2011, HUD recorded imputed costs of $90 million which consisted of $44 million for pension and $46 million for health care benefits. These amounts are reported by OPM and charged to expense with a corresponding amount considered as an imputed financing source in the Statement of Changes in Net Position.

HUD also accrues the portion of the estimated liability for disability benefits assigned to the agency under the Federal Employee Compensation Act (FECA), administered and determined by the DOL. The liability, based on the net present value of estimated future payments based on a study conducted by DOL, was $76 million as of September 30, 2012, and $76 million as of September 30, 2011. Future payments on this liability are to be funded by future financing sources.

In addition to the imputed costs of $81 million noted above, HUD recorded benefit expenses totaling $168 million for 2012 and $173 million for FY 2011.

Note 13: Loss Reserves

For FY 2012 and FY 2011, Ginnie Mae loss reserves were $357.4 million and $395.8 million, respectively. Reserves are established to the extent management believes losses due to defaults are probable and estimable and FHA, USDA, VA, and PIH insurance or guarantees are insufficient to recoup Ginnie Mae expenditures. The reserve represents probable and estimable losses net of recoveries for currently defaulted issuers as well as probable and estimable future defaults by issuers of MBS. An increase to the reserve is established through a provision charged to operations while a decrease to the reserve is a recapture of expense charged to operations. The reserve is relieved as losses are realized from the disposal of the defaulted issuers' portfolios. Ginnie Mae recovers part of its losses through servicing fees on the performing portion of the portfolios.

In estimating losses, management utilizes a statistically-based model that evaluates numerous factors, including but not limited to, general and regional economic conditions, mortgage characteristics, and actual and expected future default and loan loss experience. Based on its analysis of its loss exposure, Ginnie Mae reduced its reserve balance in FY 2012. Ginnie Mae management believes that its reserve is adequate to cover probable and estimable losses of default-related losses due to Ginnie Mae guaranteed MBS.

Note 14: Other Liabilities

The following shows HUD's Other Liabilities as of September 30, 2012 (dollars in millions):

Description	Non-Current	Current	Total
Intragovernmental Liabilities			
FHA Special Receipt Account Liability	$ 3,473	$ -	$ 3,473
Unfunded FECA Liability	18	-	18
Employer Contributions and Payroll Taxes	-	10	10
Miscellaneous Receipts Payable to Treasury	-	607	607
Advances to Federal Agencies	-	9	9
Total Intragovernmental Liabilities	$ 3,491	$ 626	$ 4,117
Other Liabilities			
FHA Other Liabilities	$ 74	$ -	$ 74
FHA Escrow Funds Related to Mortgage Notes	322	-	322
Ginnie Mae Deferred Income	-	134	134
Ginnie Mae Deposit Funds	-	(3)	(3)
Deferred Credits	-	18	18
Deposit Funds	-	30	30
Accrued Unfunded Annual Leave	82	-	82
Accrued Funded Payroll Benefits	-	63	63
Contingent Liability	16	-	16
Other - FIN 45	-	6,634	6,634
Total Other Liabilities	**$ 3,985**	**$ 7,502**	**$ 11,487**

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, 2011 (dollars in millions):

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

Note 15: Financial Instruments with Off-Balance Sheet Risk

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

A. FHA Mortgage Insurance

The outstanding principal of FHA's guaranteed loans (face value) as of September 30, 2012 and 2011 was $1,253 billion and $1,167 billion, respectively. The amount of outstanding principal guaranteed (insurance-in-force) as of September 30, 2012 and 2011 was $1,170 billion and $1,097 billion, respectively, as disclosed in Note 7J. The maximum claim amount (MCA) outstanding for FHA's reverse mortgage insurance program (HECM) as of September 30, 2012 and 2011 was $140 billion and $132 billion, respectively. As of September 30, 2012 and 2011 the insurance-in-force (the outstanding balance of active loans) was $94 billion and $85 billion, respectively as disclosed in Note 7J. The HECM insurance in force includes balances drawn by the mortgagee; interest accrued on the balances drawn, service charges, and mortgage insurance premiums. The maximum claim amount is the dollar ceiling to which the outstanding loan balance can grow before being assigned to FHA.

B. Ginnie Mae Mortgage-Backed Securities (MBS)

Ginnie Mae financial instruments with off-balance sheet risk include guarantees of MBS and commitments to guarantee MBS. The securities are backed by pools of FHA, USDA, VA and PIH mortgage loans. Ginnie Mae is exposed to credit loss in the event of non-performance by other parties to the financial instruments. The total amount of Ginnie Mae guaranteed securities outstanding at September 30, 2012 and 2011, was approximately $1,341.4 billion and $1,221.7 billion, respectively. However, Ginnie Mae's potential loss is considerably less because of the financial strength of the Department's issuers. Additionally, in the event of default, the underlying mortgages serve as primary collateral and FHA, USDA, VA and PIH insurance or guarantee indemnifies Ginnie Mae for most losses.

During the mortgage closing period and prior to granting its guaranty, Ginnie Mae enters into commitments to guarantee MBS. The commitment ends when the MBS are issued or when the commitment period expires. Ginnie Mae's risks related to outstanding commitments are much less than for outstanding securities due, in part, to Ginnie Mae's ability to limit commitment authority granted to individual issuers of MBS. Outstanding commitments as of September 30, 2012 and 2011 were $115.7 billion and $102.6 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 2012 and FY 2011, Ginnie Mae issued a total of $107 billion and $153 billion, respectively, in its multi-class securities program. The estimated outstanding balance for the complete multi-class securities program (REMICs, Platinum's, etc.) at September 30, 2012 and

2011, were $522.5 billion and $547.5 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, 2012 and 2011 was $2.16 billion and $2.19 billion, respectively. HUD's management believes its exposure in providing these loan guarantees is limited, since loan repayments can be offset from future CDBG Entitlement Program Funds and, if necessary, other funds provided to the recipient by HUD. HUD has never had a loss under this program since its inception in 1974.

Note 16: Contingencies

Lawsuits and Other

FHA is party in various legal actions and claims brought by or against it. In the opinion of management and general counsel, the ultimate resolution of these legal actions will not have an effect on FHA's consolidated financial statements as of September 30, 2012. As a result, no contingent liability has been recorded. There are pending or threatened legal actions where judgment against FHA is reasonably possible with an estimated potential loss of $100 million. In addition, there are legal actions where judgment is probable but FHA is unable to estimate the amount or range of the potential loss. Therefore, no amount is being accrued.

As of September 30, 2012, Ginnie Mae held defaulted FHA-insured mortgage loans. These loans, acquired from defaulted MBS issuers, have the following balances (dollars in millions):

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

Ginnie Mae may submit requests for claim payments to FHA for some or all of these loans. Subject to all existing claim verification controls, FHA would pay such claims to Ginnie Mae, another component of HUD, upon conveyance of the foreclosed property to FHA. Any liability for such claims, and offsetting recoveries, has been reflected in the Liability for Loan Guarantees on the accompanying financial statements based on the default status of the insured loans. In general, the transactions between FHA and Ginnie Mae as component entities of HUD are eliminated. However, due to uncertainty in determining whether some of Ginnie Mae's future request for claim payments with respect to defaulted FHA-insured mortgages truly represents a claim for cash against FHA or against the public, these transactions were not eliminated in HUD's consolidated financial statements.

HUD is party to a number of claims and tort actions related to lawsuits brought against it concerning the implementation or operation of its various programs. The potential loss related to an ongoing case related be HUD's assisted housing programs is probable at this time and as a result, the Department has recorded a contingent liability of $15.6 million in its financial statements. The Department also estimates other cases where the expected outcome totaling $169 million is reasonably possible but not probable and therefore no contingent liability was recorded in HUD's financial statements. Other ongoing suits cannot be reasonably determined at this time and in the opinion of management and general counsel, the ultimate resolution of pending litigation will not have a material effect on the Department's financial statements.

Note 17: Earmarked Funds

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

Ginnie Mae

Ginnie Mae is a self-financed government corporation, whose program operations are financed by a variety of fees, such as guaranty, commitment, new issuer, handling, and transfer servicing fees, which are to be used only for Ginnie Mae's legislatively authorized mission. In FY 2012, Ginnie Mae was authorized to use $19.5 million for payroll and payroll related expense, funded by multiclass and commitment fees.

Rental Housing Assistance Fund

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

Flexible Subsidy

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

American Recovery and Reinvestment Act Programs (Recovery Act)

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

Manufactured Housing Fees Trust Fund

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

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

The following shows earmarked funds activity as of September 30, 2012 (dollars in millions):

	Ginnie Mae	Rental Housing Assistance	Flexible Subsidy	Manufactued Housing Fees Trust Fund	Recovery Act Funds	Other	Eliminations	Total Earmarked Funds
Balance Sheet								
Fund Balance w/Treasury	$ 7,075	$ 4	$ 255	$ 15	$ 634	$ 2	$ -	$ 7,985
Investments	2,124	-	-	-	-	-	-	2,124
Accounts Receivable	161	4	-	-	-	-	-	165
Loans Receivable	-	-	560	-	11	-	-	571
General Property, Plant and Equipment	40	-	-	-	-	-	-	40
Other	14,329	-	-	-	-	-	-	14,329
Total Assets	**$ 23,729**	**$ 8**	**$ 815**	**$ 15**	**$ 645**	**$ 2**	**$ -**	**$ 25,214**
Debt - Public	$ -	$ -	$ -	$ -	$ 15	$ -	$ -	$ 15
Accounts Payable - Public	234	-	-	-	16	-	-	250
Loss Reserves	357	-	-	-	-	-	-	357
Other Liabilities - Public	6,766	-	-	-	-	-	-	6,766
Total Liabilities	$ 7,357	$ -	$ -	$ -	$ 31	$ -	$ -	$ 7,388
Unexpended Appropriations	$ 2	$ -	$ (376)	$ -	$ 614	$ -	$ -	$ 240
Cumulative Results of Operations	16,370	8	1,191	15	-	2	-	17,586
Total Net Position	$ 16,372	$ 8	$ 815	$ 15	$ 614	$ 2	$ -	$ 17,826
Total Liabilities and Net Position	**$ 23,729**	**$ 8**	**$ 815**	**$ 15**	**$ 645**	**$ 2**	**$ -**	**$ 25,214**
Statement of Net Cost For the Period Ended								
Gross Costs	$ 600	$ 1	$ (535)	$ 7	$ 1,962	$ -	$ -	$ 2,035
Less Earned Revenues	(1,209)	-	(8)	(3)	(1)	-	-	(1,221)
Net Costs	**$ (609)**	**$ 1**	**$ (543)**	**$ 4**	**$ 1,961**	**$ -**	**$ -**	**$ 814**
Statement of Changes in Net Position for the Period Ended								
Net Position Beginning of Period	$ 15,762	$ 8	$ 270	$ 17	$ 2,587	$ 2	$ -	$ 18,646
Appropriations Received	-	-	-	-	-	-	-	-
Transfers In/Out Without Reimbursement	-	-	-	2	-	-	-	2
Imputed Costs	-	-	-	-	-	-	-	-
Other Adjustments	1	-	-	-	(11)	-	-	(10)
Donations and Forfeitures of Cash & Cash Equivalen	-	-	-	-	-	-	-	-
Penalties, Fines, and Administrative Fees Revenue	-	-	2	-	-	-	-	2
Net Cost of Operations	609	(1)	543	(4)	(1,961)	-	-	(814)
Change in Net Position	$ 610	$ (1)	$ 545	$ (2)	$ (1,972)	$ -	$ -	$ (820)
Net Position End of Period	**$ 16,372**	**$ 7**	**$ 815**	**$ 15**	**$ 615**	**$ 2**	**$ -**	**$ 17,826**

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

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

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. Revenues recognized by the Department may also be reported 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):

2012	Federal Housing Administratio	Ginnie Mae	Section 8 Rental Assistance	Low Rent Public Housing Loans and	Operatin g	Housing for the Elderly and Disabled	Community Development Block	HOME	All Other	Consolidatin g
Intragovernmental Costs	$ 492	$ 2	$ 84	$ 45	$ 23	$ 32	$ 25	$ 12	$ 291	$ 1,006
Public Costs	23,031	597	28,142	3,467	4,260	1,145	6,876	1,802	3,929	73,249
Subtotal Costs	$ 23,523	$ 599	$ 28,226	$ 3,512	$ 4,283	$ 1,177	$ 6,901	$ 1,814	$ 4,220	$ 74,255
Unassigned Costs									$ 199	$ 199
Total Costs										$ 74,454
Intragovernmental Earned Revenue	$ (3,113)	$ (94)	$ -	$ -	$ -	$ -	$ -	$ -	$ (14)	$ (3,221)
Public Earned Revenue	(113)	(1,114)	-	-	-	(228)	-	-	(8)	(1,463)
Total Earned Revenue	(3,226)	(1,208)	-	-	-	(228)	-	-	(22)	(4,684)
Net Cost of Operations	**$ 20,297**	**$ (609)**	**$ 28,226**	**$ 3,512**	**$ 4,283**	**$ 949**	**$ 6,901**	**$ 1,814**	**$ 4,397**	**$ 69,770**

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

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 2012 (dollars in millions):

Budget Functional Classification	Gross Cost	Earned Revenue	Net Cost
Intragovernmental:			
Commerce and Housing Credit	$ 493	$ (3,208)	$ (2,715)
Community and Regional Development	70	(5)	65
Income Security	442	(7)	435
Other Multiple Functions	$ 1	$ (1)	$ -
Total Intragovernmental	1,006	(3,221)	(2,215)
With the Public:			
Commerce and Housing Credit	$ 23,683	$ (1,457)	$ 22,226
Community and Regional Development	7,070	-	7,070
Income Security	41,981	(6)	41,975
Administration of Justice	70	-	70
Other Multiple Functions	445	-	445
Total with the Public	$ 73,249	$ (1,463)	$ 71,786
Not Assigned to Programs:			
Income Security	199	-	199
Total with the Public	$ 199	$ -	$ 199
TOTAL:			
Commerce and Housing Credit	$ 24,176	$ (4,665)	$ 19,511
Community and Regional Development	7,140	(5)	7,135
Income Security	42,622	(13)	42,609
Administration of Justice	70	-	70
Other Multiple Functions	446	(1)	445
TOTAL:	**$ 74,454**	**$ (4,684)**	**$ 69,770**

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

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

Note 20: Expenditures by Strategic Goals

As HUD updated its Strategic Plan to address the economic and community development issues the nation is facing, five Strategic Goals were identified. This note presents the expenditures incurred by HUD's various programs in achieving these goals. A description of each Strategic Goal is presented below and additional information is found in the Strategic Plan section of the AFR.

Goal 1: Strengthen the nation's housing market to bolster the economy and protect consumers

Goal 2: Meet the need for quality affordable rental homes

Goal 3: Utilize housing as a platform for improving quality of life

Goal 4: Build inclusive and sustainable communities free from discrimination

Goal 5: Transform the way HUD does business

The following table shows the expenditures allocated to HUD's Strategic Goals for FY 2012 (dollars in millions):

Programs	Goal 1	Goal 2	Goal 3	Goal 4	Goal 5	Total
FHA	12,338	3,900	771	3,288	-	20,297
Ginnie Mae	(457)	(152)	-	-	-	(609)
Section 8 Rental Assistance		22,959	181	5,086		28,226
Low Rent Public Housing Loans and Grants	418	2,658	75	361		3,512
Operating Subsidies	-	2,913	642	728	-	4,283
Housing for the Elderly and Disabled	-	591	83	275	-	949
Community Development Block Grants	1,380	345	1,035	4,141		6,901
HOME	490	979	-	345		1,814
All Other Programs	588	1,935	767	900	8	4,198
Total	14,757	36,128	3,554	15,124	8	69,571
Costs Not Assigned To Programs						199
Total						69,770

Note 21: Net Costs of HUD's Cross-Cutting Programs

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

The following table shows the Department's cross-cutting costs among its major program areas for FY 2012 (dollars in millions):

HUD's Cross-Cutting Programs	Public and Indian Housing	Housing	Community Planning and Development	Other	Consolidated
Section 8					
Intragovernmental Gross Costs	$ 42	$ 42	$ -	$ -	$ 84
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	$ 42	$ 42	$ -	$ -	$ 84
Gross Costs with the Public	$ 18,242	$ 9,818	$ 80	$ 2	$ 28,142
Earned Revenues	-	-	-	-	-
Net Costs with the Public	$ 18,242	$ 9,818	$ 80	$ 2	28,142
Net Program Costs	**$ 18,284**	**$ 9,860**	**$ 80**	**$ 2**	**$ 28,226**
Low Rent Public Housing Loans & Grants					
Intragovernmental Gross Costs	$ 45	$ -	$ -	$ -	$ 45
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	$ 45	$ -	$ -	$ -	$ 45
Gross Costs with the Public	$ 3,461	$ -	$ -	$ 6	$ 3,467
Earned Revenues	-	-	-	-	-
Net Costs with the Public	$ 3,461	$ -	$ -	$ 6	$ 3,467
Net Program Costs	**$ 3,506**	**$ -**	**$ -**	**$ 6**	**$ 3,512**
CDBG					
Intragovernmental Gross Costs	$ -	$ -	$ 25	$ -	$ 25
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	$ -	$ -	$ 25	$ -	$ 25
Gross Costs with the Public	$ 71	$ -	$ 6,746	$ 59	$ 6,876
Earned Revenues	-	-	-	-	-
Net Costs with the Public	$ 71	$ -	$ 6,746	$ 59	$ 6,876
Net Program Costs	**$ 71**	**$ -**	**$ 6,771**	**$ 59**	**$ 6,901**
All Other					
Intragovernmental Gross Costs	$ 60	$ 166	$ 70	$ (5)	$ 291
Intragovernmental Earned Revenues	(2)	3	-	(15)	(14)
Intragovernmental Net Costs	$ 58	$ 169	$ 70	$ (20)	$ 277
Gross Costs with the Public	$ 367	$ 301	$ 3,252	$ 9	$ 3,929
Earned Revenues	-	(9)	-	1	(8)
Net Costs with the Public	$ 367	$ 292	$ 3,252	$ 10	$ 3,921
Direct Program Costs	**$ 425**	**$ 461**	**$ 3,322**	**$ (10)**	**$ 4,198**
Costs Not Assigned to Programs	$ 66	$ 95	$ 38	$ -	$ 199
Net Program Costs (including indirect costs)	**$ 491**	**$ 556**	**$ 3,360**	**$ (10)**	**$ 4,397**

The following table shows the cross-cutting of HUD's major program areas that incur costs that cross multiple program areas for FY 2011 (dollars in millions):

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

Note 22: FHA Net Costs

FHA organizes its operations into three overall program types: Single Family Forward, Multifamily/Healthcare, and Home Equity Conversion Mortgages (HECM). These program types are composed of two major funds: GI/SRI and MMI/CMHI. FHA encourages homeownership through its Single Family Forward programs by making loans readily available with its mortgage insurance programs. These programs insure mortgage lenders against losses from default, enabling those lenders to provide mortgage financing on favorable terms to homebuyers. Multifamily Housing Programs provide FHA insurance to approved lenders to facilitate the construction, rehabilitation, repair, refinancing, and purchase of multifamily housing projects such as apartment rentals, and cooperatives. Healthcare programs enable low cost financing of health care facility projects and improve access to quality health care by reducing the cost of capital. The HECM program provides eligible homeowners who are 62 years of age and older access to the equity in their property with flexible terms. Homeowners may opt for a lump sum payment of mortgage proceeds, monthly payments, line of credit or a combination thereof.

The following table shows Net Cost detail for the FHA (dollars in millions):

	Fiscal Year 2012				Fiscal Year 2011			
	GI/SRI Program	MMI/CMHI Program	H4H Program	Total	GI/SRI Program	MMI/CMHI Program	H4H Program	Total
Costs								
Intragovernmental Gross Costs	$ 159	$ 333	$ -	$ 492	$ 176	$ 259	$ -	$ 435
Intragovernmental Earned Revenues	(405)	(2,707)	(1)	(3,113)	(540)	(1,565)	-	(2,105)
Intragovernmental Net Costs	$ (246)	$ (2,374)	$ (1)	$ (2,621)	$ (364)	$ (1,306)	$ -	$ (1,670)
Gross Costs with the Public	$ 5,199	$ 17,831	$ 1	$ 23,031	$ (861)	$ 6,110	$ 15	$ 5,264
Earned Revenues	(79)	(34)	-	(113)	(52)	(22)	-	(74)
Net Costs with the Public	$ 5,120	$ 17,797	$ 1	$ 22,918	$ (913)	$ 6,088	$ 15	$ 5,190
Net Program Costs	**$ 4,874**	**$ 15,423**	**$ -**	**$ 20,297**	**$ (1,277)**	**$ 4,782**	**$ 15**	**$ 3,520**

Note 23: Commitments under HUD's Grant, Subsidy, and Loan Programs

A. Contractual Commitments

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

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

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

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

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

The following shows HUD's obligations and contractual commitments under its grant, subsidy, and loan programs as of September 30, 2012 (dollars in millions):

	Undelivered Orders				
Programs	**Unexpended Appropriations**	**Permanent Indefinite**	**Investment Authority**	**Offsetting Collections**	**Undelivered Orders - Obligations, Unpaid**
FHA	$ 188	$ 193	$ -	$ 1,696	$ 2,077
Section 8 Rental Assistance	9,750	-	-	-	9,750
Low Rent Public Housing Loans and Grants	5,769	-	-	-	5,769
Operating Subsidies	868	-	-	-	868
Housing for the Elderly and Disabled	3,470	-	-	-	3,470
Community Development Block Grants	14,970	-	-	-	14,970
HOME Partnership Investment Program	4,330	-	-	-	4,330
Section 235/236	1,078	872	-	-	1,950
All Other	6,585	-	-	-	6,585
Total	**$ 47,008**	**$ 1,065**	**$ -**	**$ 1,696**	**$ 49,769**

Of the total Section 8 Rental Assistance contractual commitments as of September 30, 2012**,** $5.6 billion relates to project-based commitments and $2 billion relates to tenant-based commitments.

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

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

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

B. Administrative Commitments

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

The chart on the following page shows HUD's administrative commitments as of September 30, 2012 (dollars in millions):

		Reservations		
Programs	**Unexpended Appropriations**	**Permanent Indefinite Appropriation**	**Offsetting Collections**	**Total Reservations**
Section 8 Rental Assistance	$ 89	$ -	$ -	$ 89
Low Rent Public Housing Loans and Grants	8	-	-	8
Housing for the Elderly and Disabled	98	-	-	98
Community Development Block Grants	553	-	-	553
HOME Partnership Investment Program	144	-	-	144
Section 235/236	-	-	-	-
All Other	452	-	-	452
Total	**$ 1,344**	**$ -**	**$ -**	**$ 1,344**

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

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

Note 24: Disaster Recovery Relief Efforts

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

The following table shows the status of budgetary resources information for HUD's programs funded to support disaster relief as of September 30, 2012 (dollars in millions):

	CDBG	Tenant-Based Rental Assistance	Total
Budgetary Resources			
Unobligated Balance, beginning of period	$ 200	$ -	$ 200
Recoveries	-	6	6
Budget Authority	100	-	100
Spending Authority from Offsetting Collections		-	-
Non-Expenditure Transfers, net	300	-	300
Other Balances Withdrawn	-	(6)	(6)
Total Budgetary Resources	**$ 600**	**$ -**	**$ 600**
Status of Budgetary Resources			
Obligations Incurred	$ 359	$ -	$ 359
Unobligated Balance, available	241	-	241
Unobligated Balance, not available	-	-	-
Total Status of Budgetary Resources	**$ 600**	**$ -**	**$ 600**
Change in Obligated Balance			
Obligated Balance, net beginning of period	$ 3,206	$ 13	$ 3,219
Obligations Incurred	359	-	359
Gross Outlays	(868)	(8)	(876)
Recoveries	-	(6)	(6)
Obligated Balance, net end of period	**$ 2,697**	**$ (1)**	**$ 2,696**
Net Outlays	**$ 868**	**$ 8**	**$ 876**

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	$ 14,521	$ 12,078	$ 2,443
Mississippi	5,539	4,428	1,111
Texas	3,751	1,412	2,339
Florida	393	267	126
Other States	2,287	1,739	548
Total	**$ 26,491**	**$ 19,924**	**$ 6,567**

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

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

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

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

Note 25: 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
2012			
Direct	$ 948	$ 95,488	$ 96,436
Reimbursable	-	3,955	3,955
Total	**$ 948**	**$ 99,443**	**$ 100,391**

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

Note 26: Explanation of Differences between the Statement of Budgetary Resources and the Budget of the United States Government

The President's Budget containing actual FY 2012 data is not available for comparison to the Statement of Budgetary Resources. Actual FY 2012 data will be available in the Appendix to the Budget of the United States Government, FY 2014.

