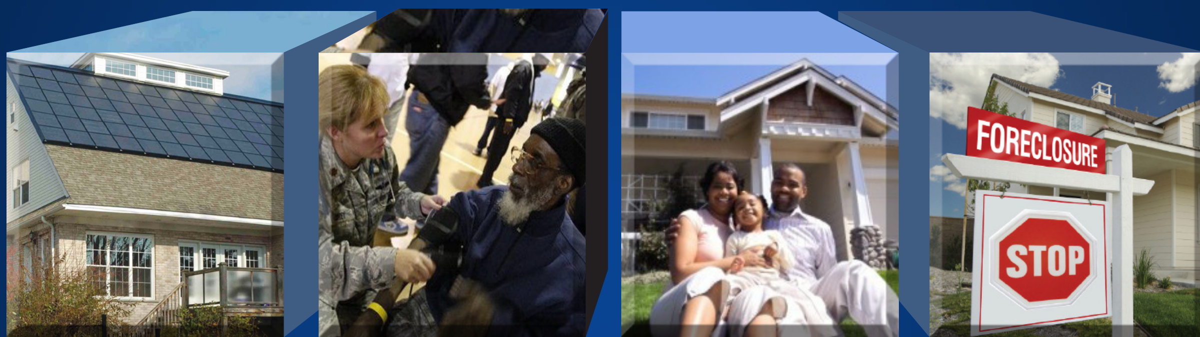
Summary of Performance and Financial Information Report



U.S. Department of Housing and Urban Development

Fiscal Year

2010

HUD'S MISSION

Create strong, sustainable, inclusive communities and quality, affordable homes for all.

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

HUD accomplishes its mission through component organizations and offices that administer place-based programs that collaboratively seek to meet the mission of the Department. Place-based programs leverage investments by focusing resources in targeted places and drawing on the compounding effect of well-coordinated action. Effective place-based programs can influence how rural and metropolitan areas develop, how well they function as places to live, work, operate a business, preserve heritage, and more.

ABOUT THIS REPORT

The HUD Summary of Performance and Financial Information Report (Summary Report) for Fiscal Year (FY) 2010 provides a summary of the most relevant performance and financial information to help the President, Congress, and the public assess our stewardship over the resources entrusted to us. Our FY 2010 Agency Financial Report (AFR), published November 15, 2010, and Annual Performance Report (APR) to be published shortly contain more detailed information and analyses about FY 2010 financial and performance results. Because FY 2010 was a transition year to a new Strategic Plan and new goals, multi-year trend information is not available.

TABLE OF CONTENTS

PERFORMANCE OVERVIEW 1
THE RECOVERY ACT 5
MANAGEMENT AND PERFORMANCE CHALLENGES 6
OUR FINANCIAL INFORMATION 7

HUD'S FY 2010-2015 STRATEGIC GOALS

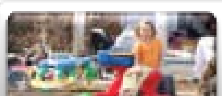
On May 5, 2010, HUD updated and published its Strategic Plan to address the economic, financial, and community development issues confronting the nation. HUD's Strategic Framework reflects the sub-goals that support the overall Strategic Goals.

STRATEGIC GOAL 1

- **Strengthen The Nation's Housing Market To Bolster The Economy And Protect Consumers**

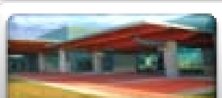
STRATEGIC GOAL 2

- **Meet The Need For Quality Affordable Rental Homes**



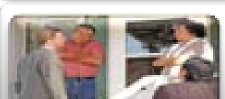
STRATEGIC GOAL 3

- **Utilize Housing As A Platform For Improving Quality Of Life**



STRATEGIC GOAL 4

- **Build Inclusive And Sustainable Communities Free From Discrimination**



STRATEGIC GOAL 5

- **Transform The Way HUD Does Business**

HUD'S FY 2010 PRIORITY GOALS

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

PRIORITY GOAL 1

Assist 3.1 million homeowners who are at risk of losing their homes to foreclosure by the end of FY 2011.