For FY 2011, 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 2011 (dollars in millions):

FY 2011

	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	$ 150,565	$ 92,377	$ (1,921)	$ 59,158
Difference #1 - Resources related to HUD's expired accounts not reported in the President's Budget	(581)	(40)	-	-
Difference #2 - Rounding	(3)	(1)	-	(4)
Difference #3 - Reclassification of Ginnie Mae's offsetting receipts as a negative outlay reported in account 86-0186-0-1-371	-	-	841	(841)
United States Budget	**$ 149,981**	**$ 92,336**	**$ (1,080)**	**$ 58,313**

Note 27: 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, 2012 and September 30, 2011 (dollars in millions):

	2012	2011
Budgetary Resources Obligated		
Obligations Incurred	$ 100,391	$ 92,377
Spending Authority from Offsetting Collections and Recoveries	(52,406)	(38,335)
Obligations Net of Offsetting Collections	$ 47,985	$ 54,042
Offsetting Receipts	(3,426)	(1,921)
Net Obligations	$ 44,559	$ 52,121
Other Resources		
Transfers In/Out Without Reimbursement	$ (1,440)	$ (2,316)
Imputed Financing from Costs Absorbed by Others	80	91
Other Resources	3	17
Net Other Resources Used to Finance Activities	$ (1,357)	$ (2,208)
Total Resources Used to Finance Activities	$ 43,202	$ 49,913
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Change in Budgetary Resources Obligated for Goods/Services/Benefits		
Services Ordered but Not Yet Provided	$ 7,202	$ 7,993
Credit Program Resources that Increase LLG or Allowance for Subsidy	47,527	
Credit Program Resources not Included in Net Cost (Surplus) of Operations	-	35,495
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	(10,429)	(141)
Resources that Fund Expenses from Prior Periods	(1)	-
Other Changes to Net Obligated Resources Not Affecting Net Cost of Operations	(14,618)	(23,775)
Total Resources Used to Finance Items Not Part of Net Cost of Operations	$ 29,681	$ 19,572
Total Resources Used to Finance the Net Cost of Operations	$ 72,883	$ 69,485
Components of Net Cost of Operations Not Requiring/Generating Resources in the Current Period		
Upward/Downward Re-estimates of Credit Subsidy Expense	$ 27,148	$ 10,459
Increase in Exchange Revenue Receivable from the Public	(218)	(274)
Change in Loan Loss Reserve	(3)	(28)
Revaluation of Assets or Liabilities	14	103
Depreation and Amortization	9	-
Changes in Bad Debt Expenses Related to Credit Reform Receivables	(303)	(159)
Reduction of Credit Subsidy Expense from Guarantee Endorsements and Modifications	(5,977)	(7,228)
Increase in Annual Leave Liability	-	4
Other	(23,783)	(14,751)
Total Components of Net Cost of Operations Not Requiring/Generating Resources in the Current Period	$ (3,113)	$ (11,874)
Net Cost of Operations	**$ 69,770**	**$ 57,611**

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 offices:

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

Overview of HUD's Major Programs

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

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

- **Disaster Recovery Assistance** is a CDBG program that helps state and local governments recover from major natural disasters. A portion of these funds can be used to acquire, rehabilitate, construct, or demolish physical property.
- **The Housing 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 – Continuum of Care** provides grants for new construction, acquisition, rehabilitation or leasing of buildings to provide transitional or permanent housing, as well as supportive services to homeless individuals and families.
- **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 assistance and an array of housing subsidy assistance and supportive services to assist low-income families and individuals who are living with the challenges of HIV/AIDS and risks of homelessness.
- **The Youthbuild program,** which assists young individuals in obtaining education, skills, and meaningful work experience, was transferred to the Department of Labor, but it is reported here in order to show prior year results.
- **Emergency Solutions Grants (ESG)** provide formula funding to local units of government for homelessness prevention and to improve the number and quality of emergency and transitional shelters for homeless individuals and families.

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

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

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

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

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

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

- **The Lead Technical Assistance Division,** in support of the Departmental Lead Hazard Control program, supports technical assistance and the 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 and generate training opportunities and contracts for low-income residents and businesses in targeted areas.

RSSI Reporting – HUD's Major Programs

Non-Federal Physical Property

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

Investments in Non-Federal Physical Property
Fiscal Year 2008 – 2012
(Dollars in millions)

Program	2008	2009	2010	2011	2012
CPD					
CDBG	$1,284	$1,180	$1,083	$1,132	$1,115
Disaster Grants	$169	$144	$358	$314	$280
HOME	$54	$18	$36	$21	$23
SHP - Homeless	$17	$14	$20	$17	$11
NSP [1]	N/A	N/A	$10	$24	$6
PIH					
ICDBG[2]	$56	$61	$62	$61	$117
NHHBG	$9	$10	$13	$13	$13
IHBG [2]	$276	$304	$189	$254	$242
HOPE VI	$97	$104	$114	$240	$122
PH Capital Fund [3]	$2,005	$2,310	$3,783	$3,610	$2,223
TOTAL	**$3,967**	**$4,145**	**$5,668**	**$5,686**	**$4,152**

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. *Part of decrease attributed to reduced funding received for Capital Fund Program.*

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 2008 through 2012.

Investments in Human Capital
Fiscal Year 2008 – 2012
(Dollars in millions)

Program	2008	2009	2010	2011	2012
CPD					
CDBG[1]	$32	$29	$28	$26	$29
SHP - Homeless	$18	$16	$28	$32	$33
HOPWA	N/A	$1	$1	$1	$1
Youthbuild [2]	$19	$0	$0	$0	$0
NSP TA [3]	N/A	N/A	N/A	$2	$2
Disaster Grants [4]	N/A	N/A	N/A	$7	$0
ESG	$0	$0	$2	$3	$4
PIH					
HOPE VI	$8	$9	$10	$42	$15
NHHBG	$0	$0	$1	$1	$0
IHBG	$1	$1	$1	$1	$1
OHHLHC					
Lead Technical Assistance	$0	$0	$0	$1	$0
TOTAL	**$78**	**$56**	**$71**	**$116**	**$85**

Notes:

1. *FY 2012 includes $0.6m on Rural Innovation Fund promote an 'entrepreneurial approach' to affordable housing and economic development in rural areas by providing job training, homeownership counseling and affordable housing to residents of rural and tribal communities.*
2. *Youthbuild was transferred to the Department of Labor. The history is reported for the sake of consistency.*
3. *FY 2011 was the first year of reporting NSP TA's investment in human capital in the RSSI.*
4. *FY 2011 was the first year of reporting Disaster Grant's investment in human capital in the RSSI.*

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, and OHHLHC programs:

Results of Investments in Human Capital
Number of People Trained
Fiscal Year 2008 – 2012

Program	2008	2009	2010	2011	2012
CPD					
CDBG	60,498	47,578	97,349	303,416	65,741
SHP - Homeless [1]	22.8%	21.9%	21.6%	17.8%	27.4%
HOPWA	N/A	N/A	2,614	1,662	1,426
NSP TA [2]	N/A	N/A	N/A	332	-
Youthbuild [3]	2,987	N/A	N/A	N/A	N/A
PIH					
ICDBG [4]	N/A	15	0	122	0
NHHBG [4]	N/A	160	210	116	0
IHBG [4]	N/A	485	1,474	1,550	770
HOPE VI (*see table on next page*)					
OHHLHC					
Lead Technical Assistance [5]	400	1,200	0	3,000	600
TOTAL	**63,885**	**49,438**	**101,647**	**310,198**	**68,537**

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 2011 was the first year of reporting NSP TA's results of investments in human capital in the RSSI. Outcomes data are currently under development in the Disaster Recovery Grant Reporting system; performance measures are being developed that will allow for more accurate and comprehensive tracking of outcomes.*
3. *Youthbuild was transferred to the Department of Labor. The history is reported for the sake of consistency.*
4. *Due to new administrative requirements in FY 2012, there was a decline in the procurement of training. This resulted in fewer grantees receiving program training.*
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 table on the next page presents HOPE VI's key cumulative performance information for fiscal years 2009, 2010, 2011 and 2012, since the program's inception.

Key Results of HOPE VI Program Activities
Fiscal Years 2009, 2010, 2011 and 2012

HOPE VI Service	2009 Enrolled	2009 Completed	% Completed	2010 Enrolled	2010 Completed	% Completed
Employment Preparation, Placement, & Retention [1]	75,991	N/A	N/A	78,818	N/A	N/A
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%
HOPE VI Service	**2011 Enrolled**	**2011 Completed**	**% Completed**	**2012 Enrolled**	**2012 Completed**	**% Completed**
Employment Preparation, Placement, & Retention [1]	80,435	N/A	N/A	82,630	N/A	N/A
Job Skills Training Programs	32,597	17,267	53%	33,566	17,753	53%
High School Equivalent Education	17,305	5,053	29%	17,684	5,164	29%
Entrepreneurship Training	3,608	1,570	44%	3,672	1,613	44%
Homeownership Counseling	15,864	6,858	43%	16,163	6,964	43%

Note:

1. *Completion data for this service are not provided, as 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 2008 – 2012
(Dollars in millions)

Program	2008	2009	2010	2011	2012
CPD					
Disaster Grants	$0	$0	$0	$6	$0
PIH					
IHBG	$0	$1	$0	$0	$0
PD&R					
PATH [1]	$2	$1	$0	$0	$0
OHHLHC					
Lead Hazard Control	$4	$3	$5	$1	$1
TOTAL	**$6**	**$5**	**$5**	**$7**	**$1**

Note:

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

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

Per-Housing Unit Cost of Lead Hazard Evaluation and Control
Fiscal Year 2008 – 2012

Program	2008	2009	2010	2011	2012
OHHLHC					
Lead Hazard Control	$5,570	$5,554	$5,901	$6,247	$5,763
TOTAL	**$5,570**	**$5,554**	**$5,901**	**$6,247**	**$5,763**

Required Supplementary Information

Introduction

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

Department of Housing and Urban Development
Consolidating Balance Sheet
As of September 2012
(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Low Rent Public Housing Loans and Grants	Operating Subsidies	Housing for the Elderly and Disabled	Community Development Block Grants	HOME	All Other	Consolidating
ASSETS										
Intragovernmental										
Fund Balance with Treasury (Note 4)	$ 47,640	$ 7,075	$ 10,120	$ 5,939	$ 1,068	$ 3,943	$ 15,783	$ 4,502	$ 12,145	$ 108,217
Investments (Note 5)	2,775	2,124	-	-	-	-	-	-	-	4,899
Accounts Receivable (Net)	-	6	-	-	-	-	-	-	(6)	-
Other Assets (Note 9)	3	-	-	-	-	-	-	-	24	27
Total Intragovernmental Assets	50,418	9,206	10,120	5,939	1,068	3,943	15,783	4,503	12,162	113,143
Investments (Note 5)	60	-	-	-	-	-	-	-	-	60
Accounts Receivable (Note 6)	24	155	24	1	-	-	-	-	9	213
Credit Program Receivables and Related Foreclosed Property (Note7)	5,441	-	-	-	-	2,499	-	-	594	8,534
General Property Plant and Equipment (Note 8)	-	40	-	-	-	-	-	-	327	367
Other Assets (Note 9)	60	14,329	-	-	-	-	-	-	(1)	14,387
TOTAL ASSETS	**$ 56,003**	**$ 23,730**	**$ 10,144**	**$ 5,940**	**$ 1,069**	**$ 6,442**	**$ 15,783**	**$ 4,503**	**$ 13,091**	**$ 136,704**
LIABILITIES										
Intragovernmental Liabilities										
Accounts Payable (Note 10)	6	-	-	-	-	-	3	-	5	15
Debt (Note 11)	11,527	-	-	-	-	-	-	-	40	11,567
Other Intragovernmental Liabilities (Note 14)	3,473	-	25	-	-	-	1	-	618	4,117
Total Intragovernmental Liabilities	15,006	-	25	-	-	-	4	-	664	15,699
Accounts Payable (Note 10)	721	235	1	19	181	5	63	10	68	1,303
Loan Guarantees (Note 7)	54,984	-	-	-	-	-	-	-	160	55,144
Debt Held by the Public (Note 11)	-	-	-	60	-	-	-	-	-	60
Federal Employee and Veterans' Benefits (Note 12)	-	-	-	-	-	-	-	-	76	76
Loss Reserves (Note 13)	-	357	-	-	-	-	-	-	-	357
Other Governmental Liabilities (Note 14)	396	6,766	-	-	-	2	-	-	206	7,370
TOTAL LIABILITIES	**$ 71,107**	**$ 7,358**	**$ 26**	**$ 79**	**$ 181**	**$ 8**	**$ 67**	**$ 10**	**$ 1,174**	**$ 80,009**
NET POSITION										
Unexpended Appropriations - Earmarked Funds (Note 17)	-	2	-	6	-	-	564	5	(337)	240
Unexpended Appropriations	862	-	10,118	5,911	888	3,922	15,152	4,489	10,889	52,229
Cumulative Results of Operations - Earmarked Funds (Note 17)	-	16,370	-	-	-	-	-	-	1,216	17,586
Cumulative Results of Operations	(15,966)	-	-	(56)	-	2,513	-	-	149	(13,360)
TOTAL NET POSITION	(15,104)	16,371	10,118	5,861	888	6,434	15,716	4,493	11,917	56,695
TOTAL LIABILITIES AND NET POSITION	**$ 56,003**	**$ 23,730**	**$ 10,144**	**$ 5,940**	**$ 1,069**	**$ 6,442**	**$ 15,783**	**$ 4,503**	**$ 13,091**	**$ 136,704**

Figures may not add to totals because of rounding.

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

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Low Rent Public Housing Loans and Grants	Operating Subsidies	Housing for the Elderly and Disabled	Community Development Block Grants	HOME	All Other	Consolidating
ASSETS										
Intragovernmental										
Fund Balance with Treasury (Note 4)	$ 42,005	$ 7,210	$ 10,794	$ 6,986	$ 1,328	$ 4,464	$ 19,194	$ 5,290	$ 13,883	$ 111,154
Investments (Note 5)	4,135	2,139	-	-	-	-	-	-	-	6,273
Other Assets (Note 9)	3	-	-	-	-	-	1	-	24	29
Total Intragovernmental Assets	46,143	9,349	10,794	6,986	1,328	4,464	19,195	5,290	13,908	117,456
Investments (Note 5)	63	-	-	-	-	-	-	-	-	63
Accounts Receivable (Note 6)	32	146	36	-	-	-	4	-	11	230
Credit Program Receivables and Related Foreclosed Property (Note7)	5,460	-	-	-	-	2,867	-	-	87	8,414
General Property Plant and Equipment (Note 8)	-	31	-	-	-	-	-	-	270	301
Other Assets (Note 9)	69	9,324	-	-	-	-	-	-	(1)	9,392
TOTAL ASSETS	**$ 51,768**	**$ 18,851**	**$ 10,830**	**$ 6,986**	**$ 1,328**	**$ 7,330**	**$ 19,199**	**$ 5,290**	**$ 14,274**	**$ 135,856**
LIABILITIES										
Intragovernmental Liabilities										
Accounts Payable (Note 10)	-	-	-	-	-	-	3	-	6	8
Debt (Note 11)	6,032	-	-	-	-	-	-	-	59	6,091
Other Intragovernmental Liabilities (Note 14)	3,051	-	42	1	2	1	2	1	648	3,748
Total Intragovernmental Liabilities	9,083	-	42	1	2	1	5	1	712	9,847
Accounts Payable (Note 10)	723	365	5	15	187	2	24	8	35	1,365
Loan Guarantees (Note 7)	36,103	-	-	-	-	-	-	-	111	36,214
Debt Held by the Public (Note 11)	11	-	-	142	-	-	-	-	-	153
Federal Employee and Veterans' Benefits (Note 12)	-	-	6	1	5	1	6	2	55	76
Loss Reserves (Note 13)	-	396	-	-	-	-	-	-	-	396
Other Governmental Liabilities (Note 14)	430	2,328	12	4	8	9	8	4	162	2,964
TOTAL LIABILITIES	**$ 46,349**	**$ 3,089**	**$ 65**	**$ 163**	**$ 202**	**$ 13**	**$ 43**	**$ 16**	**$ 1,076**	**$ 51,015**
	-	-	-	-	-	-	-	-	-	-
NET POSITION										
Unexpended Appropriations - Earmarked Funds (Note 17)	-	2	-	395	-	-	1,593	164	59	2,213
Unexpended Appropriations	850	-	10,765	6,576	1,126	4,470	17,563	5,110	12,369	58,829
Cumulative Results of Operations - Earmarked Funds (Note 17)	-	15,760	-	-	-	-	-	-	674	16,434
Cumulative Results of Operations	4,569	-	-	(148)	-	2,847	-	-	96	7,365
TOTAL NET POSITION	5,418	15,762	10,765	6,823	1,126	7,318	19,156	5,274	13,198	84,841
TOTAL LIABILITIES AND NET POSITION	**$ 51,768**	**$ 18,851**	**$ 10,830**	**$ 6,986**	**$ 1,328**	**$ 7,330**	**$ 19,199**	**$ 5,290**	**$ 14,274**	**$ 135,856**

Figures may not add to totals because of rounding.

Department of Housing and Urban Development
Consolidating Statement of Changes in Net Position
For the Year Ended September 2012
(Dollars in Millions)

Cumulative Results of Operations

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Low Rent Public Housing Loans and Grants	Operating Subsidies	Housing for the Elderly and Disabled	Community Development Block Grants	HOME	All Other	Consolidating
Net Position - Beginning of Period										
Earmarked Funds	$ -	$ 15,760	$ -	$ -	$ -	$ -	$ -	$ -	$ 674	$ 16,434
All Other Funds	4,569	-	-	(148)	-	2,847	-	-	97	7,365
Beginning Balances	4,569	15,760	-	(148)	-	2,847	-	-	771	23,799
Adjustments										
Changes in Accounting Principles										
All Other Funds	-	-	-	8	-	-	-	-	(1)	7
Beginning Balances, As Adjusted										
Earmarked Funds	-	15,760	-	-	-	-	-	-	674	16,434
All Other Funds	4,569	-	-	(139)	-	2,847	-	-	96	7,372
Total Beginning Balances, As Adjusted	4,569	15,760	-	(139)	-	2,847	-	-	770	23,806
Budgetary Financing Sources										
Appropriations Used										
Earmarked Funds	-	-	-	378	-	-	1,029	159	395	1,962
All Other Funds	875	-	28,029	3,093	4,214	1,101	5,810	1,624	5,636	50,381
Non-exchange Revenue										
Earmarked Funds	-	-	-	-	-	-	-	-	2	2
Transfers In/Out Without Reimbursement										
Earmarked Funds	-	-	-	-	-	-	-	-	3	3
All Other Funds	(395)	-	-	-	-	(542)	-	-	540	(397)
Other Budgetary Financing Sources										
All Other Funds	-	-	197	125	69	56	61	30	(539)	-
Other Financing Sources:										
Transfers In/Out Without Reimbursement										
All Other Funds	(481)	-	-	-	-	-	-	-	(564)	(1,045)
Imputed Financing From Costs Absorbed From Others										
All Other Funds	15	-	-	-	-	-	-	-	65	80
Other										
All Other Funds	(253)	-	-	-	-	-	-	-	(543)	(795)
Total Financing Sources										
Earmarked Funds	-	1	-	378	-	-	1,029	159	399	1,967
All Other Funds	(238)	-	28,226	3,218	4,283	615	5,871	1,654	4,594	48,224
Total Financing Sources	(238)	1	28,226	3,596	4,283	615	6,901	1,814	4,993	50,190
Net Cost of Operations										
Earmarked Funds	-	609	-	(378)	-	-	(1,029)	(159)	143	(815)
All Other Funds	(20,297)	-	(28,226)	(3,134)	(4,283)	(949)	(5,871)	(1,654)	(4,541)	(68,956)
Net Change										
Earmarked Funds	-	610	-	-	-	-	-	-	542	1,152
All Other Funds	(20,535)	-	-	84	-	(334)	-	-	53	(20,732)
Total All Funds										
Earmarked Funds	-	16,370	-	-	-	-	-	-	1,216	17,586
All Other Funds	(15,966)	-	-	(56)	-	2,513	-	-	149	(13,360)
Total All Funds	**$ (15,966)**	**$ 16,370**	**$ -**	**$ (56)**	**$ -**	**$ 2,513**	**$ -**	**$ -**	**$ 1,365**	**$ 4,226**

Figures may not add to totals because of rounding.

Department of Housing and Urban Development
Consolidating Statement of Changes in Net Position
For the Year Ended September 2012
(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Unexpended Appropriations: Section 8 Rental Assistance	Public and Indian Housing Loans and Grants	Operating Subsidies	Housing for the Elderly and Disabled	Community Development Block Grants	HOME	All Other	Consolidating
Net Position - Beginning of Period										
Earmarked Funds	$ -	$ 2	$ -	$ 395	$ -	$ -	$ 1,593	$ 164	$ 59	$ 2,213
All Other Funds	850	-	10,765	6,576	1,126	4,470	17,563	5,110	12,371	58,831
Beginning Balances	850	2	10,765	6,971	1,126	4,470	19,156	5,274	12,430	61,044
Adjustments										
Corrections of Errors										
All Other Funds	-	-	-	(8)	-	-	-	-	1	(7)
Beginning Balances, As Adjusted										
Earmarked Funds	-	2	-	395	-	-	1,593	164	59	2,213
All Other Funds	850	-	10,765	6,568	1,126	4,470	17,563	5,110	12,372	58,824
Total Beginning Balances, As Adjusted	850	2	10,765	6,963	1,126	4,470	19,156	5,274	12,431	61,036
Budgetary Financing Sources										
Appropriations Received										
All Other Funds	983	-	28,254	2,523	3,962	540	3,408	1,000	4,897	45,566
Appropriations Transfers In/Out										
All Other Funds	(72)	-	-	-	-	-	-	-	72	-
Other Adjustments (Rescissions, etc)										
Earmarked Funds	-	-	-	(11)	-	-	-	-	(1)	(11)
All Other Funds	(24)	-	(873)	(87)	14	12	(9)	2	(816)	(1,780)
Appropriations Used										
Earmarked Funds	-	-	-	(378)	-	-	(1,029)	(159)	(395)	(1,962)
All Other Funds	(875)	-	(28,029)	(3,093)	(4,214)	(1,101)	(5,810)	(1,624)	(5,636)	(50,381)
Other Financing Sources:										
Total Financing Sources										
Earmarked Funds	-	-	-	(389)	-	-	(1,029)	(159)	(395)	(1,973)
All Other Funds	12	-	(647)	(657)	(238)	(549)	(2,411)	(622)	(1,484)	(6,595)
Total Financing Sources	12	-	(647)	(1,046)	(238)	(549)	(3,440)	(781)	(1,879)	(8,568)
Net Change										
Earmarked Funds	-	2	-	6	-	-	564	5	(337)	240
All Other Funds	862	-	10,118	5,911	888	3,922	15,152	4,489	10,889	52,229
Total Unexpended Appropriations	**862**	**2**	**10,118**	**5,917**	**888**	**3,922**	**15,716**	**4,493**	**10,552**	**52,469**
Total All Funds										
Earmarked Funds	-	16,371	-	6	-	-	564	5	880	17,826
All Other Funds	(15,104)	-	10,118	5,855	888	6,434	15,152	4,489	11,038	38,869
Net Position	**$ (15,104)**	**$ 16,371**	**$ 10,118**	**$ 5,861**	**$ 888**	**$ 6,434**	**$ 15,716**	**$ 4,493**	**$ 11,917**	**$ 56,695**

Figures may not add to totals because of rounding.

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

Cumulative Results of Operations

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

Figures may not add to totals because of rounding.

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

Unexpended Appropriations

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

Figures may not add to totals because of rounding.