PRIORITY GOAL 2

Serve 207,000 more families than in FY 2009 through our rental assistance programs by the end of FY 2011.

PRIORITY GOAL 3

Reduce the number of homeless Veterans to 59,000 by June 2012 by helping them move into permanent housing, jointly with the Department of Veterans' Affairs.

PRIORITY GOAL 4

Enable cost-effective energy and green retrofits of an estimated 159,000 HUD-assisted and public housing units by the end of FY 2011.

FY 2010 PERFORMANCE OVERVIEW

This Summary Report provides an overview of HUD's FY 2010 Priority Goals, and the Department's progress toward meeting its goals for FY 2010. Detailed FY 2010 results are presented in the APR, which is posted to the Department's web site at www.hud.gov.

PRIORITY GOAL 1: FORECLOSURE PREVENTION

OVERVIEW

HUD will assist the mounting number of borrowers at risk of losing their homes to foreclosure, and restore the ability of the Federal Housing Administration (FHA) to play its historical countercyclical role of promoting widespread access to mortgage capital to those families traditionally not well served by the private marketplace. Early delinquency interventions are the most common assistance offered by loan servicers to struggling homeowners, including formal forbearance agreements for repayment of outstanding balances. FHA claim workouts, however, involve either full or partial claims against FHA as the loan insurer for homeowners who have defaulted on the loan. Since most re-defaults occur within six months of a workout, the re-default ratio measures the long-term success of the workout. [For more information including HUD's major contributing programs, see pages 15 – 19 of the FY 2010 AFR and the Priority Goal 1: Foreclosure Prevention section of the APR.]

OBJECTIVE

HUD seeks to:

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

ACCOMPLISHMENTS

- HUD assisted 1.78 million homeowners avoid foreclosure through the following:
  - **Loss Mitigation Programs**: Assisted 193,344 new homeowners with FHA loss mitigation initiatives, surpassing the target of 162,015 by 31,329 or 19 percent. FHA has expanded its loss mitigation tools and its monitoring of mortgagees and servicers to assure they are making sincere efforts to curb foreclosures.
  - **Early Delinquency Intervention**: Assisted 213,403 homeowners with early delinquency interventions, surpassing the target by 13,403 or 7 percent.
  - **Joint HUD-Treasury Programs**: Nearly 1.4 million homeowners were assisted through Making Home Affordable since the program was modified in March 2009. During FY 2010, 806,230 homeowners were assisted.
  - **Consolidated Claim Workout Ratio**: About 66.87 percent achieved a consolidated claim workout from the total FHA borrowers that received loss mitigation assistance; or 1.14 percentage points below the target of 68.01 percent. HUD is strongly encouraging lender partners to further deploy loss mitigation solutions at the early stages of delinquency to achieve this goal.
  - **Re-default Rate**: Six-month re-defaults for FY 2010 were 17.8 percent, 5.62 percentage points better than the target of 23.42 percent and also better than the FY 2011 target of 20 percent. FHA has invoked stricter standards, and the National Servicing Center has worked closely with lenders and servicers to assure that workouts are high quality and meet FHA requirements.
- Restore FHA Excess Capital Reserve Ratio: 1,335 formerly FHA-approved mortgagees were removed for failing to meet HUD's standards, which has contributed to HUD's efforts to restore the excess capital reserve ratio to 2 percent by FY 2014.

FORWARD LOOKING INFORMATION

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

PRIORITY GOAL 2: RENTAL ASSISTANCE

OVERVIEW

Provide housing security to families who would otherwise face the risk of instability or homelessness. [For more information including HUD's major contributing programs, see pages 20 - 23 of the FY 2010 AFR and the Priority Goal 2: Rental Assistance section of the APR.]

OBJECTIVE

HUD will preserve and strengthen the nation's portfolio of affordable rental housing by serving 5.46 million families by the end of FY 2011, which is 207,000 more than in FY 2009.

ACCOMPLISHMENTS

- **Rental Assistance Programs (RAP)**: In FY 2010, the Department had a goal of 79,171 additional units. The actual results were an increase of 55,859 units or approximately 70 percent of the original target. Three major components of RAP are:
  - **Tenant Based Rental Assistance (TBRA)**: This measure is composed of both **Section 8 Housing Choice Vouchers** and **Mainstream Vouchers**. The incremental target utilization was 63,218; the actual incremental utilization was 30,315, a shortfall of 32,903 units. In establishing the overall goal, Public and Indian Housing (PIH) projected that FY 2010 leasing of both special purpose vouchers and vouchers from net restricted assets would contribute to the goal. However, the award of the special purpose vouchers and obligation of funds occurred later in the fiscal year than initially projected. Consequently, the leasing of these vouchers will occur in FY 2011 as opposed to FY 2010. In addition, there was a significant increase in the number of vouchers issued to households from Public Housing Agencies (PHAs) waiting lists in the second half of the fiscal year. This increase in voucher issuance will likely result in a significant increase in vouchers leased in future quarters, depending on household success with finding a unit in which to use the voucher.

- **Project-Based Rental Assistance (PBRA)**: In FY 2010, the PBRA program was projected to have a net reduction of 8,047 units. However, the number of actual incremental units was a gain of 5,009, which is 13,056 units above their target.
- **Public Housing:** The Public Housing program was targeted to increase modestly by 5,976 units in FY 2010. In actuality, the program increased by 1,203 units, which was 4,773 units less than the target. The shortfall in FY 2010 reflects the interaction of several contributing factors. The largest factor is that the Public Housing program received approximately $4 billion in capital funding under the Recovery Act to rehabilitate public housing units. Substantial expenditure of these funds occurred in FY 2010 and required that many units be vacated and occupants moved to other units so that the vacated units could be rehabilitated or modernized. The pace of the Recovery Act funded rehabilitation significantly exceeded expectations and resulted in a temporary drop in occupied units comprising a significant portion of the shortfall. The expectation is that additional units supported by the Recovery Act that were off-line in FY 2010 will come on-line in FY 2011.

FORWARD LOOKING INFORMATION

Going forward, the Department has several initiatives to address the critical need for quality affordable rental homes. A more in-depth look at additional future strategies can be found in HUD's FY 2010 – 2015 Strategic Plan. One of these initiatives is Transforming Rental Assistance (TRA), which reflects HUD's commitment to developing a reliable, long-term solution to preserve existing units, streamline the Department's rental assistance programs, and provide residents with the sort of mobility option that is currently available only to voucher program participants. Proposed legislation has been submitted to Congress to authorize essential elements of the TRA initiative, including long-term property-based rental assistance contracts with a resident mobility feature, changes to existing law governing the project-basing of TBRA, streamlining the administration of rental assistance, standardizing various elements across rental assistance programs, and providing HUD with more effective enforcement tools.

PRIORITY GOAL 3: VETERANS HOMELESSNESS

OVERVIEW

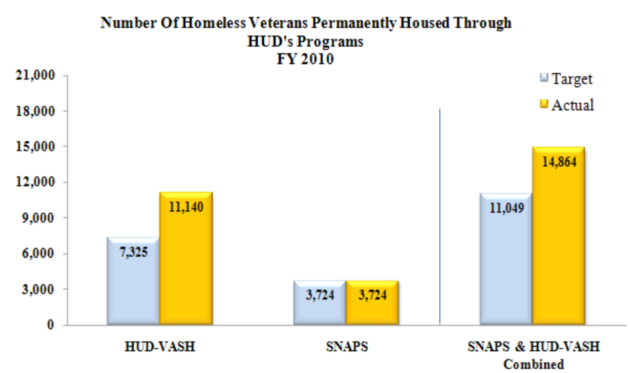
Homelessness continues to be a challenge for communities across the United States. Of the nearly 1.6 million people (or 1 in every 200 Americans) experiencing homelessness last year, more than 10 percent were Veterans. [For more information including HUD's major contributing programs, see pages 23-26 of the FY 2010 AFR and the Priority Goal 3: Veterans Homelessness section of the APR.]