Department of Housing and Urban Development
Combining Statement of Budgetary Resources
For the Year Ended September 2012
(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Low Rent Public Housing Loans And Grants	Operating Subsidies	Housing for the Elderly and Disabled	Community Development Block Grants	HOME	All Other	Budgetary Total	Federal Housing Administration Non Budgetary	Other NonBudgetary Credit Program Accounts	Total NonBudgetary Credit Program Financing Accounts	Total
Budgetary Resources:														
Unobligated Balance Brought Foward, October	$ 5,565	$ 8,826	$ 347	$ 181	$ 15	$ 1,165	$ 1,059	$ 358	$ 4,246	$ 21,762	$ 36,249	$ 179	$ 36,428	$ 58,190
Adjustments to Unobligated Balance, Brought Forward, October 1	-	-	-	-	-	-	-	-	(18)	(18)	-	(6)	(6)	(24)
Unobligated balance brought forward, October 1, adjusted	5,565	8,826	347	181	15	1,165	1,059	358	4,228	21,744	36,249	173	36,422	58,166
Recoveries of prior year unpaid obligations	26	1	287	115	2	26	18	18	623	1,116	122	-	121	1,237
Other changes in unobligated balance	(276)	-	(50)	(104)	(2)	(6)	(26)	(6)	(609)	(1,080)	-	-	-	(1,080)
Unobligated balance from prior year budget authority, net	5,315	8,826	583	192	15	1,185	1,052	370	4,241	21,780	36,371	173	36,543	58,323
Appropriations (discretionary and mandatory)	912	-	27,404	2,523	3,962	540	3,408	1,000	4,299	44,047	-	-	-	44,047
Borrowing Authority (discretionary and mandatory)	-	-	-	-	-	-	-	-	-	-	5,760	-	5,760	5,760
Spending Authority from offsetting collections	12,737	4,006	-	1	-	-	1	-	(7)	16,784	34,329	56	34,385	51,169
Total Budgetary Resources	$ 18,964	$ 12,832	$ 27,987	$ 2,716	$ 3,977	$ 1,769	$ 4,461	$ 1,370	$ 8,534	$ 82,611	$ 76,459	$ 229	$ 76,688	$ 159,299
Status of Budgetary Resources:														
Obligations Incurred														
Direct	14,890	15	27,627	2,569	3,957	1,301	3,715	1,208	4,938	60,220	36,185	31	36,216	96,436
Reimbursable	-	3,952	-	-	-	-	-	-	2	3,955	-	-	-	3,955
Subtotal	14,890	3,967	27,627	2,569	3,957	1,301	3,715	1,208	4,940	64,175	36,185	31	36,216	100,391
Unobligated Balances														
Apportioned	59	5	290	99	5	367	733	149	2,630	4,338	18,346	29	18,374	22,712
Unapportioned	4,015	8,860	70	48	15	101	13	13	964	14,098	21,929	169	22,098	36,197
Subtotal	4,074	8,865	360	147	20	468	746	163	3,594	18,436	40,275	198	40,472	58,908
Total Status of Budgetary Resources	$ 18,964	$ 12,832	$ 27,987	$ 2,716	$ 3,977	$ 1,769	$ 4,461	$ 1,370	$ 8,534	$ 82,611	$ 76,459	$ 229	$ 76,688	$ 159,299
Change in Obligated Balance														
Unpaid obligations, brought forward, October 1 (gross)	737	519	10,441	6,805	1,312	3,299	18,135	4,932	10,456	56,634	2,320	(1)	2,319	58,953
Uncollected customer payments from Federal sources, brought forward, Oct. 1 (-)	(20)	(14)	-	-	-	-	-	-	(210)	(244)	(1)	(16)	(17)	(260)
Obligated balance start of year (net), before adjustments (+ or -)	717	504	10,441	6,805	1,312	3,299	18,135	4,932	10,246	56,390	2,319	(17)	2,302	58,692
Adjustment to obligated balance, start of year (+ or -)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Obligated blance, start of year (net), as adjusted	717	504	10,441	6,805	1,312	3,299	18,135	4,932	10,246	56,390	2,319	(17)	2,302	58,692
Obligations incurred	14,890	3,967	27,627	2,569	3,957	1,301	3,715	1,208	4,940	64,175	36,185	31	36,216	100,391
Outlays, (gross) (-)	(14,868)	(4,151)	(28,030)	(3,467)	(4,220)	(1,098)	(6,795)	(1,781)	(6,083)	(70,493)	(35,911)	(29)	(35,940)	(106,433)
Change in uncollected customer payments from Federal sources (+ or -)	18	(4)	-	-	-	-	-	-	146	160	1	9	9	169
Actual Transfers, uncollected payments from Federal sources (net) (+ or -)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Recoveries of prior year unpaid obligations (-)	(26)	(1)	(287)	(115)	(2)	(26)	(18)	(18)	(623)	(1,116)	(122)	-	(122)	(1,237)
Unpaid Obligations, end of year (gross)	732	334	9,751	5,792	1,048	3,476	15,037	4,340	8,626	49,136	2,472	65	2,537	51,673
Uncollected customer payments from Federal sources, end of year (-)	(2)	(18)	-	-	-	-	-	-	(52)	(72)	-	(19)	(19)	(91)
Obligated balance, end of year (net)	$ 730	$ 316	$ 9,751	$ 5,792	$ 1,048	$ 3,476	$ 15,037	$ 4,340	$ 8,574	$ 49,064	$ 2,472	$ 46	$ 2,518	$ 51,582
Budget Authority and Outlays, Net:														
Budget authority, gross (discretionary and mandatory)	13,649	4,006	27,404	2,524	3,962	584	3,409	1,000	4,293	60,832	40,089	56	40,145	100,976
Actual offsetting collections (discretionary and mandatory) (-)	(12,766)	(4,002)	-	(1)	-	(580)	(1)	-	(139)	(17,490)	(34,595)	(64)	(34,659)	(52,149)
Change in Uncollected Customer Payments From Fed Sources (Dis and Man) (+ or -)	18	(4)	-	-	-	-	-	-	146	160	1	9	9	169
Budget Authority, net (discretionary and mandatory)	901	-	27,404	2,523	3,962	4	3,408	1,000	4,299	43,502	5,495	-	5,495	48,997
Outlays, gross (discretionary and mandatory)	14,868	4,151	28,030	3,467	4,220	1,098	6,795	1,781	6,083	70,493	35,911	29	35,940	106,433
Actual offsetting collections (discretionary and mandatory) (-)	(12,766)	(3,265)	-	(1)	-	(580)	(1)	-	(139)	(16,753)	(34,595)	(64)	(34,659)	(51,412)
Outlays, net (discretionary and mandatory)	2,103	886	28,030	3,466	4,220	518	6,794	1,781	5,944	53,740	1,316	(35)	1,281	55,022
Distributed offsetting receipts	(2,611)	(737)	(9)	-	-	-	-	-	(68)	(3,426)	-	-	-	(3,426)
Agency Outlays, net (discretionary and mandatory)	$ (509)	$ 149	$ 28,021	$ 3,466	$ 4,220	$ 518	$ 6,794	$ 1,781	$ 5,876	$ 50,314	$ 1,316	$ (35)	$ 1,281	$ 51,595

Figures may not add to totals because of rounding.

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

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Low Rent Public Housing Loans And Grants	Operating Subsidies	Housing for the Elderly and Disabled	Community Development Block Grants	HOME	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 Foward, October	$ 5,257	$ 9,840	$ 449	$ 297	$ 10	$ 1,349	$ 2,020	$ 264	$ 4,078	$ 23,564	$ 34,649	$ 160	$ 34,809	$ 58,373
Adjustments to Unobligated Balance, Brought Forward, October 1	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unobligated balance brought forward, October 1, adjusted	$ 5,257	$ 9,840	$ 449	$ 297	$ 10	$ 1,349	$ 2,020	$ 264	$ 4,078	$ 23,564	$ 34,649	$ 160	$ 34,809	$ 58,373
Recoveries of prior year unpaid obligations	84	-	239	72	3	32	16	10	367	823	26	-	26	849
Other changes in unobligated balance	(300)	(10)	(155)	(105)	(25)	(708)	(59)	(32)	(709)	(2,103)	(2,569)	(10)	(2,579)	(4,428)
Unobligated balance from prior year budget authority, net	5,042	9,830	533	264	(12)	673	1,977	242	3,736	22,284	32,106	150	32,256	54,540
Appropriations (discretionary and mandatory)	3,311	11	27,771	2,692	4,626	550	3,508	1,610	7,068	51,148	3	-	3	51,150
Borrowing Authority (discretionary and mandatory)	-	-	-	-	-	-	-	-	23	23	3,838	31	3,869	3,892
Spending Authority from offsetting collections	8,165	4,060	-	1	-	601	-	-	248	13,075	27,870	36	27,907	40,982
Total Budgetary Resources	**$ 16,517**	**$ 13,901**	**$ 28,304**	**$ 2,956**	**$ 4,615**	**$ 1,824**	**$ 5,485**	**$ 1,853**	**$ 11,074**	**$ 86,530**	**$ 63,817**	**$ 219**	**$ 64,035**	**$ 150,565**
Status of Budgetary Resources:														
Obligations Incurred														
Direct	10,953	12	27,957	2,775	4,600	659	4,425	1,495	6,826	59,703	27,568	39	27,607	87,310
Reimbursable	-	5,064	-	-	-	-	-	-	4	5,068	-	-	-	5,068
Subtotal	10,953	5,076	27,957	2,775	4,600	659	4,425	1,495	6,830	64,770	27,568	39	27,607	92,377
Unobligated Balances														
Apportioned	222	1	297	139	2	1,125	1,042	355	3,176	6,357	13,170	28	13,198	19,555
Unapportioned	5,343	8,824	50	42	13	40	18	3	1,068	15,403	23,079	151	23,230	38,633
Subtotal	5,565	8,826	347	181	15	1,165	1,059	358	4,244	21,760	36,249	179	36,428	58,188
Total Status of Budgetary Resources	**$ 16,517**	**$ 13,901**	**$ 28,304**	**$ 2,956**	**$ 4,615**	**$ 1,824**	**$ 5,485**	**$ 1,853**	**$ 11,074**	**$ 86,530**	**$ 63,817**	**$ 219**	**$ 64,035**	**$ 150,565**
Change in Obligated Balance														
Unpaid obligations, brought forward, October 1 (gross)	772	378	11,156	9,131	1,336	3,916	20,763	6,300	10,910	64,662	1,891	-	1,891	66,553
Uncollected customer payments from Federal sources, brought forward, Oct. 1 (-)	(24)	(23)	-	-	-	-	-	-	(27)	(74)	-	(15)	(15)	(90)
Obligated balance start of year (net), before adjustments (+ or -)	748	355	11,156	9,131	1,336	3,916	20,763	6,300	10,883	64,588	1,891	(15)	1,876	66,464
Obligated blance, start of year (net), as adjusted	748	355	11,156	9,131	1,336	3,916	20,763	6,300	10,883	64,588	1,891	(15)	1,876	66,464
Obligations incurred	10,953	5,076	27,957	2,775	4,600	659	4,425	1,495	6,830	64,770	27,568	39	27,607	92,377
Outlays, (gross) (-)	(10,904)	(4,935)	(28,435)	(5,030)	(4,621)	(1,245)	(7,037)	(2,853)	(6,917)	(71,976)	(27,113)	(38)	(27,151)	(99,127)
Change in uncollected customer payments from Federal sources (+ or -)	4	9	-	-	-	-	-	-	(182)	(169)	(1)	-	(1)	(171)
Recoveries of prior year unpaid obligations (-)	(84)	-	(239)	(72)	(3)	(32)	(16)	(10)	(367)	(823)	(26)	-	(26)	(849)
Unpaid Obligations, end of year (gross)	737	519	10,441	6,805	1,312	3,299	18,135	4,932	10,456	56,633	2,320	1	2,321	58,955
Uncollected customer payments from Federal sources, end of year (-)	(20)	(14)	-	-	-	-	-	-	(210)	(244)	(1)	(16)	(17)	(260)
Obligated balance, end of year (net)	**$ 717**	**$ 504**	**$ 10,441**	**$ 6,805**	**$ 1,312**	**$ 3,299**	**$ 18,135**	**$ 4,932**	**$ 10,246**	**$ 56,390**	**$ 2,319**	**$ (15)**	**$ 2,305**	**$ 58,694**
Budget Authority and Outlays, Net:														
Budget authority, gross (discretionary and mandatory)	11,476	4,071	27,771	2,693	4,626	1,151	3,508	1,610	7,339	64,246	31,711	67	31,778	96,024
Actual offsetting collections (discretionary and mandatory) (-)	(8,169)	(3,228)	-	(1)	-	(601)	-	-	(65)	(12,066)	(27,869)	(36)	(27,904)	(39,970)
Change in Uncollected Customer Payments From Fed Sources (Dis and Man) (+ or -)	-	-	-	-	-	-	-	-	(182)	(182)	-	-	-	(183)
Anticipated offsetting collections (discretionary and mandatory) (+ or -)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Budget Authority, net (discretionary and mandatory)	3,307	843	27,771	2,692	4,626	550	3,508	1,610	7,092	51,998	3,842	31	3,874	55,871
Outlays, gross (discretionary and mandatory)	10,904	4,935	28,435	5,030	4,621	1,245	7,037	2,853	6,917	71,976	27,113	38	27,151	99,127
Actual offsetting collections (discretionary and mandatory) (-)	(8,169)	(3,228)	-	(1)	-	(601)	-	-	(65)	(12,066)	(27,869)	(36)	(27,904)	(39,970)
Outlays, net (discretionary and mandatory)	2,735	1,706	28,435	5,029	4,620	644	7,037	2,853	6,852	59,910	(756)	3	(753)	59,157
Distributed offsetting receipts	(1,033)	(841)	(12)	-	-	-	-	-	(35)	(1,921)	-	-	-	(1,921)
Agency Outlays, net (discretionary and mandatory)	**$ 1,702**	**$ 865**	**$ 28,423**	**$ 5,029**	**$ 4,620**	**$ 644**	**$ 7,037**	**$ 2,853**	**$ 6,816**	**$ 57,989**	**$ (756)**	**$ 3**	**$ (753)**	**$ 57,236**

Figures may not add to totals because of rounding.

U.S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL

INDEPENDENT AUDITOR'S REPORT[1]

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

In accordance with the Chief Financial Officers Act of 1990, the U.S. Department of Housing and Urban Development (HUD) has prepared the accompanying consolidated balance sheets of HUD as of September 30, 2012 and 2011, 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 in all material respects, in conformity with accounting principles generally accepted in the United States of America.

With respect to the fiscal years 2012 and 2011 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, 2012 and 2011, which reflected total assets constituting 58 and 52 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 2012 and 2011 financial statements, insofar as it relates to the amounts included for FHA and Ginnie Mae as of September 30, 2012 and 2011, is based solely on the reports of the other auditors. In connection with our audit, we also considered HUD's internal control over financial reporting and tested HUD's compliance with certain provisions of applicable laws, regulations, governmentwide policy requirements, and certain provisions of contracts and grant agreements that could have a direct and material effect on its principal financial statements. These considerations are an integral part of an audit conducted in accordance with Government Auditing Standards and are important for assessing the results of the audit.

[1] This report is supplemented by a separate report issued by the HUD Office of Inspector General (OIG) to provide a more detailed discussion of the internal control and compliance issues and to provide specific recommendations to HUD management. The report is available at the HUD OIG Internet site at http://www.hudoig.gov/Audit_Reports/2013-FO-0003.pdf and is entitled Additional Details to Supplement Our Report on HUD's Fiscal Years 2012 and 2011 Financial Statements (2013-FO-0003, dated November 15, 2012).

Opinion on the Fiscal Years 2012 and 2011 Financial Statements

In our opinion, based on our audit and the reports of other auditors, for the accompanying fiscal years 2012 and 2011, the principal financial statements and accompanying notes present fairly, in all material respects, the financial position of HUD as of September 30, 2012 and 2011 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 discussed in Notes 9 and 16 to the financial statements, there may be certain transactions between FHA and Ginnie Mae as component entities of HUD that could not be eliminated in HUD's consolidated financial statements due to uncertainty in determining whether certain Ginnie Mae claims receivables (Mortgages Held for Investment, Advances Against Defaulted on MBS Pools, and Short Sale Claims Receivable) arising from acquired non-performing loans insured by FHA truly represent a claim against FHA (intragovernmental) or against the public (governmental).

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.

Report on Internal Control

In planning and performing our audit, we considered HUD's internal control over financial reporting and compliance as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of HUD's internal control. Accordingly, we do not express an opinion on the effectiveness of HUD's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we and the other auditors did note the following material weakness and seven significant deficiencies.

Material Weakness

Achieving Substantial Compliance with Federal Financial Management Improvement Act Continued to Challenge HUD.
As reported in prior years, HUD's financial management systems were not in full compliance with Federal financial management system requirements. We noted inherent limitations and weaknesses in HUD's agency wide financial management systems to reasonably ensure compliance with Federal financial management system requirements. In addition, we continue to report that CPD's grants management systems were not compliant with *Federal Financial Management Improvement Act of 1996 (FFMIA)*. Because of inherent system limitations and weaknesses, HUD's financial management systems cannot be readily accessed and used by financial and program managers without extensive manipulation and excessive manual processing. This situation could negatively impact management's ability to perform required financial management functions and efficiently manage financial operations of the agency, which could translate to lost opportunities for achieving mission goals and improving mission performance.

Significant Deficiencies

There Were Weaknesses In the Monitoring of the Office of Public and Indian Housing and Multifamily Program Funds.
In fiscal year 2012, HUD spent more than $30 billion through public housing agencies (PHA) intermediaries to provide operating subsidies and rental assistance that could benefit an estimated 4.6 million households. HUD continued experiencing weaknesses with the monitoring of these PHAs. HUD needs to ensure that PHAs (1) correctly calculated housing subsidies by corroborating the tenant income and reasonable market rent

rates; (2) leasing capacity and funds are used efficiently and (3) promote decent, sanitary and safe housing opportunities as well as other community initiatives. Although there was some improvement from previous years, PHAs continued to make significant amounts of improper payments in their rental housing assistance programs. Additionally, PHAs continued to hold large amounts of reserves despite efforts to reduce and control the funding provided. We have recommended that HUD seek legislative authority to implement offsets against $628 million in excess reserves. Lastly, we found that HUD's internal controls over the Moving To Work program were not sufficient to capture and evaluate agencies' performance and utilization of funds towards meeting the program requirements.

HUD's Internal Control over Financial Reporting Had Serious Weaknesses.
We identified weaknesses in HUD's control over its financial reporting process. For example, we found (a) the Allowance for Loss on Section 202 Flexible Subsidy and Section 312 Direct Loan Receivables were not routinely evaluated for reasonableness, (b) HUD did not always record receivables in the accounting records when a determination was made that funds were owed to HUD and required repayment, and (c) intra-entity transactions between HUD's component entities were not properly eliminated prior to consolidation. This occurred because of a weak financial management governance structure, lack of clear accounting policy guidance, and poor accounting monitoring controls. As a result of our audit: (a) significant adjustments were made to the Flexible Subsidy and Section 202 direct loan allowance for loss accounts in the amount of $515 million and $12.8 million, (b) a potential of $77.4 million in accounts receivables were not included in HUD's consolidated financial statements, and (3) intra-entity transactions between FHA and Ginnie Mae were not eliminated prior to consolidation. Given these weaknesses in HUD's internal controls, HUD lacked assurance that its internal controls could adequately prevent and detect errors in its accounting records in a timely manner.

The Office of Community Planning and Development Information and Communication Systems Had Weaknesses.
Our review of CPD's internal controls implemented to monitor grantee compliance with program regulations noted control deficiencies regarding the programs' compliance with HUD handbooks and OMB Circulars. We also noted that CPDs' information systems continued to inadequately communicate reliable and relevant information in a timely manner. Lastly, prior year audit report recommendations regarding deficiencies in CPD's monitoring remained unimplemented.

HUD Oversight of the Administrative Control of Funds Process Had Weaknesses.
HUD needs to improve its accounting and administrative controls of funds to ensure that (1) all programs that incurred obligations or disbursements have acceptable funds control plans and (2) the funds control plans are complete, accurate, and up to date. During our review, we identified a number of program codes that did not have funds control plans. Additionally, we noticed that certain funds control plans listed as allotment holders, individuals who are either (a) no longer with HUD due to retirement or reassignment, or (b) no longer the designated allotment holder because the function was reorganized. We also noted that the Office of the Chief Financial Officer (OCFO) had not ensured the effective administrative control of funds process required by HUD Handbook 1830.2. Incomplete implementation of administrative control of funds has been a long-standing issue and has been reported, since fiscal year 2005, in our audit reports and management letters.

Deficiencies Existed in the Monitoring of HUD's Unliquidated Obligations.
HUD's processes for monitoring its unliquidated obligations and deobligating balances tied to invalid obligations has improved, however, deficiencies still existed. Specifically, we identified $91.7 million in invalid obligations previously not identified by HUD and $16 million in obligations HUD determined needed to be closed-out and deobligated during the fiscal year that were still on the books as of September 30, 2012. These deficiencies were attributed to ineffective monitoring efforts, the implementation and lack of familiarity with a new procurement system, and the inability to quickly process contract close-outs. As a result, HUD's unpaid obligation balances were potentially overstated by $107.7 million, which we have recommended for review and deobligation.

Controls Over HUD's Computing Environment Had Weaknesses.
HUD's computing environment, data centers, networks, and servers provide critical support to all facets of the Department's programs, mortgage insurance, servicing, and administrative operations. In prior years, we reported on various weaknesses with general system controls and controls over certain applications, as well as weak security management. These deficiencies increase risks associated with safeguarding funds, property, and assets from waste, loss, unauthorized use, or misappropriation. We evaluated selected information system general controls of HUD's computer systems on which HUD financial systems reside. We also followed up on the status of previously reported application control weaknesses. Our review found information systems control weaknesses that could negatively affect HUD's ability to accomplish its assigned mission, protect its data and information technology assets, fulfill its legal responsibilities, and maintain its day-to-day functions.

Portfolio Management of FHA Systems Needs Improvement.
For many years, we have reported various weaknesses in security and access controls, as well as in configuration management and contingency planning. To manage FHA's complex financial management system structure, the Office of Housing, has implemented manual compensating controls to ensure the reliability of its day-to-day financial transaction processing and reporting. Currently, Housing is overseeing a major systems modernization initiative that is designed to improve efficiency and enhance management analysis and reporting for FHA, as well as migrate Housing's insurance business processes to more modern platforms. Day-to-day management of the FHA portfolio of financial systems is currently being performed by the Office of Systems and Technology under the Office of the Comptroller, but there is no Executive IT Investment Owner responsible for the strategic management of the Housing portfolio, as required by HUD IT policy. This has contributed to the ineffective and untimely remediation of application control weaknesses and repeat deficiencies identified across multiple applications. This impacts the Office of Housing's ability to ensure compliance with the Office of Management and Budget (OMB) Circular No. A-127, *Financial Management Systems and the Federal Manager's Financial Integrity Act of 1982*. Furthermore, the environment limits FHA's ability to (1) effectively adapt and efficiently scale its operations to regulatory and market changes, (2) incorporate data management practices that improve the reliability and accuracy of information, and (3) enhance data rationalization and enterprise integration for greater operational efficiency.

Report on Compliance with Laws and Regulations

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

HUD Did Not Substantially Comply With the Federal Financial Management Improvement Act.
We continue to report that HUD's financial management systems need to comply with Federal financial management systems requirements. The material weakness addresses how HUD's financial management systems remained substantially noncompliant with Federal financial management requirements. As part of this material weakness, we continue to report

that CPD's Integrated Disbursement and Information System (IDIS) is not compliant with FFMIA due to deficiencies in internal controls over financial reporting and its inability to process transactions that would follow Federal generally accepted accounting principles. However, HUD continues to report IDIS as a compliant system. Additionally, we reviewed HUD's compliance with section 803 of the FFMIA as of September 30, 2012. HUD on an entity wide basis made limited progress as it attempted to address its financial management deficiencies to bring the agency's financial management systems into compliance with FFMIA. In this regard, we continue to report that HUD's financial management systems did not substantially comply with FFMIA as of September 30, 2012. We also continue to report as significant deficiencies that controls over HUD's computing environment can be further strengthened. This significant deficiency discusses how weaknesses with general controls and certain application controls increase risks associated with safeguarding funds, property, and assets from waste, loss, unauthorized use, or misappropriation.

HUD Did Not Substantially Comply With the Antideficiency Act.
HUD's compliance with the Antideficiency Act[2] (ADA) still needs improvement. For the fourth consecutive year, our review found that none of the six ADA cases identified as a potential deficiency in fiscal year 2009 were reported to the President through OMB, Congress, or GAO as required. In two of the six cases, we found that the status of the violation changed from prior years. However, in all six cases, OCFO had not completed its review. Therefore, we found no improvement in HUD's process for conducting, completing, reporting, or closing potential ADA violation investigations. HUD's continued delay in completing ADA investigations and reporting known violations results in ADA violators avoiding timely reprimands or punishments and prevents timely correction of violations. In addition, HUD's process for conducting ADA investigation needs improvement. As a result, ADA investigations are generally not completed within one year as set forth in the ADA Case Processing Timeline policy. The established policies and procedures should be amended to include independence of the investigative team and management.