OBJECTIVE

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

ACCOMPLISHMENTS

- **HUD-Veterans Affairs Supportive Housing (VASH) Vouchers**: PHAs participating in HUD-VASH issued 13,605 vouchers enabling 11,140 Veterans to rent units with HUD-VASH vouchers. The FY 2010 results exceeded the targets by 35 and 52 percent, respectively. The most important component of the HUD-VASH success is the robust interagency collaboration that takes place at all levels of the program's implementation – locally, regionally, and nationally.
- **Special Needs Assessment Programs (SNAPS):** Homeless Assistance Grants permanent supportive housing programs achieved the goal to assist 3,724 homeless Veterans in FY 2010.



FORWARD LOOKING INFORMATION

HUD will continue its joint partnership with the VA around the HUD-VASH program that has been the foundation of the program's progress as noted above. In addition, HUD has created a signature initiative (Ending Homelessness By Preventing It) in partnership with the Department of Health and Human Services and the Department of Education, to address the critical need for confronting homelessness, and HUD is an active partner in the implementation of the Federal Strategic Plan to Prevent and End Homelessness. HUD's signature initiative will serve as the building block for making housing a platform for improving the quality of life for homeless persons, including veterans. In addition, and as part of the Federal Strategic Plan, HUD and VA will partner with PHAs to make better use of mainstream vouchers and public housing units to serve homeless Veterans with families.

PRIORITY GOAL 4: ENERGY AND GREEN RETROFITS

OVERVIEW

HUD has committed to catalyzing a residential energy retrofit and new construction market in the affordable housing sector by making significant investments in energy efficiency measures in federally assisted housing developments. [For more information including HUD's major contributing programs, see pages 27-31 of the FY 2010 AFR and the Priority Goal 4: Energy and Green Retrofits section of the APR.]

OBJECTIVE

HUD is collaborating with the Department of Energy (DOE) to achieve the goal of making energy efficiency improvements in 1.1 million homes by the end of FY 2011. Of this number, HUD will complete cost-effective energy retrofits of an estimated 126,000 HUD-assisted and public housing units jointly with DOE. Apart from its joint energy goal with DOE, HUD will complete healthy and green improvements in 33,000 low-income housing units that will yield positive health outcomes for families.

ACCOMPLISHMENTS

HUD has made significant investments, both through the Recovery Act and its on-going programs, to further its commitment to energy efficiency and green building. Overall, in FY 2010, a total of 91,565 energy efficient and green units were completed, which exceeded the goal of 55,985 by 64 percent.

- **PIH**: Achieved 63,673 completed units, an increase of 226 percent over the original target of 19,512. The substantial number exceeding the goal was a result of the additional financing provided through the Recovery Act and includes $3 billion in formula funds and $600 million in competitive funds through the Public Housing Capital Fund, as well as through the on-going HOPE VI program and Energy Performance Contracts.
- **Office of Housing:** Completed green retrofits totaling 5,155 units of assisted multifamily housing, missing the target of 8,500 by 3,345.
- **Office of Community Planning and Development:** Achieved 5,999 units, approximately 1 percent under their target of 6,076 units due to the Tax Credit Assistance Program not meeting its projected targets.
- **Office of Healthy Homes and Lead Hazard Control:** Eliminated lead-based paint and other housing-related environmental health hazards in 16,738 low-income housing units, 5.3 percent over the target of 15,897.

FORWARD LOOKING INFORMATION

HUD has established an Office of Sustainable Housing and Communities and is participating in an interagency Sustainable Communities Initiative to assist in these efforts. The Sustainable Communities Initiative (a partnership among HUD, the Department of Transportation, and the Environmental Protection Agency) aims to lower carbon emissions and household costs through competitive grant awards that support integrated housing, transportation programs, and environmental planning as well as through innovative land use, zoning, and affordable housing practices.