FHA Did Not Comply With the Cranston-Gonzalez National Affordable Housing Act of 1990.
The Cranston-Gonzales National Affordable Housing Act of 1990 required that FHA's Mutual Mortgage Insurance (MMI) Fund maintain a minimum level of capital sufficient to sustain a moderate recession. The Act required FHA to maintain a minimum Capital Ratio of two percent and conduct an annual independent actuarial study to, among other things, calculate this ratio. The Housing and Economic Recovery Act of 2008

[2] 31 U.S.C. 1341, 1342, 1350, 1517, 1519 (2000)

requires that the Secretary submit a report annually to the Congress describing the results of the study, assess the financial status of the MMI Fund, recommend program adjustments, and to evaluate the quality control procedures and accuracy of information used in the process of underwriting loans guaranteed by the MMI Fund. As of the date of our audit, this report had not yet been submitted to Congress, but preliminary FHA data indicates that this ratio remained substantially below the required two percent through fiscal year 2012.

Required Supplementary Information

U.S. generally accepted accounting principles require certain information be presented to supplement the basic general-purpose financial statements. Such information, although not a part of the basic general-purpose financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic general-purpose financial statements in an appropriate operational, economic, or historical context.

In its Fiscal Year 2012 Agency Financial Report*,* HUD presents "required supplemental stewardship information" and "required supplementary information." The required supplemental stewardship information presents information on investments in non-Federal physical property and human capital and investments in research and development. In the required supplementary information, HUD presents a "management discussion and analysis of operations" and combining statements of budgetary resources. HUD also elected to present consolidating balance sheets and related consolidating statements of changes in net position as required supplementary information. The consolidating information is presented for purposes of additional analysis of the financial statements rather than to present the financial position and changes in net position of HUD's major activities. 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.

We did not audit and do not express an opinion or provide any assurance on this information; however, we applied certain limited procedures, in accordance with auditing standards generally accepted in the United States of America, which consisted principally of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to the auditor's inquiries, the basic financial statements, and other knowledge the auditor obtained during the audit of the basic financial statements. These limited procedures do not provide the sufficient evidence to express an opinion or provide any assurance.

Results of the Audit of FHA's Financial Statements

The independent certified public accounting firm of CliftonLarsonAllen LLP performed a separate audit of FHA's fiscal years 2012 and 2011 financial statements. Its report on FHA's financial statements, dated November 9, 2012,[3] includes an unqualified opinion on FHA's financial statements, along with discussion of one significant deficiency in internal controls and one instance of noncompliance with laws and regulations.

Results of the Audit of Ginnie Mae's Financial Statements

The independent certified public accounting firm of CliftonLarsonAllen LLP performed a separate audit of Ginnie Mae's fiscal years 2012 and 2011 financial statements. Its report on Ginnie Mae's financial statements, dated November 7, 2012,[4] includes an unqualified opinion on these financial statements. There were no reported material weaknesses or significant deficiencies.

Objectives, Scope, and Methodology

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

[3] CliftonLarsonAllen LLP's report on FHA, Audit of Federal Housing Administration Financial Statements for Fiscal Years 2012 and 2011 (2013-FO-0002, dated November 9, 2012) was incorporated into this report.

[4] CliftonLarson Allen LLP's report on Ginnie Mae, Audit of Government National Mortgage Association Financial Statements for Fiscal Years 2012 and 2011 (2013-FO-0001, dated November 7, 2012) was incorporated into this report.

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

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

With respect to internal controls related to performance measures to be reported in the management's discussion and analysis and HUD's Fiscal Year 2012 Agency Financial Report, we performed limited testing procedures as required by AU Section 558, Required Supplementary Information. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

Agency Comments and Our Evaluation

On November 1, 2012, we provided a draft of the internal control and compliance sections of our report to the Chief Financial Officer (CFO), appropriate assistant secretaries, and other departmental officials and requested that the CFO coordinate a departmentwide response. The CFO responded in a memorandum dated November 9, 2012, which is included in its entirety in our separate report, along with our complete evaluation of the response. HUD disagreed with the material weakness and continues to take exception to the conclusion that HUD is not in compliance with FFMIA. HUD acknowledged that HUD's legacy systems are old and should be replaced with a state of the art fully integrated core system that can readily capture and present summary and detailed financial data as well as managerial cost data and reports. However, HUD believes they have substantially satisfied OMB's three-part requirement needed to report compliance when coupling HUD's Centralized Accounting Program System (HUDCAPS) with the Department's inventory of Financial Management Systems. Currently the Deputy Secretary, OCFO, and OCIO are working together to determine the best path forward which minimizes risks and achieves a cost effective solution. In addition, HUD does not concur that the Integrated Disbursement and Information System (IDIS) is not compliant with FFMIA and believes that the use of the first-in first-out methodology is in keeping with the flexibility intended by Congress. HUD management generally disagreed with the significant deficiencies regarding monitoring of PIH and multifamily program funds, oversight of the administrative control of funds process, CPD information and communication systems weaknesses, and the instance of noncompliance with applicable laws and regulations regarding improvements needed in the review of ADA cases and the investigative process. HUD generally agreed with all other significant deficiencies and had limited comments. The Department's response was considered in preparing the final version of this report.

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

Randy W. McGinnis
Assistant Inspector General for Audit

November 15, 2012

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INSPECTOR GENERAL

U.S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL

OCT 16 2012

Memorandum

TO: Shaun Donovan, Secretary, S

FROM: David A. Montoya, Inspector General, G

SUBJECT: Management and Performance Challenges for Fiscal Year 2013 and Beyond

In accordance with Section 3 of the Reports Consolidation Act of 2000, the Office of Inspector General (OIG) is submitting its annual statement to you summarizing our current assessment of the most serious management and performance challenges facing the U.S. Department of Housing and Urban Development (HUD or Department) in fiscal year 2013. 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 Reports to Congress.

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

Achieving HUD's mission continues to be an ambitious challenge for its limited staff, given the agency's diverse programs, the thousands of intermediaries assisting the Department, and the millions of beneficiaries of its housing programs. The continuing national credit and financial crisis is having a profound impact on HUD. Proposed and new program changes have introduced new risks and enforcement challenges. HUD is also a key to the Nation's housing industry in that FHA-insured mortgages finance 15 percent of all home purchases in the United States. The attachment discusses these and other challenges facing HUD.

Attachment

HUD Management and Performance Challenges
Fiscal Year 2013 and Beyond

Single-family programs.

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

HUD has sustained significant losses in its single-family program and is taking on additional risk. The number of FHA mortgages has risen dramatically. The increased mortgage endorsement volume is accompanied by increases in defaults, claims, and loss mitigation. FHA’s Mutual Mortgage Insurance (MMI) fund continues to not meet its statutory requirement for its reserves to be two percent or more of the amortized Single Family insurance-in-force. For the last two fiscal years FHA estimates it had about one-half of one percent in reserves. Preliminary indications are that at the end of fiscal year 2012, the MMI will have a similar estimate, despite FHA increasing mortgage insurance premiums, establishing minimum Fair Isaac Company (FICO) score standards, increasing the minimum down payment from 3 to 3.5 percent, reducing the amount of equity withdrawn on reverse mortgages, and modifying the role of former loan correspondents so they are responsible to direct lenders.

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

By law, HUD has to pay the claim on a defaulted FHA-insured mortgage but can then go back to the lender that underwrote the loan to recover 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 not qualified for insurance. In addition, FHA has been slow to implement a rigorous claim review process and go back to the lenders to recover losses. This takes on even greater importance in light of the significant amount of claims projected to be filed by lenders in the coming months and HUD’s current limited capacity for reviewing submitted claims. In the early part of 2011, the OIG, in partnership with HUD and U.S. Department of Justice (DOJ), initiated a number of mortgage lender reviews whereby, statistical samples were drawn of claims, defaults, and all other loans in order to determine the accuracy and due diligence of the underwriters of FHA loans by a number of the largest lenders nationwide. Our results to date have shown high percentages of loans reviewed with multiple significant deficiencies that should have not been underwritten. The reviews completed to date have resulted in a total of $926 million in civil settlements tor alleged violations of False Claim Acts and failure to fully comply with FHA requirements on FHA loans.

Over the past several years, homeowners have experienced rapidly declining home values, loss home equity, and a sharp rise in home foreclosures. One of HUD's goals is to assist the mounting number of FHA borrowers at risk of losing their homes to foreclosure. The Department is committed to holding lenders and servicers accountable for actions that violate FHA requirements which subject the FHA fund to increased risk. Working closely with the Department and DOJ, OIG conducted a nationwide effort to review the foreclosure and claims process of the five largest FHA mortgage servicers. These reviews were performed as a result of reported allegations that national mortgage servicers were engaged in widespread questionable foreclosure practices involving the use of foreclosure "mills" and a practice known as "robosigning" of sworn documents in thousands of foreclosures throughout the United States.

During the period October 1, 2008, through September 30, 2010, the servicers collectively submitted 93,120 FHA insurance claims totaling more than $12.04 billion. Of the 93,120 claims, 34,357 conveyance claims totaling more than $4.1 billion were for foreclosed properties in 23 judicial foreclosure States and jurisdictions. DOJ used the OIG's reviews and analyses in negotiating a national mortgage settlement agreement with the servicers. On March 12, 2012, DOJ and the State attorneys general filed proposed consent judgments with the court to resolve violations of State and Federal law foreclosure requirements.

HUD also faces challenges in ensuring its programs benefit eligible participants and is not paying improper claims. In a recent review of FHA's Preforeclosure Sale Program, OIG identified that FHA did not always pay claims for only those preforeclosure transactions that met the criteria for participation in the program. This condition occurred because HUD did not have adequate controls to enforce the program requirements and requirements were not well written. As a result, the FHA insurance fund may have taken unnecessary losses while borrowers, who may otherwise have been able to sustain their obligations, were inappropriately relieved of their debt using FHA insurance fund reserves. FHA has agreed that existing program policy and lender execution against that policy is inconsistent. To improve alignment and ensure that the longterm interest of the FHA Insurance Fund are met, FHA is working toward (1) introducing a streamline program approval policy based on loan characteristics and borrower credit profile, and (2) specifying income documentation requirements for the income deficit test that must be met for borrowers that do not meet the streamline requirements.

We remain concerned that increases in demand to the FHA program are having collateral implications for the integrity of the Government National Mortgage Association (Ginnie Mae) mortgage-backed securities (MBS) program including the potential for increases in fraud. HUD needs to consider the downstream risks to investors and financial institutions of Ginnie Mae's eventual securitization of a large portion of FHA's insured mortgages. Ginnie Mae securities are the only MBS to carry the full faith and credit guaranty of the United States. If an issuer fails to make the required pass-through payment of principal and interest to MBS investors, Ginnie Mae is required to assume responsibility for it. Typically, Ginnie Mae defaults the issuer and assumes control of the issuer's MBS pools. By the end of fiscal 2012 Ginnie Mae appears poised to exceed $1.3 trillion in issued government agency security guarantees. Among Ginnie Mae's key challenges is to enhance MBS issuer monitoring to effectively and timely assess the risk of the imminent default of a "top tier" (top ten ranked) lender. Historically, Ginnie Mae Issuer defaults have been infrequent involving small to moderate-size issuers. However, major unanticipated issuer defaults beginning in 2009 have led to a multi-billion dollar rise in nationwide mortgage servicing as well as the repurchase of multi-billion dollars of defaulted loans to meet their guarantees to MBS investors. In the near-term these changes have strained both operating and financial resources. With the approval of the Office of Management and Budget and the Congress, Ginnie Mae significantly increased their management capacity in fiscal year 2012. Nevertheless, Ginnie Mae continues to rely heavily on third-party contractors to perform almost all key operating functions.

Currently, another designated "top tier" lender and servicer is going through bankruptcy court supervision. Ginnie Mae is depending upon the apparent interest of both large investors as well as major financial investment by the U.S. Treasury in a corporate affiliate to achieve a successful outcome.

Oversight of American Recoverv and Reinvestment Act funds.

Congress allocated $13.6 billion in funding to HUD programs under the American Recovery and Reinvestment Act of2009. This allocation added significant funding to the Public Housing Capital Fund, Community Development Block Grants, the Neighborhood Stabilization Program, the Homelessness Prevention and Rapid Rehousing Program, and other HUD programs to modernize and "green" the public and assisted housing inventory, support the low-income housing tax credit market, stabilize neighborhoods hit by foreclosures, and prevent homelessness. Carrying out the goals of the Recovery Act, while dealing with increased mortgage activity and conducting normal operations, is a significant challenge for HUD.

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

During the last 4 fiscal years, we completed 212 audits and reviews of Recovery Act-related activities. These audits and reviews addressed the administrative capacity of selected Recovery Act grantees to meet their responsibility to properly administer these funds. We also assessed HUD's efforts to assess the risks associated with Recovery Act funding along with the Department's plans to mitigate those risks. Using risk assessments, we also identified grantees, performed audits of Recovery Act expenditures, and evaluated recipient reporting to ensure that the data the recipients report are accurate.

HUD will need to monitor Recovery Act participants until all funds are expended or rescinded and returned to the U.S. Treasury. The Pay It Back Act requires all funds that remain unobligated at Dccember 31, 2012 be returned to the U.S. Treasury's general fund. As we near that deadline, we continue to monitor HUD's efforts to rescind, recapture and return funds. Past reviews of HUD and Recovery Act recipients revealed it remains a challenge to comply with this provision of the act in a timely manner. Our review last year found monitoring and oversight could be better documented in HUD's funds control plans. HUD has adopted our recommendation; however, HUD still struggles to identify and return all funds subject to the Pay It Back Act.

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. More recently, we reported in January 2011 that HUD was making progress in addressing its hiring process and reduced the average cycle time for hiring employees by about 37 percent between 2008 and 2010. The Department was able to meet the staffing needs of its four Homeownership Centers within the confines of authorized staffing levels. Nevertheless, more needs to be done.

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

NAPA recommended that the Department establish an intra-agency team of senior officials from the Chief Financial Officer, Chief Human Capital Officer, and administrative and budget officials from major program offices to assess the causes of its erratic resource management practices and develop a more timely and predictable staffing process. In addition, 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.

In response, HUD included a strategic goal its Fiscal Year 2010 - 2015 Strategic Plan to transform the way HUD does business. This goal addresses HUD's history of being viewed by both its employees and external partners as lacking in its ability to provide the support needed to fully deliver on its mission. HUD has developed specific sub-goals to (1) build capacity, (2) focus on results, (3) reduce bureaucracy, and (4) change its culture.

The Secretary has committed much time and effort to address some of these areas as evidenced by his Town Hall meetings with staff to announce his Changemakers Campaign and Feedback Focus Days to look at ways to improve performance and culture. HUD will measure its progress on its sub-goals by its success in increasing satisfaction ratings from internal and external parties, increased delegation to field offices, reduced number of burdensome regulations and reports, and reduced end-to-end hiring time. HUD has also begun a workforce needs and allocation study to update its resource estimation and allocation process. The goal is to more effectively support the budget process and assess staffing needs.

Financial management systems.

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

The contract to modernize HUD's financial management systems, HUD Integrated Financial Management Improvement Project (HIFMIP), was awarded on September 23, 2010. The original scope of HIFMIP was to encompass all of HUD's financial systems, including those supporting FHA and Ginnie Mae. However, the inclusion of the FHA and Ginnie Mae portions has been put on hold as a result of review by Office Management and Budget (OMB). HIFMIP was launched in fiscal year 2003 and was to have begun implementation of HUD's core financial system in fiscal year 2006. With the award of the contract in September 2010, HUD anticipated implementation of phase one of the project in time to have all of the fiscal year 2012 financial data within the new system. However, this did not occur and we remain concerned about the successful execution and completion of HIFMIP.

In the summer of 2011**,** the HIFMIP contractor proposed changing the implementation date to May 2012. This new date was not formally approved. In March 2012, work on HIFMIP was stopped, and HUD began reevaluating its options for the project. Since March 2012, project sponsorship was transferred from the Office ofthe Chief Financial Officer (OCFO) to the Deputy Secretary. The Deputy Secretary and a working group comprised of the OCFO, Office of the Chief Information Officer, and the Office of the Chief Procurement Officer are reassessing HUD's options for HIFMIP. To date, HUD has spent more than $35 million on the HIFMIP but does not yet have an operational new core financial system. OMB has stopped funding this until HUD can provide a more detailed project management plan.

FHA's ability to respond to changes in the market and to its business process is diminished by the shortcomings of the current information technology (IT) systems and the lack of systems capabilities and automation. HUD's 2010-2015 Strategic Plan and FHA established a goal to address the long-standing issue with major functional application systems that were designed decades ago with software products no longer supported by the software vendors. The FHA Information System Transformation was initiated to address this challenge. The objective was implemented in 2003. However, FHA relies upon these applications to support major operational and financial functions such as (1) loan underwriting, (2) premium billing, (3) insurance endorsement recording, (4) claims payment processing, and (5) Real Estate Owned inventory and accounting, etc. The impetus for the Transformation Initiative was 2009-2010 rapid rises in FHA loan origination volume after the equally quick decline in the conventional subprime loan market in 2007 and 2008. FHA's national market share for loan origination rose from 5 percent to over 30 percent within less than two years.

FHA management identified application priorities. Lender application approval and annual recertification were the initial manual processes selected to convert to an automated system because of backlogs in processing new lender approvals. While the 2011 approval program has been designed and implemented, the recertification program remains to be developed and implemented. The next priority was to develop or implement an underwriting fraud detection or prevention tool into the Post Endorsement Technical Review process. To accomplish this a vendor was hired to manually review loan application and endorsement files to develop an algorithm for automated file selection for the review of high risk loans. At a September 2012 briefing, the IT Transformation team informed us the algorithm had been deployed to the Single Family Homeownership Centers however; the Transformation contractor was continuing to review files.

Overall, it appears that the lack of a funding commitment has reduced the FHA Information System Transformation project to just a continuation of high level planning without a defined timetable to complete the new application systems and to phase out and to deactivate the outdated systems in current usage. These delays bring about another IT concern: the ability to maintain the antiquated infrastructure on which some of the HUD and FHA applications reside while the transformation initiative is underway. Workloads have dramatically increased and are processing on systems that are 15 to 30 years old. These legacy systems must be maintained to effectively support the current market conditions and volume of workloads. However, the use of aging hardware and software can result in poor performance and high maintenance costs. If the IT infrastructure is not modernized in a timely manner, it will become increasingly difficult to maintain operations, make legislative system modifications, and maintain interfaces to other IT systems leaving the systems environment at risk.

As part of our annual IT security review mandated by the Federal Information Security Management Act, we found that HUD had made progress on improving its information security environment. The agency had an effective incident response and reporting program. Also, HUD maintained oversight of contractor systems and had a plan of action and milestones system that effectively tracked weaknesses. However, although HUD continued to make improvements to its security program, challenges remained. HUD did not (1) fully develop a compliant remote access management program, (2) consistently implement contingency planning policies and procedures, (3) establish a continuous monitoring program, (4) address risks based on the organization's goals and mission, and (5) have adequate policies and procedures that fully integrate capital planning and IT security processes.

As part of our annual review of information systems controls in support of the financial statements audit, 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. For instance, HUD did not ensure that (1) its financial management systems plan fully complied with the requirements of OMB Circular A-127; (2) application controls for a financial system were operating effectively; (3) controls over file management, personnel security, and physical security at the data center were effectively implemented; and (4) procedures for managing the configurations of systems in HUD's computing environment were followed. As a result, HUD's financial systems continue to be at risk of compromise.

Home Program.

The HOME program is the largest federal block grant to state and local governments, designed to create affordable housing for low-income households. Because HOME is a formula based grant, funds are awarded to the participating jurisdictions noncompetitively on an annual basis. The formula is based, in part, on factors including age of units, substandard occupied units, number of families below the poverty rate, and population in accordance with Census data.

HOME addresses an important need for affordable housing in our country, a need that is increasing in the wake of the economic downturn and high unemployment. However, HUD faces challenges over the controls, monitoring and information systems related to the HOME program.

Last year, OIG testified twice on oversight and fraud issues relating to the HOME program. Our audit work at the grantee level commonly found the lack of adequate controls. This included issues in subgrantee activities, resale and recapture provisions to enforce HUD's affordability requirements, incorrectly reporting program accomplishments, and incurring ineligible expenses. There is also a repetitive thread of not always meeting the objectives of the program to provide affordable housing or not always meeting local building code requirements. HUD focuses its monitoring activities at the grantee level through its field offices. Grantees, in turn, are responsible for monitoring their subgrantees. Our audits have found that, in some instances, little or no monitoring is occurring, particularly at the subgrantee level.

Another challenge we have is with HUD's Integrated Disbursement & Information System (lDIS), the system used to accumulate and provide data to monitor compliance with HOME requirements for committing and expending funds. HUD also uses lDIS to generate reports used within and outside HUD, including by the public, participating jurisdictions and the Congress. We believe that with a more robust, up-to-date information system, HUD would be able to better monitor the HOME program in a more timely and transparent way.

Our work in this program continues and we have been working with the Senate Appropriations Committee staff to help the Department strengthen controls. To its credit, HUD has proposed new rules which should strengthen HUD's future enforcement authority. The Department has taken steps to improve HOME program management and OIG continues with its oversight work in this area.

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 public housing agencies (PHAs). These intermediaries, in turn, provide housing assistance to benefit primarily low-income households. The Office of Public and Indian Housing (PIH) and the Office of Multifamily Housing provide funding for rent subsidies through its public housing operating subsidies, the tenant-based Section 8 housing choice voucher tenant based and the Section 8 multifamily project-based programs. These programs are administered by more than 4,058 intermediaries and provide affordable housing for 1.1 million households through the low-rent operating subsidy public housing program, 2.3 million households through the Housing Choice Voucher program, and 1.1 million through the multifamily project based program.

HUD has a challenge in monitoring the Housing Choice Voucher program. The program is electronically monitored through PHA' s self assessments and other self reported information collected in PIH's systems. Based on recent audits and HUD's on-site confirmatory reviews, it is clear the self assessments are not always accurate and there remains some question as to the reliability of the information contained in PIH systems. PIH management should be able to address these limitations with the Next Generation Management System, which is under development, and the Portfolio Management Tool, which is currently being implemented. Until the two systems are completely implemented, HUD will continue to face challenges monitoring this program.

HUD has made improvements in the area of erroneous payments, but more improvement is needed. Last year, we noted that the projected error rate in HUD's Agency Report did not comply with OMB requirements. HUD combined the projected dollar of gross improper payment from programs tested with other program components that were not tested, and consequently diluted the total gross error rate reported by a half percent. HUD agreed to review their methodology and to exclude amounts not tested from the calculations. HUD must ensure the improper payment error rate complies with valid statistical methodologies. To continue its efforts in the improvement, the following enhancements are needed (1) adequate disclosures of administrative errors made by intermediaries in performance reports; (2) improvement of methodology documentation; and (3) enhanced oversight of controls over monitoring of improper payments.

Additionally, HUD has not yet developed plans to perform audits on contracts exeeeding $1 million dollars as required by the Improper Payments Elimination Recovery Act. According to the 2012 Accountable Official Report, HUD will develop a process to recover identified improper payments from PHAs and refer potential fraud cases to HUD-OIG. Lastly, HUD's Office of Multifamily Housing is developing system improvements that are also expected to make improvements in evaluating intermediaries' performance for eliminating improper payments.

HUD's monitoring and oversight of PHAs participating in the Moving to Work demonstration program (MTW) is particularly challenging. The MTW program provides PHAs the opportunity to design and test innovative, locally designed strategies that are designed to use Federal dollars more efficiently, help residents become self-sufficient, and increase housing choices for low-income families. Additionally, the MTW program gives PHAs exemptions from many existing public housing rules and more flexibility with how they use their Federal funds. Monitoring and oversight is complicated in that each PHA has a different MTW plan.

While participating PHAs report annually on their performance, a recent Government Accountability Office (GAO) report found that MTW guidance does not specify that PHA MTW plans provide that performance be quantifiable and outcome oriented. By not identifying the performance data needed to assess the results of the PHA's MTW program, HUD is unable to effectively evaluate the program. Additionally, HUD has not developed a systematic way to identify lessons learned to get the benefit intended from the MTW program. HUD has indicated that it intends to expand the number of MTW participants and believes that with additional participants they will be able to demonstrate the positive impacts of the program. However, we believe HUD first needs to develop a methodology to assess MTW program performance and evaluate the results prior to making a decision on expanding the number of MTW participants. In fiscal year 2012 OIG has reported significant departures from the MTW agreement by some of the participating PHAs. HUD needs to quantify a formal process for terminating participants from the demonstration program for failure to comply with their agreement.

Administering programs directed toward victims of natural disasters.

Over the past decade, HUD has developed an allocation process which focuses on unmet disaster recovery needs. The distribution of HUD's Community Development Block Grant Disaster Recovery (CDBG-DR) funds to meet community's needs is different from disaster recovery funds provided by other federal and state agencies. CDBG-DR funding supplements the Federal Government's standard recovery assistance programs administered by the Federal Emergency Management Agency, the Small Business Administration, and the United States Army Corps of Engineers. CDBG-DR funds must supplement, not replace, other sources of federal disaster recovery assistance.

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

In response to disasters, HUD provides grants to help cities, counties, and States recover from Presidentially-declared disasters. Unlike the CDBG grants awarded annually, CDBG-DR funds are appropriated by Congress only in extraordinary circumstances that have resulted in appropriations statute, the traditional COBG regulations in 24 CFR 570 applies to CDBG-DR funds. However CDBG-DR appropriations generally grant the Secretary broad authority to issue waivers and alternative requirements, which are identified in a Federal Register Notice issued by HUD shortly following the announcement of allocations. These communities must have significant unmet recovery needs and the capacity to carry out a disaster recovery program.

Keeping up with communities in the recovery process can be a challenging position for HUO. HUD CDBG-DR funding over the past several years has exceeded $29 billion. These active disaster grants nationwide have approximately $26 billion in obligations and $20 billion in disbursements. Although many years have passed since some of the specific disasters have occurred, significant disaster funds remain unexpended. HUD must continue to maintain its oversight efforts to ensure that funds are expended as intended.

Management Response to the OIG Report on Management and Performance Challenges

The Department's management and the OIG have worked in a close, collaborative manner during the past year, recognizing the challenges facing the Department and the country. Management's comments and updates concerning the department's progress in addressing each challenge are detailed below and on the following pages.

Single Family Programs

Federal Housing Administration

FHA has identified the major drivers that have kept us from attaining the 2 percent capital target. We have developed a plan to address those factors and accelerate the return of the MMI fund to the 2 percent capital ratio level. FHA remains vigilant in monitoring housing market conditions and FHA portfolio performance. FHA has been extremely pro-active in addressing credit risk in all of its dimensions, including raising premium rates to handle mounting expected losses on legacy books of business. Indeed, FHA's upfront premiums are almost double what they were in 2009, and the annual premiums for non-jumbo loans have more than doubled while those for jumbos have nearly tripled. FHA continues to make adjustments to policy to ensure better return to the Fund and prevent losses. FHA's business model today is very sound and the ongoing weakness is confined to loans insured prior to 2009. While additional risks remain for FHA as the economy continues its fragile recovery, the significant reforms and strong enforcement efforts undertaken by FHA are yielding sound and profitable business, altering the MMI Fund's trajectory and positioning FHA well for the future.

FHA has defined a risk appetite framework that balances risk, revenue and mission. A return to a 2 percent capital position is a key objective of the plan. FHA implemented minimum credit score eligibility requirements in October 2010. These limits impose a minimum credit score (FICO) of 580 for eligibility at maximum financing. Borrowers with a minimum Fair Isaac Company (FICO) of 500 to 579 are limited to a 90 percent Loan to Value; however, a FICO score alone is not the sole determination of eligibility for FHA insured financing. FHA has established policies that require lenders to review borrower's credit, collateral, capacity, and cash assets (the 4 C's) to determine borrower eligibility for FHA insurance. Additionally, lenders are required to screen applicants through FHA's TOTAL scorecard credit underwriting system. This system utilizes a scoring model in order to rate all risk characteristics simultaneously for determining borrower eligibility acceptance. Lenders must then manually review loans that are referred by TOTAL scorecard in order to determine final eligibility. FHA is currently evaluating both further credit policy, but more importantly, asset management policy (including the new Distressed Asset Stabilization Program (DASP)), that could accelerate better recoveries. It should be noted that while FHA has imposed credit score limits, the industry has typically imposed significant overlays to theses limits. As a result of all of these factors, FHA's average FICO score remains close to 700.

As part of the Operation Watchdog Audit (OIG Audit Report No. 2011-CF-1801), the Office of Inspector General recommended that Housing develop a process to review loans that go to claim. In response to the audit, Housing issued a Management Decision (corrective action) on June 16, 2011. The Office of Inspector General did not agree with Housing's proposed strategy and non-concurred on the initial Management Decision. After significant discussions, the Office of Inspector General and Housing reached consensus on the development of a claims review process. The revised Management Decision was issued on May 15, 2012. Since that time, Housing has completed all planned actions contained in the Management Decision and has implemented its claims review process effective September, 14, 2012. Accomplishments include:

- Developed business requirements for an automated claim case selection tool in Neighborhood Watch. In accordance with the revised management decision the requirements were written to allow the claim case selection tool to pull all loans for which FHA paid a claim on the mortgage insurance within the first twenty-four months from the beginning amortization date, notwithstanding the endorsement date of the loan – June 14, 2012;

- Submitted requirements document for claim case selection tool to Neighborhood Watch contractor on June 15, 2012;

- Revised standard operating procedures for lender monitoring reviews to better describe the Quality Assurance Division's procedures for requesting indemnifications on loans with material deficiencies and for referring lenders to the Mortgagee Review Board – August 2012;

- Implemented Claim Case Selection tool in Neighborhood Watch – September 14, 2012;

- Quality Assurance Division review of loans selected using the Neighborhood Watch claim case selection tool – started October 2012; and

- The Office of Risk Management was involved in developing methodologies for claim reviews.

The use of FHA's Preforeclosure Sale Program helps reduce the expenses FHA incurs under its standard conveyance process. FHA acknowledges; however, that its Preforeclosure Sale Program requirements need to be streamlined in order to comport with industry short sale requirements. Thus, FHA will publish a Mortgagee Letter soon which delineates streamlined requirements that are expected to facilitate a far more efficient review of FHA-approved servicers' files to ensure program compliance and a better execution/implementation of FHA's

Preforeclosure Sale Program by servicers working with distressed borrowers as the updated requirements will be more straightforward and succinctly written.

Although the project was not fully funded, the Transformation Project was able to acquire and deploy the Federal Financial Services Infrastructure Platform; Risk & Fraud Assessment Tools; and the development of a modern Lender Approval and Recertification Process. The modernized infrastructure platform has been deployed and provides new IT products coupled with modernized business practices that have strengthened FHA's capacity to respond to changing market conditions and legislative mandates in a timely manner. Program and system modernization efforts will continue dependent upon the availability of future IT funds.

Ginnie Mae

On page 2, in the last paragraph of the OIG's memorandum, the OIG states that "increases in demand to the FHA program are having collateral implications for the integrity of the Ginnie Mae MBS program including the potential for increases in fraud." While it is true that any expansion of the portfolio creates a linear (not exponential) increase in the possibility of fraud, Ginnie Mae has detective and preventative controls in place to minimize the probability of potential fraud. These detective and preventative controls include the following:

- Insurance matching procedures designed to ensure that all loans in Ginnie Mae securities are insured by a federal agency;
- Field review program that is designed to identify divergence from contractual requirements (MBS Guide and Guaranty Agreement) through a on-site audit of key origination, pooling and servicing activities; and
- Enhanced on-site program designed to assess Issuer capabilities and overall control framework.

In the same paragraph, which continues onto page 3, the OIG states that "Ginnie Mae's key challenge is to enhance MBS issuer monitoring to effectively and timely assess the risk of the imminent default of a "top tier" (top ten ranked) lender." Ginnie Mae believes that predicting the timing of a default is not a science and the ability to timely assess the imminent default with any level of precision is a capability that is not possessed by any government agency (other than the FDIC that controls the date of receivership of banks it regulates) nor by any commercial provider of credit worthiness (e.g. rating agencies). Therefore, indications of deterioration in the financial condition, financial performance, franchise power and long term prospects of survival are assessed by Ginnie Mae personnel (not third-party contractors as suggested by the OIG) leveraging the following:

- Risk grade methodology that allows for the tracking of publically available ratings, commercially provided synthetic ratings and proprietary synthetic ratings to monitor overall financial condition and performance. These risk grades can be passively monitored for negative or positive changes by Ginnie Mae by leveraging the CorporateWatch enterprise counterparty risk management system on a daily basis;

- An annual credit review (similar to rating agency analyst write-ups) of Issuers that are completed on either Issuers that appear on Ginnie Mae's watchlist or those Issuers that represent a significant concentration of Ginnie Mae's portfolio;
- The maintenance of a Issuer watchlist meant to focus on Issuers requiring elevated monitoring; and
- An active monitoring of news and events garnered through investor relations websites, media outlets, SNL Securities active push of news events and regular meetings with the largest and most stressed Issuers to better understand looming challenges.

Additionally, the OIG's statement that Ginnie Mae has been subject to major unanticipated defaults beginning in 2009 is misleading. With the exception of the Taylor, Bean, and Whitaker Corporation (TBW) Issuer default in 2009, there have been few defaulted Issuers when viewed numerically, let alone none that could be characterized as major. In fact, since FY 2009, if TBW is excluded, the total Remaining Principal Balance defaulted and extinguished by Ginnie Mae would be less than $2.1 billion. When compared to a $1.3 trillion dollar guarantee book of business, the non-TBW defaulted RPB is less than .16 percent of the total book.

As for the OIG's statement that "Ginnie Mae continues to rely heavily on third-party contractors," Ginnie Mae has been actively implementing initiatives to reduce this reliance. Ginnie Mae's staffing strategy to grow from 84 to 131 FTEs in FY 2012 and FY 2013 is targeted at recruiting specialized skills and experiences in support of our initiatives. Additionally, Ginnie Mae has changed its procurement practices in an effort to reduce reliance on contractors for critical functions. As part of senior management performance, managers have been directed to conduct a needs assessment for every contract that is new, has the option to extend, or has ended. These assessments consider whether the contract should be re-competed to bring targeted services or work products in-house, thereby reducing contractor expenses and reliance. As a result of the assessments and our staffing initiative we were able to close out two contracts that provided technical advisory services for a combined savings of $2 million a year.

Also on page 3, the OIG mentions a current bankruptcy situation with an Issuer. While Ginnie Mae agrees that the ultimate successful outcome of the resolution of this Issuer's bankruptcy does rely on investor interest in the Ginnie Mae servicing portfolio and the alignment of interest created by the US Treasury's ownership interest in the parent company, the statement made by the OIG neglects the significant efforts Ginnie Mae has expended to shape the outcome of the bankruptcy process to mitigate risk to the government. Ginnie Mae has been an active partner with the Issuer and has helped to shape their strategies for their bankruptcy. Ginnie Mae has assisted in the generation of investor interest in the portfolio, regularly met with interested parties to communicate the government's view of what would result in a successful conclusion, actively negotiated in support of the preservation of the Attorney General Settlement and undertaken numerous steps to minimize our risk including the negotiation of a interim servicing agreement that will protect the government from an operational event should there not be a successful conclusion to the bankruptcy. Ginnie Mae has actively participated in this process to mitigate risk to the taxpayer.

Oversight Of American Recovery And Reinvestment Act Funds

Community Development Block Grants-Recovery Act Funds

Oversight of ARRA programs and how Program Offices will ensure that funds not *obligated* will be returned to Treasury by December 31, 2012.

- For CDBG-R ($1B)
  - Virtually all CDBG-R program funds were obligated in 2009.
  - Obligation dates vary as the CPD Field Offices executed the grant agreements and HQ does not receive copies of these.
  - Any amounts remaining unobligated as of October 19, 2012 may be returned to Treasury at any time.
  - Administration funds of $10M from CDBG-R were co-mingled with the NSP-2 administration funds of $20M. See discussion below as part of NSP-2.
- For NSP-2 ($2B)
  - $1.93B of NSP-2 funds was obligated to grantees on February 11, 2010.
  - The remaining $70M was split in the following manner:
    - $50M to NSP-TA. These funds were obligated in late 2009.
    - $20M in NSP-2 administration funds were combined with CDBG-R administration funds of $10M. These funds were obligated during various dates between 2009- and September 30, 2012.
  - Any amounts remaining unobligated in these accounts as of October 19, 2012 may be returned to Treasury at any time.

Healthy Homes and Lead Hazard Control

The Office of Healthy Homes and Lead Hazard Control closed its Recovery Act grants within statutory deadlines, and closed its Recovery Act-related OIG evaluations. The Office is working with the Office of the Chief Financial Officer to return unexpended funds to the Treasury timely. The Office managed its Recovery Act grant programs effectively and efficiently, complied with laws and regulations, used reliable and accurate data to report program goal achievement, added Recovery Act-specific grant terms and conditions (e.g., for accelerated expenditure and reporting), trained staff and grantees, enhanced grant program oversight by adding a Senior Recovery Act Analyst, increased on-site monitoring and technical assistance while continuing to review quarterly progress reports and to audit files, monitored risks and internal controls identified in HUD's Recovery Program Plans in compliance with the Plans, and addressed the results of the OIG evaluations of Recovery Act regulatory compliance.

Public And Indian Housing

PIH updated all ARRA administrative control of funds plans to include the funding appropriation codes, funding amounts, and obligation/expenditure time limits as detailed in the ARRA legislation. The provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act, called the Pay It Back Act, which provides that any funds recaptured shall be rescinded, deposited with the U.S. Treasury, and dedicated solely to deficit reduction, were also added to the revised funds control plans. All PIH ARRA plans were approved by the PIH Funds Control Officer and the PIH Allotment Holder and were subsequently approved by the Acting Chief Financial Officer.

Exceptions to the full obligation and expenditure of ARRA appropriations were found in two PIH program areas: the Public Housing Capital Fund and the Native American Housing Block Grant Fund. The PIH Office of Field Operations (OFO) has performed 11,126 Headquarters-mandated ARRA Capital Fund reviews. Of the 11,126 reviews, 1,789 were completed onsite and 9,337 were conducted remotely. To date, there are 93 completed or pending Capital Fund recaptures totaling $49.5 million as a result of OFO's monitoring reviews. However, this amount could increase as monitoring findings are further vetted. Likewise, PIH's Office of Native American Programs has identified $4.7 million for recapture in the ARRA Native American Housing Block Grant Program which are at the apportionment level for return to the U.S. Treasury.

Human Capital Management

The Office of the Chief Human Capital Officer has improved the salaries and expenses budget development with better estimations, more collaboration and communication, and fewer lapsed funds.

Financial Management Systems

Federal Housing Administration

Although the FHA Information System Transformation project was not fully funded, the project was able to acquire and deploy the Federal Financial Services Infrastructure Platform; Risk &

Fraud Assessment Tools; and the development of a modern Lender Approval and Recertification Process. The modernized infrastructure platform has been deployed and provides new IT products coupled with modernized business practices that have strengthened FHA's capacity to respond to changing market conditions and legislative mandates in a timely manner. Program and system modernization efforts will continue dependent upon the availability of future IT funds.

HOME

Regarding the HOME Investment Partnerships Program, HUD has addressed the concerns of OIG in its responses to internal and external program audits, the HOME proposed rule that is nearing issuance as a final rule, and the recent system improvements.

- From 2006-2011, the OIG has performed more than 66 audits on HOME Participating Jurisdictions (PJs), some at the request of HOME Program staff in Washington and in the Field. At least 44 of those 66 audits have been closed and all recommendations implemented. Twenty-three audits have at least one open recommendation, and HUD is in the process of working with the PJs to ensure that the all recommendations are implemented. In addition, OIG has performed four internal audits of HUD’s HOME Program Office. These audits, all completed since 2009, have covered treatment of program income, oversight of resale and recapture provisions for homebuyer assistance, management of compliance with HOME commitments and expenditure deadlines, and HOME technical assistance funds. Except for one outstanding issue under review, HUD swiftly addressed the OIG findings in these audits.

- HUD published a significant proposed regulation for the HOME program in the Federal Register on December 16, 2011. Over 300 public comments on the proposed changes were received by February 14, 2012. The Final Rule will be issued in FY 2013, providing significant reforms to Community Housing Development Organizations performance, underwriting standards for rental housing and homeownership, developer selection, property standards, deadlines for completing projects, and ongoing monitoring of financial conditions of HOME-assisted projects.

- On May 4, 2012, HUD implemented significant changes for HOME functionality in its Integrated Disbursement and Information System (IDIS). This is HUD’s system used by the grantees to request funds and report accomplishments. These changes greatly enhance the accountability of the HOME PJs, and improve HUD’s ability to track the progress of HOME projects. HUD has already realized a significant improvement in grantee reporting and accountability as a result of these system improvements including a 96 percent reduction in HOME activities in final draw for more than 120 days.

Public And Assisted Housing Program Administration

Housing Choice Voucher Program Monitoring

With respect to the challenges HUD faces in monitoring the Housing Choice Voucher (HCV) Program, until the Next Generation Management System (NGMS) and Portfolio Management Tool are implemented, PIH plans to conduct remote verification of Section 8 Management Assessment Program (SEMAP) self certified indicators until such time that a comprehensive assessment system can be completed through the implementation of NGMS.

The PIH Office of Field Operations (OFO) and the Quality Assurance Division have improved the quality of its remote monitoring and have stepped up the onsite monitoring and oversight of the HCV Program as a result of several new initiatives that have been incorporated in all PIH field offices. These initiatives include the Portfolio Management Tool, the Voucher Forecasting Tool, and implementation of a HCV Utilization Protocol. These tools allow HUD to monitor PHAs administering the HCV Program much closer and have aided national oversight of the program. As a result, over the past two years, there have been no terminations of HCV Program participants due to PHA overspending and other adverse impacts have been minimized.

Improper Payments in PIH's Rental Housing Assistance Programs

PIH reviewed its methodology for calculating its total gross error rate by removing outlays for certain program components such as administrative fees, technical assistance grants, and Resident Opportunities and Self-Sufficiency grants from the error rate calculation since these components are not tested during the annual Quality Control Review. The revised methodology will be reflected in the FY 2011 improper payment error rate presented in the Annual Financial Report for FY 2012.

PIH began reporting in last year's AFR, data from payments within PIH's rental housing assistance programs that had been made by PHAs erroneously on behalf of deceased residents. These improper payments are identified and recovered through post payment reviews conducted by PIH's Real Estate Assessment Center. With respect to the process to recover identified improper payments from PHAs, PIH is developing a new and streamlined repayment agreement and protocol that will establish the terms of funds being restored to the program. PIH will follow the new protocol when establishing repayment agreements with PHAs regarding HCV funds.

PIH will be requesting an exemption from payment recovery auditing from OMB due to the fact that its largest rental housing assistance program, the HCV Program, is funded with "no-year" appropriations. The HCV Program appropriations that have not expired are not available to pay contingency fee contracts. As such, PIH would either have to obtain additional resources or divert current resources to undertake recovery auditing for this program. PIH will also be requesting that OMB consider increasing the error threshold for HUD's annual estimate of improper payments, decoupling the Rental Housing Assistance Programs, and discussing the cost-benefit and methodology of the annual Quality Control Review.

Monitoring and Oversight of PHAs Participating in the Moving to Work (MTW) Program

Monitoring and oversight of the current MTW program operates in conformance with the statute that created the demonstration in 1996 and by extension the Standard MTW Agreement entered into by each of the 35 MTW agencies. HUD has continued to improve monitoring and oversight within this framework by refining the Plan and Report requirements for MTW agencies, requiring that MTW agencies submit information into HUD systems to the greatest extent feasible and improving communication between the program offices in headquarters and representatives in the field. The MTW agencies themselves recently conducted a summit in Chicago to suggest additional refinements to MTW reporting and communications. Taken together, this collaborative effort will result in improved, data driven reporting of agency activities. GAO has stated that the completion of these activities would create a methodology to assess MTW program performance and would address the majority of the recommendations made in its recent report.

MTW agencies are bound by the terms of the standardized MTW agreements, and they are also bound by the terms of their Annual Contributions Contracts (ACC) that are not accepted by MTW. Both have established procedures to bring agencies back into compliance short of termination, and to terminate if they fail to follow such measures. In those rare instances where agencies have failed to meet the terms of either document, the Department has taken appropriate steps and brought them into compliance.

Administering Programs Directed Toward Victims of Natural Disasters

To ensure adequate oversight and management of HUD's significant portfolio of Community Development Block Grant disaster recovery funds ($30B), the Department has undertaken the following steps in FY 2012:

- Revised the risk CDBG-DR analysis to include the entire CDBG-DR portfolio.
- Significantly revised its CDBG-DR monitoring policies to focus on the specific legislative requirements of each CDBG-DR appropriation; added monitoring review guidance for procurement, written agreements, and core recovery activities (e.g., infrastructure, buyouts, economic development).
- Increased the number and frequency of CDBG-DR monitoring reviews and focused on expenditure rates and overall performance. The additional monitoring resulted in an increase in expenditures and performance for Texas' formerly stalled and inconsistent recovery effort.

- Published uniform guidance in the Federal Register on preventing the duplication of benefits when administering CDBG-DR activities.
- Instituted a specific requirement in the FY12 CDBG-DR disaster appropriation that grantees establish a performance schedule with benchmarks and timelines and publish this information in their public action plans.
- Provided training for all of seventeen of the FY12 CDBG-DR grantees prior to their receipt of funds to reduce risk by educating grantees on CDBG-DR requirement.

Summary of Financial Statement Audit and Management Assurances

For FY 2012, one material internal control weakness was 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 2012 Financial Statement Audit.

Summary of Financial Statement Audit

Audit Opinion	Unqualified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Substantial Compliance with Federal Financial Management Improvement Act (FFMIA)	0	1	0	0	1
Total Material Weaknesses	0	1	0	0	1

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	Qualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Human Capital Operations	0	1	0	0	0	1
Total Material Weaknesses	0	1	0	0	0	1
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. See discussion in Management Assurance section of the Management's Discussion and Analysis.

The OIG is also responsible for conducting a variety of other audits and reviews in all HUD program areas. Further information on the OIG's audit activities can be found in their Semiannual Report to Congress. The full FY 2012 financial statement audit containing the Department's response to the audit, as well as additional OIG reports and publications are located online at http://www.hudoig.gov/Audit_Reports/2013-FO-0003.pdf.

Status of Material Weaknesses

The table below identifies the material weakness identified by the OIG in this year's financial statement audit and the one identified by HUD. The IG identified weakness was upgraded from last year where it was identified as a significant deficiency.

Material Weakness	Status at End of FY 2012	Expected Resolution Date
Achieving Substantial Compliance with FFMIA (HUD disagrees with the IG's assertion as explained in the Management Assurances subsection of this report)	**Elevated from Significant Deficiency**	**February 2013**

Material Weakness	Status at End of FY 2012	Expected Resolution Date
Strategic Management of Human Capital Operations	**New**	**TBD**

Status of Significant Deficiencies

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

Significant Deficiencies	Status at End of FY 2012	Expected Resolution Date
Obligation Balances	**Open**	**January 2013**
Controls Over Rental Housing Assistance	**Open**	**April 2014**
Controls Over Community Planning and Development (CPD) Grantees	**Open**	**December 2012**
Administrative Control of Funds	**Open**	**March 2013**
Controls Over HUD's Computing Environment	**Open**	**September 2014**
Personnel Security Practices	**Closed**	**NA**
Controls Over GNMA Collateral Loan Files	**Closed**	**NA**
FHA Technology Security Controls	**Closed**	**NA**
GNMA Counterparty Monitoring and Oversight	**Closed**	**NA**
HUD's Internal Control over Financial Reporting Had Serious Weaknesses	**NEW**	**TBD**
Portfolio Management of FHA Systems Needs Improvement	**NEW**	**TBD**

The following table shows the accomplishments and planned actions for each of the above significant deficiencies.

Significant Deficiencies	
Obligation Balances	**HUD's Processes for Reviewing Its Obligations Had Improved, but Deficiencies Still Exist.**
FY 2012 Accomplishments	• Increased efforts to de-obligate balances marked for recapture.
FY 2013 Planned Actions	• Issue guidance on the criteria for reviewing the validity of open obligations.
Controls over Rental Housing Assistance	**Continued Improvements Over the Oversight and Monitoring of Subsidy Calculations, Intermediaries Performance, and Utilization of Housing Choice Voucher and Operating Subsidy Program Funds Are Needed.**
FY 2012 Accomplishments	• Implemented the Portfolio Management Tool in all field offices.
FY 2013 Planned Actions	• Conduct continual assessment and periodic refinement to the tool and methods in an effort to improve performance.
Community Planning and Development (CPD) Grantees	**Office of CPD's Internal Controls Over Monitoring Grantees' Compliance With Program Requirements Were Not Operating Effectively.**
FY 2012 Accomplishments	• Issued CPD Notice 12-010 "Timely Distribution of State CDBG Funds". • Issued CPD Notice 12-02 "Implementing Risk Analyses for Monitoring Community Planning and Development Grant Programs in FY 2012."
FY 2013 Planned Actions	• Continue oversight and monitoring of Grantees compliance.
Administrative Control of Funds	**HUD Needs to Improve Administrative Control of Funds**
FY 2012 Accomplishments	• Reviewed new and revised funds control plans to ensure they met requirements of the Administrative Control of Funds: Policies and Procedures Handbook No. 1830.2 Rev-5.
FY 2013 Planned Actions	• Conduct periodic reviews of the program offices' compliance with requirements of the funds control plans. • Implement a 5-year cycle for funds control compliance reviews (1/5 of all approved funds control plans each fiscal year).