TRANSFORM THE WAY HUD DOES BUSINESS

The Strategic Goal, Transform the Way HUD Does Business, aligns with the President's priority on performance management through a transformational program that will create a high performing organization with the following attributes:

- A flexible and high performing learning organization with a motivated, skilled workforce;
- Customer centered, place-based, and collaborative environment;
- Flexible, modern, rules and systems that promote responsiveness and transparency; and
- A healthy, open, flexible work environment that reflects the values of HUD's mission.

HUDStat: HUDStat is a performance measurement and accountability process that facilitates the alignment of program and support functions to the agency's strategic goals and mission. It brings the agency's leadership together to review and discuss progress toward our goals, tracking performance of program and support offices, HUD regions, and smaller geographical areas through data-driven analysis.

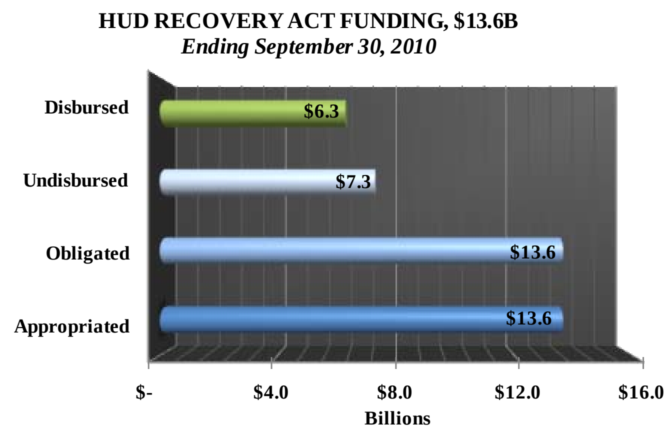
Components of the Transformation

- **Office of the Chief Human Capital Officer:** Created in FY 2010 to streamline human capital functions and attract, develop, and retain people.
- **Place-Based Decision Making Initiative:** To improve response time and efficiency by delegating authority for place-based decisions to the field.
- **Eliminate and Simplify HUD's Rules and Reports Initiative:** To reduce administrative burdens.
- **HUD Strategic Sustainability Plan:** To reduce the Department's Greenhouse Gas Emissions.
- **HUD's Transformation Initiative:** To develop the following:
  - Predictable stream of funding for research and evaluation;
  - Research demonstrations to test and improve programs;
  - New level of technical assistance and capacity building; and
  - Next generation information technology systems.

In the 2010 Partnership for Public Service report - *Best Places to Work in the Federal Government*, HUD fell in the rankings as other agencies improved. HUD must address fundamental issues to achieve its transformation and significantly improve its "Best Places" ranking. While a number of major initiatives are underway at HUD to address core issues, the Department has a long way to go. [For more information on this goal, including activities during FY 2010, see pages 31 – 35 of the FY 2010 AFR.]

THE RECOVERY ACT

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 on February 25, 2009, only eight days after the President signed the Act into law. The remaining 25 percent of funds were awarded via competition, with 100 percent of grant and loan funds obligated, and nearly $6.3 billion (or 46.7 percent) disbursed by September 30, 2010. HUD disbursed 50 percent of funds within weeks after the end of the fiscal year, which is approximately one month ahead of the Administration's expectations.



HUD's Recovery Act funds are already being invested in programs that: (1) promote energy efficiency and create green jobs, (2) support assisted housing improvements and critical public projects in need of gap funding, and (3) promote stable communities and help families hardest hit by the economic crisis. Since the inception of the Recovery Act (as reported by recipients), these funds have led to over half a million people being served through homelessness prevention assistance; nearly 3,000 homes being developed; and over 315,000 units of housing being renovated, many of which have improved energy efficiency. In the third quarter of FY 2010, HUD Recovery Act recipients reported over 26,000 jobs saved or created. HUD has also completed two quarters of analysis to assess how its dollars are performing relative to a variety of indicators including geography, income, race, and poverty level.

More detailed information on funding allocations and on disbursement of Recovery Act funds for HUD programs can be found at www.Recovery.gov.

MANAGEMENT AND PERFORMANCE CHALLENGES

The Department's management and the Office of Inspector General (OIG) have worked in a close and collaborative manner during the past year, recognizing the challenges facing the Department and the country. The following is a list of six OIG challenges and a brief summary of how HUD management addressed each challenge in FY 2010. [For more details, see pages 147 through 167 of the FY 2010 AFR.]

***Single-Family Programs*: Effective management of its growing portfolio of insured mortgages represents a continuing challenge for the Department.**

FHA is acting to reduce risks and losses to the Mutual Mortgage Insurance fund throughout the life cycle of the FHA lending process by revising credit score requirements for loans, reducing seller concessions, and initiating plans to tighten underwriting standards for manually underwritten loans. Additionally, through the FHA Transformation Initiative, FHA has begun a multi-year effort to modernize the technology infrastructure and applications for the origination and underwriting of FHA loans, the approval and recertification of FHA's lender partners, and the monitoring of those business partners. Under the FHA Risk and Fraud Initiative, FHA has initiated contracts to enable more effective mitigation of credit risk and mortgage fraud utilizing cutting-edge analytical methodologies and information technology solutions.

***Oversight of Recovery Act Funds*: Carrying out the goals of the Recovery Act, while dealing with the influx of mortgages and refinancing, and conducting normal operations is a significant challenge.**

The Department views the Recovery Act as an opportunity to lay the groundwork for transformation at HUD and has begun to put in place several groundbreaking accountability measures and initiatives. Program offices have hired additional staff both in headquarters and the field with necessary skill sets to complete the work of the Recovery Act and shifted internal workloads from non-critical activities to training internal staff on Recovery Act functions. The Deputy Secretary completed a place-based reporting effort focused on tracking and managing disbursements by geographic region, which has served as a pilot for longer-term Department-wide implementation beyond the Recovery Act. HUD Recovery Act recipients are required to submit reports directly to the agency on core activities and the Department identified a rigorous set of performance measures that quantify progress of each program. In the third calendar quarter of 2010, HUD Recovery Act recipients maintained a reporting compliance rate of 97 percent.

***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.**

Workforce and succession planning have been identified as critical and a workforce succession planner has been recruited to lead this effort. HUD is also implementing a new Staffing and Classification system that will enhance workforce analysis while reducing the number of human resource systems in use.

***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.**

HUD has strategically planned for and delivered a modernized infrastructure that facilitates the provisioning of services and allows scalability and agility in meeting on-demand business requirements, improved quality of service, and increased cost efficiencies. HUD's data center environment represents the success of these efforts through the implemented upgrade to its antiquated Unisys platform that represented a significant barrier to FHA business expansion.

***Public and Assisted Housing Program Administration*: HUD has a challenge of ensuring that adequate funding is available to support the Housing Choice Voucher program and has made improvements in the area of erroneous payments, but more are needed.**

HUD has proposed legislative program simplification for its rental assistance programs through its Transforming Rental Assistance initiative – a multi-year, $350 million proposal that will streamline HUD's rental assistance programs so that they are easier for families to access, less costly to operate, and easier to administer at a local level. During FY 2010, PIH initiated an effort to determine reasonable methods for accurately capturing funding changes which will result in budget requests that more closely predict program need. In addition, HUD seeks to ensure adequate funding through efforts to reduce improper payments. Mandated use of the Enterprise Income Verification System has been the principal reason for the reduction in improper payments from an estimated $3.43 billion in FY 2000 to $925 million in FY 2009 (a 73 percent reduction). HUD also created the Improper Payments Team that carries out ongoing monitoring, improper payment recovery, training and technical assistance activities, along with identifying and eliminating the highest improper payments within Public and Indian rental housing assistance programs.