<table>
<tr><th colspan="2">Significant Deficiencies</th></tr>
<tr><td>HUD’s Computing Environment</td><td>Controls over HUD’s Computing Environment Can Be Further Strengthened.</td></tr>
<tr><td>FY 2012 Accomplishments</td><td>Implemented improved processes to ensure the systems were properly controlled and protected.
Documented continuous monitoring and configuration management plan and procedures in compliance with National Institute of Science and Technology (NIST) standards.
Documented HUD’s Cyber Security Awareness and Training Program.
Communicated the revised specialized security training requirements to HUD’s Information System Security Officers.</td></tr>
<tr><td>FY 2013 Planned Actions</td><td>Continue co-ordination and implementation of programs and activities to ensure compliance with NIST.
Develop interface between Facilities Integrated Resource Management System and financial systems.</td></tr>
<tr><td>Personnel Security (CLOSED)</td><td>Weak Personnel Security Practices Continued to Pose Risks of Unauthorized Access to HUD’s Critical Financial Systems.</td></tr>
<tr><td>FY 2012 Accomplishments</td><td>Improved security process for employees.
Dedicated resources to process background investigation upgrades.
Implemented Standard Operating Procedure’s strengthening security practices
Closed in FY 2012. No further actions required</td></tr>
<tr><td>GNMA Collateral Loan Files (CLOSED)</td><td>GNMA needs to Improve Compliance Control to Ensure the Safety, Completeness and Validity of Collateral Loan Files.</td></tr>
<tr><td>FY 2012 Accomplishments</td><td>Reviewed loan files for approximately 160,000 loans in portfolio.
Established working group bi-weekly meetings to discuss document deficiencies
Closed in FY 2012. No further actions required</td></tr>
<tr><td>FHA Technology Security Control (CLOSED)</td><td>Identified Information Technology Control Deficiencies are Not Being Effectively Analyzed and Resolved.</td></tr>
<tr><td>FY 2012 Accomplishments</td><td>Developed process to analyze systems control weaknesses for their root causes.
Strengthened Plan of Action & Milestones (POAM) process by ensuring status of plan reviewed regularly by FHA & HUD.
Updated the Information Security Risk Management Framework for the Office of Housing.
Developed quarterly report to track status of systems security and monitoring requirements.
Closed in FY 2012. No further actions required</td></tr>
</table>

Significant Deficiencies	
GNMA Counterparty Monitoring and Oversight (CLOSED)	**Strengthen Internal Control over Risk Based Issuer and document custodian reviews to improve the effectiveness of counterparty monitoring and oversight**
FY 2012 Accomplishments	• Added an additional Government Technical Monitor to compliance review contract to increase oversight and monitoring functions. • Implemented procedures requiring the contractor to expand their work papers scope justification. • Completed updates to Risk Based manual (renamed Compliance Review Guide). • Conducted Contractor Assessment Review of the Field Review contractor. • Closed in FY 2012. No further actions required

Non-compliance with Laws and Regulations

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

Non-Compliance with Laws and Regulations	Status at End of FY 2012	Expected Resolution Date
HUD Federal Financial Management Improvement Act (FFMIA)	**Open**	**September 2013**
Anti-Deficiency Act	**Open**	**March 2013**
U.S. Government Claims	**Closed**	**NA**
National Affordable Housing Act of 1990	**Open**	**2017**
FHA Federal Financial Management Improvement Act (FFMIA)	**Closed**	**NA**

The following table shows the accomplishments and planned actions for each of the above instances of non-compliance.

Non Compliance	
FFMIA	**HUD did not substantially comply with the Federal Financial Management Improvement Act (FFMIA) regarding system requirements.**
FY 2012 Accomplishments	• Generated Financial Management System (FMS) plan at the beginning of the FY. • Collected information for monitoring FMS development and operations. • Developed quarterly report to track status of system security and monitoring. • Developed new process to review POAM's on a monthly basis. • Updated procedures for senior management to acknowledge and accept system's risk that cannot be mitigated within the FY.
FY 2013 Planned Actions	• Update FMS plan throughout FY. • Utilize plan as ongoing monitoring tool. • Continue collection of information for monitoring FMS development and operations. • Continuous monitoring.
Anti-deficiency Act	**HUD did not substantially comply with the Anti-deficiency Act**
FY 2012 Accomplishments	• Formulated a dedicated task force to complete backlogged ADA investigations. • Investigations on the backlog are completed and are currently under management review.
FY 2013 Planned Actions	• Develop and/or strengthen internal controls related to contracts funded over multiple fiscal years based on results of ADA investigations. • Improve and strengthen internal controls related to the Payroll Adjustment process.
U.S. Government Claims (CLOSED)	**HUD did not substantially comply with Laws and Regulations governing claims of the United States Government Claims**
FY 2012 Accomplishments	• Drafted notice delineating new procedures for collecting delinquent Section 201 Loan payments. • Issued Notice concerning collection procedures for Section 202 loans. • Established criteria to determine reportable delinquent debt. • Identified and reported delinquent debt to credit bureaus and Credit Alert Interactive Voice Response System as required. • Activated delinquent debt reporting functionality.

Non Compliance	
National Affordable Housing Act of 1990	**FHA's Mutual Mortgage Insurance (MMI) 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**
FY 2012 Accomplishments	• Established Risk Management Office. • Hired Chief Risk Officer. • Initiated new underwriting standards. • Increased enforcement reviews and established risk management protocol to strengthen FHA. • Raised premiums numerous (4) times over the fiscal year.
FY 2013 Planned Actions	• Continue to monitor economic conditions, business trends and actuarial assessments. • Initiate actions to strengthen the MMI fund.
FHA's Mutual Mortgage Fund (CLOSED)	**FHA's did not substantially comply with the Federal Financial Management Improvement Act (FFMIA) regarding system limitations related to operational effectiveness and efficiency.**
FY 2012 Accomplishments	• Utilized manual compensating controls to ensure the reliability of its day-to day financial transaction processing and reporting. • Developed User Acceptance and Parallel testing for Home Equity Conversion Mortgages (HECM).

Secretary's Audit Resolution Report To Congress

This information on the Department of Housing and Urban Development's audit resolution and follow-up activity covers the period October 1, 2011, through September 30, 2012. 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 for FY 2012 on the total number of audit reports and dollar value for both disallowed costs and for recommendations that funds be put to better use.

Audit Resolution Highlights

Overall the Department achieved 1,112 approved management decisions and successfully implemented 888 recommendations. The Department also made good progress in reducing its inventory of potential significantly overdue final actions, which are those recommendations which could potentially be significantly overdue on September 30, 2012. This inventory was successfully addressed and the Department resolved 126 recommendations in this category, which was a reduction of 68.5 percent.

Summary of Management Decisions On Audit Recommendations

Opening Inventory Requiring Decisions	468
New Audit Recommendations Requiring Decisions	952
Management Decisions Already Made[1]	(1,112)
Audit Recommendations Still Requiring Decisions[2]	308
Recommendations Beyond Statutory Resolution Period[2]	1

1. *Management decisions were made on a total of 1,112 recommendations (172 audits of which 102 had final management decisions). Of these, 467 recommendations were in the opening inventory.*
2. *This reporting period ended with 308 recommendations without management decisions. Of these, one recommendation is over 6 months old.*

Summary of Recommendations With Management Decisions And No Final Action

Opening Inventory – Final Actions Pending	1,242
Management Decisions Made During Report Period	1,112
Sub-Total Final Actions Pending	2,354
Final Actions Taken[1]	(972)
Audit Recommendations Reopened During Period (Without Final Actions)	0
Total Audit Recommendations Still Requiring Final Actions[2]	1,382

1. *Final Action was taken on a total of 972 recommendations (285 audits of which 169 had final actions taken, thus closing the audits). The number of recommendations where a management decision and final action were concurrent was 301 in 122 audits.*
2. *Of the 200 audits remaining (and in the appendix), 53.0 percent or 106 are under repayment plans.*

Management Report on Final Action On Audits With Disallowed Costs

Audit Reports	Number of Audit Reports	Questioned Costs
A. Audit Reports with management decisions on which final action had not been taken at the beginning of the period.	282	615,623,278
B. Audit Reports on which management decisions were made during the period.	113	203,267,610
C. Total audit reports pending final action during period (total of A and B)	395	818,890,888
D. Audit Reports on which final action was taken during the period		
1. Recoveries[1]	82	92,528,751
(a) Collections and offsets	63	62,217,549
(b) Property	1	3,500,000
(c) Other	30	26,811,202
2. Write-offs	62	59,213,492
3. Total of 1 and 2[2]	105	151,742,243
E. Audit Reports needing final action at the end of the period (subtract D3 from C)[3]	290	667,148,645
F. Open Recommendations (with disallowed costs)[4]	(610)	($568,686,784)

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

[1] *Audit Reports are duplicated in D.1.(a), D.1.(b) and D.1.(c); thus the total is reduced by 12.*

[2] *Audit Reports are duplicated in both D.1 and D.2; thus the total is reduced by 39.*

[3] *Litigation, legislation, or investigation is pending for 42 audit reports with costs totaling $137,930,863.*

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

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

Audit Reports	Number of Audit Reports	Funds to be put to Better Use
A. Audit Reports with management decisions on which final action had not been taken at the beginning of the period.	158	3,585,755,882
B. Audit Reports on which management decisions were made during the period.	59	2,431,267,018
C. Total audit reports pending final action during period (total of A and B)	217	6,017,022,900
D. Audit Reports on which final action was taken during the period		
1. Value of Audit Reports implemented (completed)	40	678,005,464
2. Value of Audit Reports that management concluded should not or could not be implemented	9	325,340,395
3. Total of 1 and 2[1]	44	1,003,345,859
E. Audit Reports needing final action at the end of the period (subtract D3 from C)[2]	173	5,013,677,041
F. Open Recommendations (with funds put to better use)[3]	(111)	($776,262,622)

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

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

[2] *Litigation, legislation, or investigation is pending for 23 audit reports with costs totaling $56,719,547.*

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

Improper Payments Elimination and Recovery Act Reporting Details

The Requirements

The Improper Payments Elimination and Recovery Act (IPERA), Public Law 111-204, signed into law by the President on July 22, 2010, amends the Improper Payments Information Act (IPIA) of 2002 (Public Law 107-300), and repeals the Recovery Auditing Act (Section 831 of the FY 2002 Defense Authorization Act, Public Law 107-107). Under the IPERA and OMB implementing guidance in Appendix C of Circular A-123, agencies are to assess all programs and activities they administer and identify those that may be susceptible to significant improper payments. Where the risk of improper payments is assessed as potentially significant, agencies are required to estimate the annual amount of improper payments and report the estimates in their annual report (PAR or AFR) to OMB, along with plans and targets to reduce improper payments.

The statute defines a "significant" level of improper payments as annual improper payments exceeding 1) both 2.5 percent of program outlays and $10 million of all program or activity payments made during the fiscal year reported, or 2) $100 million (regardless of the improper payment percentage of total program outlays).

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

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

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

HUD's Commitment

At the time of implementation of the IPIA, the Secretary designated the Chief Financial Officer as the lead official for overseeing HUD actions to address improper payment issues and bring

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

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

HUD's Process

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

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

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

by independent reviewers during the initial assessment determined that only five of the ten 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 and IPERA, OMB requested agency input on improper payments in select programs, including the Community Development Block Grant (CDBG) Entitlement and Non-Entitlement (States and Small Cities programs). These CDBG programs were identified through statistical sampling in HUD's initial annual risk assessment to be at low risk of improper payments and did not warrant reporting. OMB subsequently revised its guidance to clarify that agencies should continue to report on programs until they could document a minimum of two consecutive years in which improper payments are less than $10 million annually, after which they could submit to OMB a request for relief from annual reporting.

HUD's analysis for two consecutive years determined that the CDBG Programs were below the $10 million threshold for required reporting, and on March 14, 2007, OMB approved HUD's request for relief from annual improper payment reporting for those programs. HUD will continue to conduct an annual risk assessment of the CDBG programs and provide results annually to OMB by June 30.

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

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

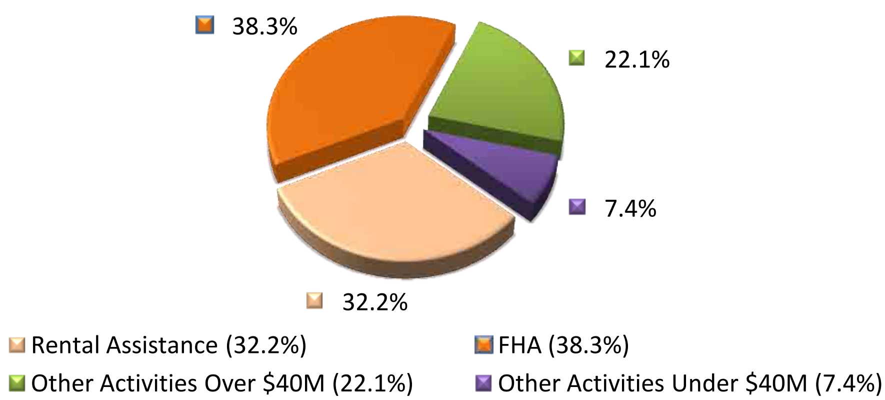
These programs are collectively referred to as HUD's RHAP. HUD has reduced the combined baseline gross improper rental housing assistance payment estimates of $3.43 billion[2] to $1.229 billion in Fiscal Year 2011, a reduction of 64 percent.

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

Results of Annual Risk Assessment Update and Continued Payment Testing

The FY 2012 risk assessment update was based on payments and other relevant activities that occurred during FY 2011. Approximately 200 distinct program and administrative payment activities were identified from all of HUD's financial management systems in FY 2011, with total payments of $99.1 billion. The payment universe consisted of the following distribution:

HUD's $99.1 Billion Payment Universe



HUD's risk assessment update in FY 2012 did not identify any new activities as being at risk of significant improper payments. Programs that previously tested below the improper payment threshold established by the IPERA were removed from HUD's at risk inventory and are not subject to re-testing unless there is significant change in the nature of the activity, HUD's internal control structure, or operating environment.

Rental Housing Assistance Programs

HUD's RHAP had previously been assessed as being at high risk of significant improper payments – and continues to be reported as such – with corresponding error measurement methodologies, corrective action plans, and error reduction goals described below. These programs constituted $31.9 billion[3], or 32 percent, of HUD's total payments in FY 2011.

In FY 2001, prior to enactment of the IPIA and IPERA, HUD established the Rental Housing Integrity Improvement Project to reduce an acknowledged improper payment problem in its

[3] In response to an OIG report, HUD removed certain expenditures (i.e., Public and Indian Housing (PIH) Administrative Fees, Multifamily Housing Capital Advances, PIH Technical Assistance Grants, PIH Resident Opportunity Self-Sufficiency Grants, and PIH Family Self-Sufficiency Grants) from the universe of RHAP expenditures due to the fact that these expenditures do not have a direct correlation to Rental Assistance. Accordingly, HUD's improper payment error rate will be calculated without including these expenditures in the denominator.

rental assistance programs. This project is directed by the responsible HUD program offices, with oversight by the OCFO and statistical sampling[4] support from the Office of Policy Development and Research. HUD's RHAP are administered by over 26,000 Public Housing Agencies (PHAs) and multifamily housing owners or management agents on HUD's behalf. In general, beneficiaries pay up to 30 percent of their adjusted income as rent, and HUD payments cover the remainder of the rental cost (or the operating cost, in the case of public housing).

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

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

From FY 2000 through FY 2011, HUD reduced the gross improper payments for the first two of these three categories of error from $3.22 billion to $1.12 billion, a reduction of 65 percent. A baseline measurement for the third component, billing error, was completed in FY 2005, based on FY 2003 expenditures, and was estimated to be $214 million. In FY 2011, the billing error was estimated to be $106 million. This estimate was derived from the most recent billing error estimates for the Public Housing Program and the Owner-administered Project-based Assistance programs. The following chart provides a summary for all three error components for FY 2011 as compared to FY 2010 and the baseline year (FY 2000). Actual results are not presented for FY 2012 because HUD reports on prior year data (i.e., FY 2012 studies are conducted using FY 2011 data).

[4] HUD's methodology for statistical sampling in FY 2011 was to select 600 projects that were considered to be nationally representative of the 26,000 PHAs and multifamily housing owners or management agents that administer rental housing assistance on HUD's behalf. Projects were selected with probabilities proportional to size. Projects having a size exceeding the sampling interval were selected for eight, twelve, or more households in the project and were counted as more than one project for purposes of determining the sampling size. Projects were allocated approximately equally among the three assisted program types, and four households were randomly selected from each project. Additionally, data was collected for four households in one additional PHA to ensure that, given any unexpected circumstances, the sample would include a minimum of 2,400 households. This resulted in a total of 2,404 households with representation from among the three program areas. Some large projects were selected multiple times, so that the study sample included 544 distinct projects in 58 geographic areas across the United States and Puerto Rico. The sample is designed to obtain a 95 percent likelihood that estimated aggregate national rent errors for all programs are within two percentage points of the true population rent calculation error, assuming an error of ten percent of the total rents (based on OMB criteria). Previous studies determined that a tenant sample size of 2,400 will yield an acceptable precision for estimates of the total average error.

IMPROPER RENTAL ASSISTANCE PAYMENTS
DOLLARS IN THOUSANDS

Administration/ Error Type	2011 Subsidy Over-Payments	2011 Subsidy Under-Payments	2011 Net Erroneous Payments	2011 Gross Erroneous Payments	2010 Gross Erroneous Payments	2000 Gross Erroneous Payments
Public Housing						
Administrator Error	$105,455	$34,430	$71,025	$139,885	$141,033	$602,557
Income Reporting Error	$78,622	-	$78,622	$78,622	$45,433	$294,000
Billing Error*	$35,000	$14,000	$21,000	$49,000	$49,000	Not available
Subtotal:	**$219,077**	**$48,430**	**$170,647**	**$267,507**	**$235,466**	**$896,557**
Section 8 Voucher						
Administrator Error	$287,835	$148,320	$139,515	$436,155	$341,515	$1,096,535
Income Reporting Error	$265,696	-	$265,696	$265,696	$86,709	$418,000
Billing Error	-	-	-	-	-	Not available
Subtotal:	**$553,531**	**$148,320**	**$405,211**	**$701,851**	**$428,224**	**$1,514,535**
Total PHA Administered						
Administrator Error	$393,290	$182,750	$210,540	$576,040	$482,548	$1,699,092
Income Reporting Error	$344,318	-	$344,318	$344,318	$132,142	$712,000
Billing Error	$35,000	$14,000	$21,000	$49,000	$49,000	Not available
PHA Subtotal:	**$772,608**	**$196,750**	**$575,858**	**$969,358**	**$663,690**	**$2,411,092**
Total Project Based/Owner Administered						
Administrator Error	$76,179	$42,989	$33,190	$119,168	$167,719	$539,160
Income Reporting Error	$84,175	-	$84,175	$84,175	$71,056	$266,000
Billing Error*	$21,000	$36,000	($15,000)	$57,000	$57,000	Not available
Project Based Subtotal:	**$181,354**	**$78,989**	**$102,365**	**$260,343**	**$295,775**	**$805,160**
Total Improper Payments						
Administrator Error	$469,469	$225,739	$243,730	$695,208	$650,267	$2,238,252
Income Reporting Error	$428,493	-	$428,493	$428,493	$203,198	$978,000
Billing Error	$56,000	$50,000	$6,000	$106,000	$106,000	Not available
GRAND Total:	**$953,962**	**$275,739**	**$678,223**	**$1,229,701**	**$959,465**	**$3,216,252**
TOTAL PROGRAM PAYMENTS	-	-	-	**$31,896,542**	**$32,563,693**	**$18,800,000**
IMPROPER PAYMENT RATE	-	-	-	**3.9%**	**2.9%**	**17.1%**

**Billing error estimates are based on FY 2004 data for Public Housing and FY 2009 data for Owner Administrators.*

With regard to the chart on the previous page, significant program structure changes were implemented in the Public Housing program in the second quarter of FY 2007 to improve the efficient use of funding in the Public Housing Operating Fund. These structure changes effectively eliminated all three previously reported types of improper payments due to Administrator, Income Reporting, and Billing errors for that program. It should be noted that PHAs could still make Administrator errors, and tenants could still not report or under-report their income. However, the effect of these errors was borne by the PHA and HUD's subsidy payment remained unchanged. Nonetheless, HUD retained program oversight responsibility to ensure the proper performance and benefits of the program, and continued to focus on effective measures to reduce performance errors by PHAs.

Effective FY 2010, these program structure changes expired. As a result, the effect of the improper payments associated with the Administrator, Income Reporting, and Billing errors in the Public Housing program are now borne by HUD. The results are reported in the chart on the previous page.

Percent Reductions in Improper Payments
Dollars in Billions

Error Type	Baseline Estimates	FY 2011 Estimates	Percent Reduction
Administrator Error	* $2.238	$0.695	69%
Income Reporting Error	* $0.978	$0.428	56%
Billing Error	* $0.214	$0.106	50%
Total	**$3.430**	**$1.229**	**64%**

** Administrator and Income Reporting Error Estimates are from FY 2000; the Billing Error Estimate is from FY 2005.*

Corrective Actions Taken to Reduce Improper Payments

The overall reduction in improper payments for HUD's three major types of RHAP over the past eleven 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 and Income Reporting Error increased from $650 million in FY 2010 to $695 million in FY 2011, and from $203 million in FY 2010 to $428 million in FY 2011 respectively, the findings were on par with the findings from FY 2004 through FY 2010, within the statistical margin of error, and do not represent statistically significant differences. There is an increase of 1.0 percent in FY 2011, because the population totals used in HUD's RHAP sample to assess errors were updated to better reflect the current population. Prior to FY 2011, the same population totals were used from FY 2006 through FY 2010. Therefore, a portion of the changes in total gross dollar error may be due to an increase in population, and not due to an increase in rent error. In addition, household characteristics in the Housing Choice Voucher Program such as an increase in earned income, and a large household size contributed to the gross error. For several years, HUD has found that households with more earned income and households with more members have an increased likelihood of having gross rent error than smaller households.

In the Housing Choice Voucher Program, the establishment of a budget based funding methodology was implemented in FY 2005 to reduce the opportunity for billing errors.

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 have a direct correlation to the reduction of improper payments associated with income reporting errors. Use of EIV by PHAs, owners, management agents, and contract administrators became mandatory effective January 31, 2010.

HUD is committed to using Treasury's Do Not Pay solution to reduce improper payments. In August 2012, HUD submitted a Do Not Pay Implementation plan to OMB which is currently under review.

PIH implemented a "Do Not Pay List" on September 20, 2009 within the EIV system. This feature identifies individuals who currently have outstanding debts with PHAs nationwide. PHAs are required to use this feature to screen applicants. The feature alerts PHAs of current assisted families when there is a report of an outstanding debt to another PHA so that the current PHA may terminate the family's assistance in accordance with PHA established policies and prevent subsequent improper payments.

During FY 2011, HUD formed an Improper Payments Assessment Team to monitor PHAs reporting of information to the Public and Indian Housing Information Center (PIC). The intended outcome of this monitoring effort is to confirm PHA compliance with PIC reporting and effective use of the EIV system to reduce improper payments within PIH RHAP.

HUD also implemented reporting in the EIV system to aid PHAs in recovering payment errors at the local level. One of these reports is the Deceased Tenant Report which measures the number of deceased single member households within a public housing agency's jurisdiction. The measure helps Public Housing Agencies reduce improper payments made to deceased beneficiaries. In the first year of monitoring the Deceased Tenants Report, $4.6 million in improper payments were recovered.