***Administering Programs Directed Toward Victims of Natural Disasters*: Because of HUD's continuing role in addressing natural disasters, it faces challenges in preventing duplication of benefits.**

HUD has implemented numerous efforts to mitigate the risk of duplication of benefits from the many Federal disaster programs. In order to qualify for additional disaster recovery funds, grantees must demonstrate that they still have unmet disaster recovery needs and eligible activities have to be budgeted in their Action Plan. Several disaster recovery fund Federal Register notices contain clauses that strictly prohibit duplication of benefits. The Department will continue monitoring grants to ensure compliance with this requirement. In addition, HUD has implemented internal controls to ensure that disaster funds are disbursed in an accurate and timely manner. HUD also informs grantees about technical assistance, training, and other resources that are available to assist in the establishment of specific disaster recovery activities.

OUR FINANCIAL INFORMATION

During FY 2010, the Department expended resources for diverse and far reaching housing programs, as reflected in its Statement of Net Costs. Those costs included nearly $28 billion for Section 8 that was used to assist low- and very low-income families in obtaining decent and safe rental housing, over $7 billion for the Community Development Block Grant program for community development in urban and rural areas across the country, almost $2.9 billion for the Home Investment Partnership program that 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, over $4.5 billion for operating subsidies provided to PHAs and Tribally Designated Housing Entities (TDHEs) to help finance the operations and maintenance costs of their housing projects, nearly $5.5 billion for PIH loans and grants made to PHAs and TDHEs for construction and rehabilitation of low-rent housing, almost $1.1 billion for grants for supportive housing for the elderly (Section 202) and persons with disabilities (Section 811), and over $5.5 billion for other smaller programs in support of 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.

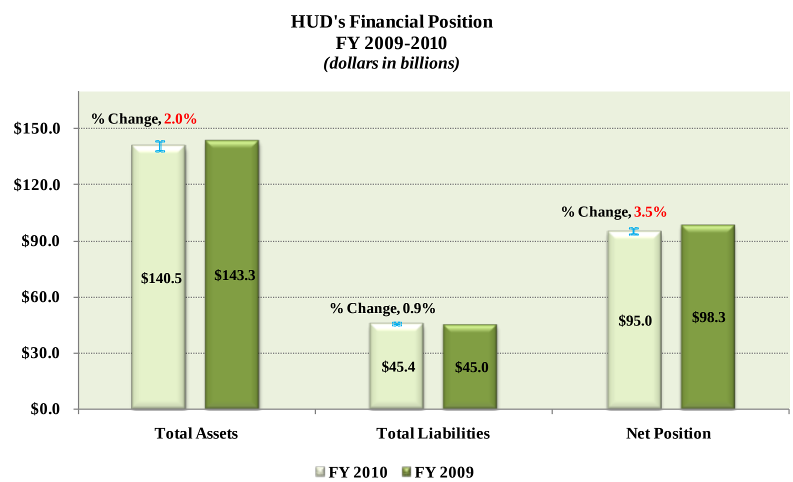
Additionally, gross costs of over $1.9 billion related to the Government National Mortgage Association (Ginnie Mae) and the FHA were vital to the Department's efforts to combat the housing crisis. FHA is one of the largest government mortgage insurers in the world with over $1 trillion in Insurance-In-Force. Ginnie Mae guarantees mortgage-backed securities that surpassed $1 trillion in FY 2010. This represents private market capital in use to finance housing for over 6.9 million households.

The following reports on our financial stewardship of those funds entrusted to HUD, including a brief discussion of our financial audit results and changes in account activity.

HUD received an unqualified opinion on our FY 2010 financial statements for the 11th consecutive year from our Office of Inspector General (OIG). For the third consecutive year, HUD's auditors found no material weaknesses. However, our auditors identified nine significant deficiencies, one of which was new. Progress continues to be made toward resolution of deficiencies identified in prior years and a corrective action plan is being developed to address the new deficiency identified in this year's audit. Overall, HUD's clean financial audit result affirms our continued commitment to financial and management excellence.

HUD management determined that the Department is in compliance with the Federal Financial Management Improvement Act of 1996 (FFMIA), although the OIG reported that the Department's financial management systems did not substantially comply with the Act and that CPD's formula grants information system is also not in compliance with FFMIA. [For more detailed information, see Section 2 of the full AFR, Independent Auditor's Report.] HUD management disagrees with the OIG and asserts that our financial management systems satisfy OMB's three-part requirement needed to report substantial compliance with FFMIA. [See page 47, last paragraph, FFMIA section of the full AFR for further details.]