HUD's Improper Payment Reduction Forecast

HUD will continue to take aggressive steps to address the causes of improper rental housing assistance payments to ensure that the right benefits go to the right people. Based on the above results for the three types of rental housing assistance errors, as well as plans to address known causes and levels of improper payments, HUD provides the statistical results for FY 2011 and the outlook for improper payment percentages on a combined program basis from FY 2012 – FY 2014 as follows:

Rental Assistance Improper Payment Reduction Outlook
FY 2012-FY 2014

(Dollars shown in billions)

Activity	FY 2010 Payments	FY 2010 IP	FY 2010 IP% Goal/Actual	FY 2011 Payments	FY 2011 IP	FY 2011 IP% Goal/Actual	FY 2012 IP% Goal and IP Dollar Amount	FY 2013 IP% Goal and IP Dollar Amount	FY 2014 IP% Goal and IP Dollar Amount
Rental Assistance	$32.563	$0.959	3.0/2.9	$31.897	$1.229	2.8/3.9	3.8% / $1.292	3.8% / $1.292	3.8% / $1.292
Estimated Payments							$34	$34	$34

The annual Improper Payment calculation is based on prior year data. Accordingly, the FY 2012, FY 2013, and FY 2014 results will be reported in the FY 2013, FY 2014, and FY 2015 AFRs respectively.

During FY 2010, the improper payment rate was 2.9 percent, thus exceeding HUD's FY 2010 goal of 3.0 percent. However, during FY 2011, the improper payment rate increased to 3.9 percent, thus missing HUD's FY 2011 goal of 2.8 percent. The increase in the error rate can largely be explained by sampling variance and the updating of the population totals for FY 2011 as previously mentioned. In addition, the error increase in the Housing Choice Voucher Program can be attributed to the following factors:

- The population totals used in FY 2011 were updated;
- It is an overall bigger program serving more tenants;
- It has a relatively higher percentage of households with earned income; and
- It has relatively larger household sizes.

Also, as noted previously, HUD agreed to remove certain expenditures from the denominator (universe of RHAP expenditures) when calculating HUD's improper payment error rate, which ultimately contributed to the increase in HUD's error rate. To meet future goals, Public Housing Agencies and Multifamily Housing owners must put more discipline into the mandatory use of the EIV system to reduce income errors. HUD's corrective action plans will include addressing this issue during the Management and Occupancy Reviews and Rental Integrity Monitoring reviews. HUD believes that the goals for FY 2012 and beyond are realistic and achievable. In addition, program simplification, via revised legislation, could lead to additional reductions in rental subsidy errors for HUD's RHAP.

Recovery Auditing Activity

Under the requirements of the IPERA, recovery audits of each program and activity of an agency that expends $1 million or more annually shall be conducted if performing such audits would be cost-effective. The IPERA significantly increases agency payment recapture efforts by expanding the scope of recovery audits to all programs and activities (e.g., grants, loans, benefits, and contract outlays), and lowering the threshold for conducting payment recapture audits from $500 million in annual outlays to $1 million in annual outlays. HUD, with contractor assistance, previously performed a detailed recovery auditing review. The review disclosed two contracts with potential recoveries. However, HUD's Contracting Officer and Government Technical Representative subsequently validated these payments as proper. In FY 2012, HUD, with contractor assistance, performed another detailed recovery auditing review on payments made from the Department's FY 2011 Administrative Expense Appropriation. The review included a total of 171 payments totaling $100,127,109. The results of the review disclosed one minor instance out of 171 transactions that resulted in an improper payment in the amount of $4,363. HUD is still in the process of implementing the recovery audit requirements under the IPERA. Currently, HUD does not have any information to report for Tables 2-5 as displayed in OMB Circular A-136. Certain programs within HUD do not have the means to capture and report the amounts of improper payments identified and recovered. A significant number of appropriations under RHAP are "no year money," and according to guidance in the revised Parts I and II to Appendix C of OMB Circular A-123, recovered overpayments from an appropriation that have not expired are not available to pay contingency fee contracts. As such, the Department will be requesting an exemption from payment recovery auditing for programs that are funded with "no year money." An initiative in Multifamily Housing is in the planning stages for the development of an electronic Error Tracking Log to be incorporated as part of the Tenant Rental Assistance Certification System (TRACS) along with the creation of the new Integrated Subsidy Error Reduction System (iSERs) for tracking the specific dollar impact of income and rent discrepancies and the corresponding resolution and/or recapture. However, it is not expected to be operational until at least FY 2013. The monthly electronic reporting will assist Multifamily Housing to target training to those areas where most errors are occurring, and to ensure that the Department continues to monitor program administrators while increasing efforts to ensure that subsidy payments are being calculated correctly.

In addition, PIH has implemented additional functionalities within EIV and has a team dedicated to monitoring PHA progress in addressing other issues (other than tenant unreported income) which may result in documenting the occurrence of improper payments and HUD's recovery of the improper payments.

The chart below displays improper payments identified and recovered through post-payment reviews outside of payment recapture audits.

Overpayments Recaptured Outside of Payment Recapture Audits

Agency Source	Amount Identified (CY)	Amount Recovered (CY)	Amount Identified (PY)	Amount Recovered (PY)	Cumulative Amount Identified (CY+PYs)	Cumulative Amount Recovered (CY+PYs)
PIH Post Payment Reviews	$590,043	$582,760	$3,498,389	$3,497,347	$4,088,432	$4,080,107
PIH Post Payment FY 2011 Reviews completed in FY 2012	$1,057,007	$1,115,299	-	-	$1,057,007	$1,115,299
PIH Subtotal	$1,647,050	* $1,698,059	$3,498,389	$3,497,347	$5,145,439	* $5,195,406
OIG Reviews	$1,333,577,117	$809,408,326	$193,365,502	$47,211,913	$1,526,942,619	$856,620,239
Total	$1,335,224,167	$811,106,385	$196,863,891	$50,709,260	$1,532,088,058	$861,815,645

* *The PIH amounts recovered are more than the amounts identified because in some cases the Public Housing Authorities recovered a pro-rated amount of the Housing Assistance Payment for tenants that died prior to the last day of the month.*

Accountability

The Department currently ensures that responsible personnel are held accountable for reducing and recovering improper payments. HUD's implementation of OMB Circular A-123, Management's Responsibility for Internal Control, Appendix A requirements continues to ensure that the Agency's internal control over financial reporting and systems are well documented, sufficiently tested, and properly assessed. In turn, improved internal controls resulting from these reviews enhance safeguards against improper payments, fraud, and waste and better ensure that the Department's resources continue to be used effectively and efficiently to meet the intended program objectives.

In addition, the Office of the Chief Financial Officer enforces its *Administrative Control of Funds: Policies and Procedures Handbook No. 1830.2 Rev-5* protocols via allotment holder and funds control officer certifications as well as reviews and approvals of funds control plans for all program and administrative accounts.

Agency Information Systems and Other Infrastructure

The internal controls, information systems, and other infrastructure are sufficient to reduce improper payments to the levels targeted by HUD. However, HUD's current financial systems environment is comprised of a combination of aging, legacy mixed programmatic systems and a core financial system that performs all budgetary, accounting, and financial statement preparation for the Department. The Department is working to streamline its many financial systems into one core system that is able to meet the financial management needs of all program areas within HUD and is currently evaluating approaches to determine the lowest risk, best value option for the path forward, including shared service solutions with other Federal agencies. A successful transition from the legacy systems to a shared services solution is critical for the Department to carry out its mission-critical financial accounting and reporting responsibilities.

Barriers

The principal cause of improper payments in HUD's rental assistance programs is a function of program complexity, the administrative nature of the process, and the scope of the program.

An example of the program complexity can be demonstrated by the fact that there are over 45 different types of income that should or may (depending on local options) be excluded from the subsidy calculation. Additionally, rules exist for determining a family's adjusted income that consider medical expenses, child care expenses, income of full-time students, treatment of assets, and application of earned income, disregard rules (if required) and the correlation between bedroom size, payment standard, the contract rent, and utility allowances. This increases program complexity and the probability that errors will be made.

In addition to continued use of EIV and monitoring efforts to improve the quality of PHA-submitted data to the Public and Indian Housing Information Center (PIC), HUD is also implementing a new initiative, the Next Generation Management System (NGMS), to reduce program complexity while increasing the effectiveness of its rental assistance programs.

NGMS is a Department-wide reengineering of HUD's rental assistance programs' systems and processes. The system will address four top priorities: budget formulation and development of forecasting scenarios, cash management and disbursements, business intelligence and reporting, and performance management. NGMS will replace legacy systems and Excel-based budget spreadsheets with a solution that supports all of HUD's rental assistance programs.

Schedule of Spending

For FY 2012

The Schedule of Spending presents an overview of how and where agencies are spending money.

	GNMA Non Administrative Funds	GNMA Administrative Funds	FHA	CFO	Total
Consolidated Schedule of Spending					
What Money is Available to Spend?					
Total Resources	$ 12,809	$ 23	$ 95,424	$ 51,055	$ 159,311
Less: Amount Available but not Agreed to be Spent	-	-	(18,405)	(4,302)	(22,707)
Less: Amount Not Available to be Spent	(8,857)	(8)	(25,944)	(1,404)	(36,213)
					-
Total Amounts Agreed to be Spent	$ 3,952	$ 15	$ 51,075	$ 45,349	$ 100,391
					-
How was the money Spent?					-
					-
Category A Programs					-
Category B Programs	$ 4,138	$ 14	$ 51,075	$ 51,503	$ 106,729
Amount Remaining to be Spent	(185)	1	0	(6,154)	(6,338)
					-
By Categories	$ 3,952	$ 15	$ 51,075	$ 45,349	$ 100,391
Contracts				50,337	50,337
Payments Related to Direct Loans and Loan Guarantees			49,493	(328)	49,164
Other Administrative Costs (Salary and other Related Services)		14	116	787	917
Acquisition and Maintenance of Foreclosed Properties			1,341		1,341
Overhead Costs				707	
Other Categories	4,138		125		4,263
					-
Total Spending Amounts	$ 4,138	$ 14	$ 51,075	$ 51,503	$ 106,729
Amount Remaining to be Spent	$ (185)	$ 1	$ 0	$ (6,154)	$ (6,338)
Total Amount Agreed to be Spent	$ 3,952	$ 15	$ 51,075	$ 45,349	$ 100,391
Who Did the Money Go To?					-
					-
Profit Organizations	3,075		22,147		25,222
Non Profit Organizations				35,848	35,848
Government Organizations	877		28,928	8,714	38,520
Individuals		15		787	802
Total Amount Agreed to be Spent	$ 3,952	$ 15	$ 51,075	$ 45,349	$ 100,391

Appendices

Appendix A: Glossary of Acronyms

AFR	Agency Financial Report
APG	Agency Priority Goal
APP	Annual Performance Plan
APR	Annual Performance Report
CCW	Consolidated Claims Workout Ratio
CDBG	Community Development Block Grant
CEAR	Certificate of Excellence in Accountability Reporting
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
EHLP	Emergency Homeowners' Loan Program
EIV	Enterprise Income Verification System
EO	Executive Order
EPA	U.S. Environmental Protection Agency
EPCs	Energy Performance Contracts
EVS	Employee Viewpoint Survey
Fannie Mae	Federal National Mortgage Association
FCRA	Federal Credit Reform Act of 1990
FERS	Federal Employees Retirement System
FFB	Federal Financing Bank
FFMIA	Federal Financial Management Improvement Act (Pub. L. No. 104-208)
FHA	Federal Housing Administration
FHEO	Office of Fair Housing and Equal Opportunity
FMFIA	Federal Managers' Financial Integrity Act (Pub. L. No. 97-255)
FMS	Department of the Treasury Financial Management Service

Freddie Mac	Federal Home Loan Mortgage Corporation
FSP	Federal Strategic Plan to Prevent and End Homelessness
FY	Fiscal Year
GI	General Insurance Fund
Ginnie Mae	Government National Mortgage Association
GPRA	Government Performance and Results Act of 1993 (Pub. L. No. 103.62)
GPRAMA	GPRA Modernization Act of 2010 (Pub. L. No. 111-352)
H4H	HOPE for Homeowners
HAMP	Home Affordable Modification Program
HCV	Housing Choice Voucher
HECM	Home Equity Conversion Mortgage
HIFMIP	HUD Integrated Financial Management Improvement Project
HOME	HOME Investment Partnerships Program
HOPWA	Housing Opportunities for Persons with AIDS
HPRP	Homelessness Prevention and Rapid Re-housing Program
HUD	U.S. Department of Housing and Urban Development
IDIS	Integrated Disbursement and Information System
IPERA	Improper Payments Elimination and Recovery Act (Pub. L. No. 111-204)
IPIA	Improper Payments Information Act of 2002 (Pub. L. No. 107-300)
IT	Information Technology
LLG	Liability for Loan Guarantees
MBS	Mortgage-Backed Securities
MD&A	Management’s Discussion and Analysis
MHA	Making Home Affordable Program
MMI	Mutual Mortgage Insurance Fund
MSR	Mortgage Servicing Rights
MTW	Moving to Work
NAHA	National Affordable Housing Act of 1990
NAPA	National Academy of Public Administration
NOFA	Notice of Funding Availability
NSP	Neighborhood Stabilization Program
OCFO	Office of the Chief Financial Officer

OCHCO	Office of the Chief Human Capital Officer
OCIO	Office of the Chief Information Officer
OGC	Office of General Counsel
OHHLHC	Office of Healthy Homes and Lead Hazard Control
OIG	Office of Inspector General
OMB	Office of Management and Budget
ONAP	Office of Native American Programs
OSHC	Office of Sustainable Housing and Communities
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
PJs	Participating Jurisdictions
RAD	Rental Assistance Demonstration
Recovery Act	American Recovery and Reinvestment Act of 2009
REMIC	Real Estate Mortgage Investment Conduits
SNAPS	Special Needs Assistance Programs
SRI	Special Risk Insurance
TBRA	Tenant Based Rental Assistance
TCAP	Tax Credit Assistance Program
TDHEs	Tribally Designated Housing Entities
Treasury	U.S. Department of the Treasury
USDA	U.S. Department of Agriculture
VA	U.S. Department of Veterans Affairs
VASH	Veterans Affairs Support of Housing
VMS	Voucher Management System

Appendix B: Table of Websites

HUD's Resources for Homeowners, Renters, Citizens, and Partners

Sign up for HUD Email Lists
HUD Toll-Free Hotlines
HUD's Local Offices

HUD on social media

Featured Initiatives

Recovery

MAKING HOME AFFORDABLE.GOV

- Choice Neighborhoods Program
- Home Affordable Modification Program
- Housing Choice Voucher
- Native American Programs
- Rental Assistance Demonstration

Help for Homeowners, Renters, and Citizens

- Affordable Apartment Search
- Buy Versus Rent Calculator
- Fair Market Rent
- FHA Mortgage Limits
- Foreclosure Avoidance Counseling
- Homeownership Mortgage Calculator
- HUD Approved Condominium Projects
- HUD Approved Housing Counseling Agencies
- HUD Homes for Sale
- Lender Locator
- Loan Estimator Calculator
- Mortgage Servicing Settlement

HUD Program Offices and Field Offices

- Center for Faith-Based and Neighborhood Partnerships Faith Based
- Chief Financial Officer
- Chief Information Officer
- Community Planning and Development
- Fair Housing and Equal Opportunity
- Federal Housing Administration (FHA)
- General Counsel
- Ginnie Mae
- Healthcare Programs
- Healthy Homes and Lead Hazard Control
- Home Investment Partnership Program
- Housing
- Housing Counseling Program
- Multifamily Housing

- Policy Development and Research
- Programs of HUD
- Public and Indian Housing
- Single Family Housing
- Strategic Planning and Management
- Sustainable Housing and Communities

Help for Mortgagees

- Appraiser Selection by Lender
- Approved Appraisers
- Holding the Mortgage Industry Accountable
- Housing Scorecard
- Mortgagee Letters
- Neighborhood Watch

Access for Housing Authorities and other HUD Partners

- CPD's eCon Planning Suite
- FHA Connection
- Information for Housing Counselors
- Public and Indian Housing One-Stop Tool (POST) for PHAs

Links to Other Resources and HUD Research

- Frequently Asked Questions
- HUD's Budget and Performance Reports
- HUD's FY 2010-2015 Strategic Plan
- HUD's FY Annual Performance Plan 2012-2013
- HUD Webcasts
- Online Library
- Performance.gov
- Research

Data Sources, Limitations and Advantages, and Validation

This section is organized by strategic goal, measure and program

Strategic Goal 1. Strengthen the Nation's Housing Market To Bolster the Economy and Protect Consumers

Measure 1a: Prevent foreclosures. By September 30, 2013, assist 700,000 homeowners who are at risk of losing their homes due to foreclosure.

- **500,000 homeowners will be assisted through FHA early delinquency intervention.**
    - **Data source:** FHA Single Family Data Warehouse Meta Tables.
    - **Limitations/advantages of the data:** The data originate in the Single Family Insurance System-Claims Subsystem, and for convenience are reported from FHA Single Family Housing Enterprise Data Warehouse, Loss Mitigation Table. The resolutions that are counted as loss mitigation are forbearance agreements, loan modifications, partial claims, preforeclosure sales, and Deeds in Lieu of foreclosure. A small and decreasing number of "other" resolutions that were previously counted, along with supplemental claims, are now excluded. Total claims comprise loss mitigation plus conveyance claims.
    - **Validation, verification, and improvement of measure:** No data limitations are known to affect this indicator. The loan servicers enter the FHA data, and the FHA monitors the data entry.

- **200,000 homeowners will be assisted through FHA loss mitigation programs.**
    - **Data source:** FHA Single Family Data Warehouse Meta Tables.
    - **Limitations/advantage of the data:** The data originate in the Single Family Insurance System-Claims Subsystem, and for convenience are reported from FHA Single Family Housing Enterprise Data Warehouse, Loss Mitigation Table. The resolutions that are counted as loss mitigation are forbearance agreements, loan modifications, partial claims, preforeclosure sales, and Deeds in Lieu of foreclosure. A small and decreasing number of "other" resolutions that were previously counted, along with supplemental claims, are now excluded. Total claims comprise loss mitigation plus conveyance claims.
    - **Validation, verification, and improvement of measure:** No data limitations are known to affect this indicator. The loan servicers enter the FHA data, and the FHA monitors the data entry.

- **To achieve a Consolidated Claim Workout (CCW) Ratio of XX% for all FHA borrowers that receive loss mitigation assistance.** (XX represents the annual target for the specified year.)
  - **Data source:** FHA Single Family Data Warehouse Meta Tables**.**
  - **Limitations/advantages of the data:** The data originate in the Single Family Insurance System-Claims Subsystem, and for convenience are reported from FHA Single Family Housing Enterprise Data Warehouse, Loss Mitigation Table. The resolutions that are counted as loss mitigation are forbearance agreements, loan modifications, partial claims, preforeclosure sales, and Deeds in Lieu of foreclosure. A small and decreasing number of "other" resolutions that were previously counted, along with supplemental claims, are now excluded. Total claims comprise loss mitigation plus conveyance claims.
  - **Validation, verification, and improvement of measure:** No data limitations are known to affect this indicator. The loan servicers enter the FHA data, and the FHA monitors the data entry.

- **To achieve a re-default rate of XX% or less for loss mitigation program participants within the first 6 months following the loss mitigation action.** (XX represents the annual target for the specified year.)
  - **Data source:** FHA Single Family Data Warehouse Meta Tables.
  - **Limitations/advantages of the data:** The data originate in the Single Family Insurance System-Claims Subsystem, and for convenience are reported from FHA Single Family Housing Enterprise Data Warehouse, Loss Mitigation Table. The resolutions that are counted as loss mitigation are forbearance agreements, loan modifications, partial claims, preforeclosure sales, and Deeds in Lieu of foreclosure. A small and decreasing number of "other" resolutions that were previously counted, along with supplemental claims, are now excluded. Total claims comprise loss mitigation plus conveyance claims.
  - **Validation, verification, and improvement of measure:** No data limitations are known to affect this indicator. The loan servicers enter the FHA data, and the FHA monitors the data entry.

Measure 3a: Reduce vacancy rates. By September 30, 2013, reduce average residential vacancy rate in 70 percent of the communities hardest hit by the foreclosure crisis relative to at least one comparable area.

  - **Data source:** Disaster Recovery and Grants Reporting System (DRGR).
  - **Limitations/advantages of the data:** The number of properties treated using NSP funds can be over counted because grantees may undertake multiple

activities the same address. HUD takes measures to minimize over counting when tracking progress toward this goal.

- o **Validation, verification, and improvement of measure:** HUD has developed a robust methodology to validate DRGR data

Neighborhood Stabilization Program

- o **Data source:** Disaster Recovery Grant Reporting System.
- o **Limitations/advantages of the data:** Grantees enter accomplishment data in their Quarterly Performance Report (QPR) for activities that have met an NSP National Objective. Grantees may correct incorrectly entered accomplishment data in subsequent QPR's, causing some variations in the totals over time. Further, NSP investment may include more than one NSP activity type at a specific location. To account for possible over-counting, CPD reports these activities as "Units of Service," meaning the NSP activity that has been reported at a given address, as opposed to a unique physical structure (or unit).
- o **Validation, verification, and improvement of measure:** HUD staff perform quarterly performance report reviews, which include verification of Grantee-entered data. HUD staff regularly assist grantees to accurately enter performance data and clean up incorrectly reported data.

Strategic Goal 2. Meet the Need for Quality Affordable Rental Homes

Measure 5a: Preserve affordable rental housing. By September 30, 2013, preserve affordable rental housing by continuing to serve 5.3M total families and serve an additional 67,000 families through HUD's affordable rental housing programs.

Community Planning and Development

HOME Investment Partnerships

- **Data source**: Integrated Disbursement and Information System.
- **Limitation/advantages of the data**: Data reliability has been enhanced by the re-engineering of the system at the end of FY 2009 into FY 2010.
- **Validation, verification, and improvement of measure**: The Office of Community Planning and Development field staff verifies program data when monitoring grantees.

Housing Opportunities for Persons With AIDS (HOPWA)

- **Data source**: Annual performance reports and Integrated Disbursement and Information System (IDIS).

- **Limitation/advantages of the data**: Data are reported by formula and competitive grantees through the Consolidated Annual Performance and Evaluation Report and the Annual Progress Report, respectively. HUD has implemented an upgrade to the IDIS to allow for accomplishment reporting for HOPWA formula and competitive grantees and is utilizing the paper-based Consolidated Annual Performance and Evaluation Report and Annual Progress Report in conjunction with this new system until reliable data can be obtained from the IDIS. The HOPWA program collects performance outcomes on housing stability, access to care, and prevention of homelessness. These performance reports completed by grantees provide the program with insights into client demographics, expenditures for eligible activities, and the number of households served. At this time, the program does not have a client-level data system that provides site-specific information on performance outcomes.

- **Validation, verification, and improvement of measure:** Performance reporting information is reviewed by HOPWA technical assistance providers and recorded in grant profiles and national summaries on the program's website (HUDHRE.info). HUD guidance and technical assistance assists grantees in verifying data quality and completing reports.

Homeless Assistance Grants

- **Data source:** The Housing Inventory Count, as submitted through the Homelessness Data Exchange.

- **Limitations/advantages of the data:** The data are collected only annually, and it takes nearly a year from the date they are collected to the date they are received at HUD as a clean product. The advantages are that they are a comprehensive source of data and they specifically record the number of new beds in the year preceding the night of the annual homeless inventory.

- **Validation, verification, and improvement of measure:** Grantees perform an annual housing inventory and report the number of homeless shelters in their communities to HUD as a requirement of their homeless assistance grant applications. The data are collected in a database that has several validations built into it. Subsequently, the Office of Special Needs Assistance Programs performs data-quality reviews by calling grantees about suspect data to either get corrected data or an explanation for the data. The Office of Special Needs Assistance Programs annually assesses the data quality and revisits the validations to see if more can be included in the database to reduce the number of callbacks and thus reduce the turnaround time of the data.

Neighborhood Stabilization Program

- **Data source:** Disaster Recovery Grant Reporting System.
- **Limitations/advantages of the data:** As activities are completed, grantees enter the data.
- **Validation, verification, and improvement of measure:** Grantee-entered data are subject to review and verification by HUD staff as part of quarterly performance report reviews.

Tax Credit Assistance Program

- **Data source:** Integrated Disbursement and Information System.
- **Limitations/advantages of the data:** Data reliability has been enhanced by the re-engineering of the system at the end of FY 2009 into FY 2010.
- **Validation, verification, and improvement of measure:** Program staff reviews weekly reports to ensure data validity and resolve identified data problems.

Gulf Coast Disaster

- **Data source:** Disaster Recovery Grant Reporting System.
- **Limitations/advantages of the data:** As activities are completed, grantees enter the data.
- **Validation, verification, and improvement of measure:** Grantee-entered data are subject to review and verification by HUD staff as part of quarterly performance report reviews.

Multifamily Housing

Project-Based Rental Assistance

- **Data source:** Tenant Rental Assistance Certificate System and Integrated Real Estate Management System.
- **Limitations/advantages of data:** The Tenant Rental Assistance Certificate System and Integrated Real Estate Management System have more than 6,000 business rules to ensure data validation. The applications are working with clean, accurate, and meaningful data. Data fields are required for property and project management purposes.

These systems serve two primary customers: HUD staff and business partners called performance-based contract administrators.

- **Validation, verification, and improvement of measure:** The system business rules and operating procedures are defined in HUD Occupancy Handbook 4350.3; HUD's IT system security protocols; and financial requirements established in the Office of Management & Budget's Circular A-127. Often referenced as validation rules, these business rules check for data accuracy, meaningfulness, and security of access logic and controls. The primary data element for the Tenant Rental Assistance Certificate System is the HUD 50059 tenant certification, which originates from owner/agents, performance-based contract administrators, and traditional contract administrators. HUD's 50059 transmissions are processed via secure system access and a predetermined system script. Invalid data are identified by an error code and are returned to the sender with a descriptive message and procedures to correct the error. This electronic process approximates that of the paper Form HUD 50059. The Tenant Rental Assistance Certificate System edits every field, according to the HUD rental assistance program policies. The Integrated Real Estate Management System uploads data from the Tenant Rental Assistance Certificate System nightly. These data are used exclusively for project management purposes. Thus, the data edits retain the currency of the source system. The nightly updates ensure data accuracy for reporting in these systems. The Integrated Real Estate Management System was certified and accredited by the Chief Information Security Officer on March 12, 2010, and the Tenant Rental Assistance Certificate System was certified and accredited on June 25, 2008. This system is currently undergoing the certification and accreditation review again, which will be completed in FY 2011.

Project Rental Assistance Contract (Sections 202 Elderly and 811 Persons with Disabilities)

- **Data source:** Tenant Rental Assistance Certificate System and Integrated Real Estate Management System.

- **Limitations/advantages of the data:** The Tenant Rental Assistance Certificate System and Integrated Real Estate Management System have more than 6,000 business rules to ensure data validation. The applications are working with clean, accurate, and meaningful data. Data fields are required for property and project management purposes. These systems serve two primary customers: HUD staff and business partners called performance-based contract administrators.

- **Validation, verification, and improvement of measure:** The system business rules and operating procedures are defined in HUD Occupancy Handbook 4350.3; HUD's IT system security protocols; and financial requirements established in the Office of Management & Budget's Circular A-127. Often referenced as validation rules, these business rules check for data accuracy, meaningfulness, and security of access logic and controls. The primary data element for the Tenant Rental Assistance Certificate System is the HUD 50059 tenant certification, which originates from owner/agents, performance-based contractor administrators, and traditional contract administrators. HUD's 50059 transmissions are processed via secure system access and a predetermined system script. Invalid data are identified by an error code and are returned to the sender with a descriptive message and procedures to correct the error. This electronic process approximates that of the paper Form HUD 50059. The Tenant Rental Assistance Certificate System edits every field, according to the HUD rental assistance program policies. The Integrated Real Estate Management System uploads data from the Tenant Rental Assistance Certificate System nightly. These data are used exclusively for project management purposes. Thus, the data edits retain the currency of the source system. The nightly updates ensure data accuracy for reporting in these systems. The Integrated Real Estate Management System was certified and accredited by the Chief Information Security Officer on March 12, 2010, and the Tenant Real Assistance Certificate System was certified and accredited on March 9, 2011.

Insured Tax Exempt/Low-Income Housing Tax Credit

- **Data source:** Office of Housing Development Application Processing system.

- **Limitations/advantages of the data:** The indicators of project status during the development process stage consist of straightforward and easily verifiable counts. The data are judged to be reliable for this measure.

- **Validation, verification, and improvement of measure:** HUD field staff reviews, verifies, and approves the data. The Office of Housing receives copies of the closing documents that are used to verify data system entries.

<u>Public and Indian Housing</u>

Indian Housing Block Grant

- **Data source:** The Office of Native American Programs Performance Tracking Database.

- **Limitation/advantages of data:** The Performance Tracking Database is populated by information reported in the Annual Performance Reports submitted within 90 days of the end of each recipient's program year. Occupied units are not counted, only "completed units."

- **Validation, verification, and improvement of measure:** The last Indian Housing Block Grant program evaluation found that "Tribes have very low vacancy rates (half of the 28 tribes report vacancy rates less than 1.4 percent), and three-fourths of the tribes reported turning over a vacant unit within a month." In addition, The Office of Native American Programs performs routine monitoring and oversight of tribes overall program management.

Public Housing

- **Data source:** HUD's Inventory Management System/Public and Indian Housing Information Center System.

- **Limitations/advantages of the data:** Public housing agencies self-report the data. Public housing agencies annually certify to the accuracy of the building and unit counts as required by the Office of Capital Improvements. Public housing agencies certify to the accuracy of the data submitted to HUD in the Inventory Management System/Public Housing Information Center system that the Department uses to calculate the formula for allocating Capital Fund and Operating Fund grants.

- **Validation, verification, and improvement of measure:** With the annual recertification process, data inconsistencies are identified in the Inventory Management System/Public Housing Information Center system. Public housing agencies correct errors in the data displayed on the Capital Fund Building and Unit Data Certification tab page and the Development Details web page. These data corrections are required before certifying the accuracy of the data for that development. When a public housing agency encounters errors that the public housing agency or field office staff cannot correct, the public housing agency is required to inform the Real Estate Assessment Center Technical Assistance Center Help Desk. This center assigns a Help Ticket number to the public housing agency, and the public housing agency enters the number on the Development Details web page. Finally, the public housing agency must also provide a comment that indicates what data elements are wrong, what the correct data are, and why the data cannot be corrected through the normal procedures.

Tenant Based Rental Assistance Vouchers

- **Data source:** HUD's Voucher Management System.

- **Limitations/advantages of the data:** The Voucher Management System captures information related to the leasing and Housing Assistance Payment expenses for the Housing Choice Voucher Program. The public housing agencies enter the information, which provides the latest available leasing and expense data. The data, therefore, are subject to human (data-entry) error. The Department, however, has instituted "hard edits" for entries in the system.

- **Validation, verification, and improvement of measure:** A "hard edit" is generated when a public housing agency enters data that are inconsistent with prior months' data input. When a hard edit is generated, a financial analyst reviews the data and, if necessary, contacts the public housing agency to resolve differences. If the issue cannot be resolved successfully, the transaction is rejected and the public housing agency is required to re-enter the correct information. This process provides additional assurance that the reported data are accurate. The Housing Choice Voucher Program uses four other means to ensure the accuracy of the data:

    1. HUD has developed a voucher utilization projection tool, which will enable the Department and public housing agencies to forecast voucher utilization and better manage the Voucher program.
    2. The Housing Choice Voucher Financial Management Division performs data-validation checks of the Voucher Management System data after the monthly database has been submitted to HUD Headquarters for management reporting purposes. Data that appear to be inconsistent with prior months' data are resolved with the public housing agency. Corrections are entered directly into the Voucher Management System to ensure that the data are accurate.
    3. The Public and Indian Housing Quality Assurance Division, using onsite and remote Voucher Management System reviews, validates the data. The division staff reviews source documents on site at the public housing agency to determine if the leasing, Housing Assistance Program expenses, and Net Restricted Assets are consistent with data reported in the Voucher Management System. Real Estate Assessment Center also compares VMS to FASS data and rejects it if it is materially different.

PIH Moderate Rehabilitation

- **Data source:** Each year, public housing agencies provide data to the Public and Indian Housing field offices, including which Moderate Rehabilitation contracts will be renewed. The field offices calculate renewal rents and forward all data to the Financial Management Center, which confirms the data and also calculates and requests total required renewal and replacement funding. After funding has been received, the Financial Management Center obligates and disburses funding for Moderate Rehabilitation Renewals or Replacement vouchers with Housing Choice Vouchers funds.

- **Limitations/advantages of the data:** Timeliness and validity of data are dependent on multiple entities, including the Moderate Rehabilitation project owners, Public and Indian Housing field offices, and the Financial Management Center. It is primarily a detailed, time-consuming, manual process.

- **Validation, verification, and improvement of measure:** The Financial Management Center reviews the data provided by the field offices and follows-up on incorrect or suspect data before submitting funding requests. A Financial Management Center division director or team leader must approve funding obligation and disbursement. The Office of Housing Voucher Programs is currently working to develop a more streamlined and automated process to validate and improve the validation.

Strategic Goal 3. Utilize Housing as a Platform for Improving Quality of Life

Measure 6: Reduce homelessness. By September 30, 2013, in partnership with the VA, reduce the number of homeless Veterans to 35,000 by serving 35,735 additional homeless veterans. HUD is also committed to making progress towards reducing family and chronic homelessness and is working towards milestones to allow for tracking of these populations.

Continuums of Care

- **Data source:** The point-in-time data are used as the baseline and the Annual Performance Report shows incremental changes annually.

- **Limitations/advantages of the data:** The Annual Performance Report is reported throughout the year and each grantee is required to submit its APR 90 days after the end of its operating year, which creates a 90-day time lag for HUD to receive a full year of data. HUD needs additional time to ensure the data's accuracy. HUD has implemented greater quality checks in the reporting database and a uniform review process for its field office staff to ensure greater consistency of review.

- **Validation, verification, and improvement of measure:** The Office of Special Needs Assistance Programs has several validation checks on the data. The Office does some extrapolation of the Annual Performance Report (APR) data to account for the missing data submissions. HUD has implemented a minimum standard review process for all of its field offices to use when reviewing an APR. Additionally, due to changes under the HEARTH Act, HUD is able to prevent renewal grants from receiving renewal funds until the APR is submitted. The point-in- time data are based on an annual count performed by all Continuums of Care in the last week of January. These data are entered into a database, where they are analyzed for accuracy and callbacks are performed. A point-in-time count is required biennially for both sheltered and unsheltered homeless people. These data are different from the Annual Performance Report data, which have only sheltered data.

Homelessness Prevention and Rapid Re-housing Program

- **Data source:** Homelessness Prevention and Rapid Re-housing Annual Performance Reports.

- **Limitations/advantages of the data:** These data are all required to come from the Homeless Management Information System, which provides a more accurate means for collecting the data.

- **Validation, verification, and improvement of measure:** The Office of Special Needs Assistance Programs performs data analysis and verification when the data are received. The database for the HPRP Annual Performance Report has several validations to improve data quality.

HUD-VASH

- **Data source:** The Department of Veterans Affairs sends monthly field reports to HUD. HUD reviews the data and then converts them to a PHA-specific format. These monthly data include the number of Veterans referred to public housing agencies, the number of vouchers issued, and the number of Veterans who have leased units.

- **Limitations/advantages of the data:** The data quality and accuracy of VA data are deemed high because of the numerous levels of oversight by VA (including senior staff at local, regional, and national levels) and HUD's review of data for quality-control purposes. Under HUD's systems, the Public and Indian Housing Information Center and Voucher Management System, HUD is not able to collect information on referrals, and the data on voucher issuance, although improving, are still not as reliable as the data reported by VA.

- **Validation, verification, and improvement of measure:** HUD routinely compares the data reported by VA with data in HUD's systems. In addition, HUD and VA recently executed a data-sharing agreement, signed by both agencies in June 2012, which enables the comparison of records from both agencies' systems on HUD-VASH participants. HUD and VA have started generating discrepancy reports, which then are sent to PHAs and VAMCs in order for them to correct errors identified in participants' records.

Strategic Goal 4. Build Inclusive and Sustainable Communities Free From Discrimination

Measure 13: Increase the energy efficiency and health of the nation's housing stock. By September 30, 2013, HUD will enable a total of 159,000 cost effective energy efficient and healthy housing units, as a part of a joint HUD-DOE goal of 520,000.

Community Planning and Development

Community Development Block Grant

- **Data source:** Aggregated (summed) raw data on accomplishments reported by Community Development Block Grant grantees in the Integrated Disbursement and Information System.

- **Limitation/advantages of the data:** Data reliability has been enhanced by the re-engineering of the system at the end of FY 2009 into FY 2010.

- **Validation, verification, and improvement of measure:** When monitoring grantees, Community Planning and Development field staff verifies program data.

HOME Investment Partnerships

- **Data source:** HUD's Integrated Disbursement and Information System.

- **Limitation/advantages of the data:** Data reliability has been enhanced by the re-engineering of the system at the end of FY 2009 into FY 2010.

- **Validation, verification, and improvement of measure:** When monitoring grantees, Community Planning and Development field staff verifies program data.

Tax Credit Assistance Program

- **Data source:** HUD's Integrated Disbursement and Information System.

- **Limitations/advantages of the data:** Data reliability has been enhanced by the re-engineering of the system at the end of FY 2009 into FY 2010.

- **Validation, verification, and improvement of measure:** Program staff reviews weekly reports to ensure data validity and resolve identified data problems.

Multifamily Housing

Sections 202 Elderly and 811 Persons with Disabilities

- **Data source:** The source of construction-start data is the Office of Housing Development Application Processing System.

- **Limitations/advantages of data:** The data, in general, are considered to be reliable.

- **Validation, verification, and improvement of measure:** HUD field staff reviews, verifies, and approves the data. The Office of Housing receives copies of the closing documents that are used to verify data system entries.

Mark-to-Market

- **Data source:** The Rehabilitation Escrow Administration database, a system maintained to track and approve retrofit schedules, costs, and specifications, and used to review and approve funding draws on completion and verification of work completion.

- **Limitations/advantages of data:** The Agency has a high degree of confidence in the accuracy of the data. Basic transaction parameters are derived from official record sources—Mark-to-Market system and Rehabilitation Escrow Administrations database—and locked down in the independently maintained database.

- **Validation, verification, and improvement of measure:** Limited and finite number of properties being tracked; independently maintained database; accessible only by a limited number of highly trained professionals, minimizing the opportunity for user input errors or data corruption; regular reports from the database allow for a reality check period over period; Approved Funds Control Plans and Front End Risk Assessments require a high degree of review and approval for accuracy (that is, the process ensures quality data).

Green Retrofit

- **Data source:** The Rehabilitation Escrow Administration database, a system maintained to track and approve retrofit schedules, costs, and specifications and used to review and approve funding, draws on completion and verification of work completion.

- **Limitations/advantages of data:** The Agency has a high degree of confidence in the accuracy of the data. Basic transaction parameters are derived from official record sources—Mark-to-Market system and Rehabilitation Escrow Administrations database—and locked down in the independently maintained database.

- **Validation, verification, and improvement of measure:** Limited and finite number of properties being tracked; independently maintained database; accessible only by a limited number of highly trained professionals, minimizing the opportunity for user input errors or data corruption; regular reports from the database allow for a reality check period over period; Approved Funds Control Plans and Front End Risk Assessments require high degree of review and approval for accuracy (that is, the process ensures quality data); expenditure information is cross-checked to another official source—LOCCS—at the time of each disbursement for grants. The greatest potential exposure regarding erroneous reporting is likely to be contained in RA/PAE reporting of loan disbursements.

See clause 3 above, plus strict procedural requirements for regular updating by our highly trained professional staff and contractors. Database reports contain mathematical checks of Participating Administrative Entity-provided numbers. Management review of those reports provides logical checks of reported data, that is, prevents a report that indicates spending above total authorized amounts.

Public and Indian Housing

Public Housing Capital Fund/Indian Housing Block Grant

- **Data source:** Recovery Act Management and Performance System. Section 1609 of the American Recovery and Reinvestment Act requires that public housing agencies receiving Capital Fund Recovery grants and grantees receiving Indian Housing Block Grants report into the Recovery Act Management and Performance System regarding environmental compliance with National Environmental Policy Act reviews. Using a checklist, public housing agencies also report on all units that include 1 or more of 39 Energy Conservation Measures, as well as on new or substantial rehabilitation projects that meet ENERGY STAR for New Homes or one or more green standards.

- **Limitations/advantages of the data:** Although the data are self-reported, the monitor techniques employed (see below) are sufficient to ensure data are not materially inaccurate. The energy data collected are limited; each Energy Conservation Measure is reported separately for each unit (by project) but not bundles so as to report on which bundle of Energy Conservation Measures was installed in a particular unit. A "unit equivalent" method was developed to address these data limitations, using the top 10 most cost-effective measures. Other data limitations are that HUD does not collect pre- and post-retrofit consumption data for these measures, or Energy Conservation Measure costs, so determinations of cost effectiveness for these investments must be estimates, using recognized engineering or costs methods. For the Indian Housing Block Grant formula grants, similar data limitations exist regarding reporting Energy Conservation Measures as described above, and the unit equivalent method has been used to address those limitations.

- **Validation, verification, and improvement of measure:** After some internal inconsistencies were noted and corrected, data are now considered generally complete and reliable. Public and Indian Housing staff validates the data entered into the system in terms of completeness of information; Public and Indian Housing staff also provides technical assistance to grantees to ensure that the definitional boundaries of data prompts within the Recovery Act Management and Performance System are fully understood. Data may also be confirmed through remote and onsite reviews of public housing agencies' Recovery Act work activities. The collection of data through the Recovery Act Management and Performance System is advantageous because it provides a mechanism to track energy-efficiency activities more effectively; however, it is only for Recovery Act grants and is subject to reporting errors.

Energy Performance Contracts

- **Data source:** The data used for reporting for the Energy Performance Contract program were gathered through the Energy Performance Contract Inventory, which all Public and Indian Housing field offices are required to complete annually.

- **Limitations/advantages of the data:** For the first time, during FY 2010, the Energy Performance Contract Inventory was restructured to gather data at the asset management project level rather than at the contract level. Training was provided to the field offices to increase the reporting accuracy and completeness. Despite this effort, the Energy Performance Contract Inventory frequently contains missing or erroneous data.

- **Validation, verification, and improvement of measure:** The data are reviewed for suspected inaccuracies. When reporting data, the Office of Public and Indian Housing makes a strong effort to confirm the data are valid and makes corrections as noted. In future years, the Office of Public and Indian Housing hopes to continue to improve the Energy Performance Contract Inventory to make it easier to complete, thus improving accuracy and completeness. At the same time, the Office of Public and Indian Housing hopes to integrate the Energy Performance Contract Inventory with its existing reporting systems, which tend to be more sophisticated, yet easier to use.

HOPE VI

- **Data source:** The HOPE VI Grants Management System.

- **Limitations/advantages of the data:** For the first time, during FY 2010, the Grants Management System was expanded to collect information on whether the HOPE VI units being built were achieving a comprehensive green standard (for example, LEED for Homes), a non-comprehensive energy-efficiency standard (for example, ENERGY STAR for New Homes), or meeting the local building code. The Grants Management System has some limitations. In particular, the data are self-reported. The data collected through the system are limited in scope to the achievement of green standards. Although these standards are the highest ideal, no data are collected about building practices that are better than the minimum, but yet, the practices do not reach the level of a green standard.

- **Validation, verification, and improvement of measure:** Grantees are required to use the data system quarterly. Each quarter, the grants manager in charge of each project checks the data for reasonableness. In addition, the HOPE VI program has a data collection contractor on staff to provide technical assistance to grantees that are completing their reporting requirements.

<u>Healthy Homes and Lead Hazard Control</u>

Healthy Homes

- **Data source:** Office of Healthy Homes and Lead Hazard Control's web-based Grantee Quarterly Progress Reporting System.

- **Limitations/advantages of the data:** The data represent direct accomplishments as reported by grantees and confirmed by HUD staff through monitoring. The data do not include housing units that are indirectly made lead safe through leveraged private sector investment, state and local programs, and other federal housing programs.

- **Validation, verification, and improvement of measure:** The Healthy Homes program builds on the Department's existing activities in housing-related environmental health and safety issues—including lead hazard control, building structural safety, electrical safety, and fire protection—to address multiple childhood diseases and injuries in the home. The program takes a holistic approach to these activities by addressing housing-related hazards in a coordinated fashion, rather than addressing a single hazard at a time. An evaluation of the program that was completed in 2007 indicated that grantees were successful in achieving the objectives of the program as identified in the Notice of Funding Availability and the program's strategic plan. Grantees had conducted assessments and low cost interventions that addressed priority hazards and conditions in 9,700 homes in high-risk neighborhoods, and healthy homes outreach efforts had reached approximately 2.8 million people. Program-supported research was successful in improving our understanding of residential hazards and documenting the effectiveness of interventions to reduce children's asthma symptoms. The Office of Healthy Homes and Lead Hazard Control reviews data provided through its web-based Quarterly Progress Reporting System. HUD grant staff performs both onsite and remote monitoring of grant files and unit completion progress.

Lead Hazard Control

- **Data source:** Office of Healthy Homes and Lead Hazard Control's web-based Grantee Quarterly Progress Reporting System.

- **Limitations/advantages of the data:** The data represent direct accomplishments as reported by grantees and confirmed by HUD staff through monitoring. The data do not include housing units that are indirectly made lead safe through leveraged private sector investment, state and local programs, and other federal housing programs.

- **Validation, verification, and improvement of measure:** A rigorous scientific evaluation of the program indicates that the program is effective in achieving its goals. The study, conducted by the National Center for Healthy Housing in conjunction with the University of Cincinnati, found that the lead hazard control methods used by grantees reduce the blood lead levels of children occupying treated units and also significantly reduce lead dust levels in the treated homes.[1] The number of units made lead safe is validated by both Office of Healthy Homes and Lead Hazard Control data and data from HUD's National Lead-Based Paint Survey. The Office of Healthy Homes and Lead Hazard Control reviews data provided through its web-based Quarterly Progress Reporting System. HUD grant staff performs both onsite and remote monitoring of grant files and unit completion progress.

The Green and Healthy Homes Initiative

- **Data source:** A centralized Green and Healthy Homes Initiative database of assessments and interventions was established to collect data from the pilot cities.

- **Limitations/advantages of the data:** The data represent direct accomplishments as reported by the Green and Healthy Homes Initiative pilot cities and confirmed by HUD and the Green and Healthy Homes Initiative contractor through monitoring. The data include housing units that are made energy efficient and healthy through leveraged private sector investment, state and local programs, and other federal housing programs.

- **Validation, verification, and improvement of measure:** Current data collection relies on a survey of Green and Healthy Homes Initiative sites by the contractor; results are verified through onsite monitoring. As the Green and Healthy Homes Initiative expands, this method will not be sufficient to collect data in real time or provide reports on all the activities under way in the field. In 2011, the data collection will migrate from the current system to a new, more comprehensive data tracking system. This system will reside at each location and be maintained by the site Green and Healthy Homes Initiative coordinator. It will be connected to a central reporting database. The system will track current data and add fields for measureable cost efficiencies through integration, energy consumption/cost savings per unit, health outcomes for residents, direct and secondary green job creation and retention, and worker training and certifications obtained.

[1] Clark S, Galke W, Succop P, Grote J, McLaine P, Wilson J, Dixon S, Menrath W, Roda S, Chen M, Bornschein R, Jacobs D, *Effects of HUD-supported lead hazard control interventions in housing on children's blood lead.* Environmental Research 111(2): 301-311, 2011.

Strategic Goal 5. Transform the Way HUD Does Business

Measure 27: Improve program effectiveness by awarding funds fairly and quickly. By September 30, 2013, HUD will improve internal processes to ensure that we can obligate 90 percent of NOFA programs within 180 calendar days from budget.

- **Data source:** Office of Strategic Planning and Management's Bi-Weekly NOFA tracking reports (until such time as an automated system for tracking is implemented).

- **Limitations/advantages of the data:** As discussed for Measure 27, the NOFA processes are not automated and procedures are lacking. Because of this, all tracking as a NOFA moves through different stages is done effectively by hand. Many individuals are involved; therefore, the data are subject to several forms of error or omission such as simple miscommunication, transcription errors, and the unavailability of responsible parties having needed information when requested. Additionally, due to limitations in the financial systems, a lag can exist between the time funds are obligated in the field offices to when they are reflected in HUD's central accounting system.

- **Validation, verification, and improvement of measure:** Developing standardized procedures, centralized communications portals, and automated workflows will greatly improve the quality of the measures. Until such time, several levels of reviews exist to identify discrepancies and errors.

If you have any questions or comments, please call

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Acting Assistant Chief Financial Officer for Financial Management
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Written comments or suggestions for improving this report
may be submitted by mail to:

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Attention: Jerome A. Vaiana
Acting Assistant Chief Financial Officer for Financial Management

Or by e-mail to
AgencyFinancialReport@HUD.gov

To view the report on the internet, go to the following website:
http://portal.hud.gov/hudportal/documents/huddoc?id=AFR2012.pdf

This Report is Available on the Web at:
http://portal.hud.gov/hudportal/documents/huddoc?id=AFR2012.pdf

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