The OIG noted noncompliance concerning the Anti-deficiency Act, the Cranston-Gonzalez National Affordable Housing Act of 1990, and with Title 31 of the Code of Federal Regulations, Section 901, Standards for the Administration of Claims as noted in the audit report.



Our financial statements combined the results of the programs we administer which include, but are not limited to, the FHA's loan guarantee programs, the Ginnie Mae mortgage-backed securities program, Section 8 rental assistance, Community Development Block Grants, the Home Investment Partnerships program, PHA operating subsidies, PIH loans and grants, Housing for the elderly and disabled, and other programs. Following is a summary of financial information for FY 2010. Our financial statements, notes, and additional information appear on pages 51 through 146 of our full FY 2010 Agency Financial Report.

Assets: Total Assets of $140.5 billion are composed primarily of Fund Balance with Treasury of $115.9 billion (83 percent) and Loans Receivable and Related Foreclosed Property of $9.4 billion (7 percent). Total Assets decreased $2.8 billion (2 percent) from $143.3 billion at September 30, 2009. The net decrease was due chiefly to a reduction of $12.2 billion (61 percent) in Intragovernmental Investments, which is offset by increases of $9.3 billion (7 percent) in Fund Balance with Treasury, Loans Receivable and Related Foreclosed Property, and Other Assets and Property, Plant, and Equipment.

Liabilities: Total Liabilities of $45.4 billion consist mainly of loan guarantee liabilities of $35.0 billion (77 percent), intra-governmental and other debt in the amount of $5.1 billion (11 percent), accounts payable of $1.0 billion (2 percent), and remaining liabilities amounting to $4.2 billion (9 percent). Total liabilities increased $0.4 billion (0.9 percent) from $45.0 billion, due primarily to an increase of $0.9 billion in Loan Guarantees. This increase is due primarily to an upward adjustment to FHA's subsidy re-estimate and Ginnie Mae's loss reserves from default-related expenses.

Net Position: Changes in Unexpended Appropriations, Net Cost of Operations, and Financing Sources combine to determine the Net Position. Net Position as reported in the Statements of Changes in Net Position reflects a decrease of $3.3 billion (3.5 percent) from the prior fiscal year. The decrease in Net Position is primarily attributable to a $7.9 billion (10 percent) decrease in Unexpended Appropriations, which is offset by a $4.6 billion (22 percent) increase in Cumulative Results of Operations.

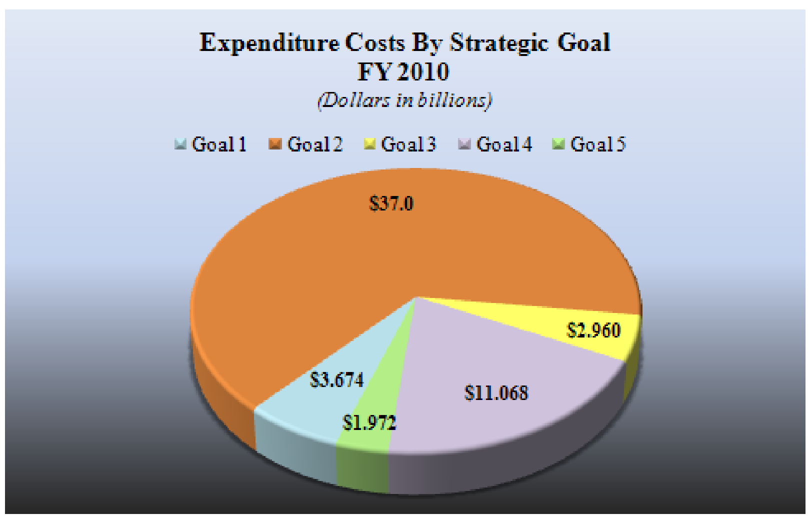
Summarized Financial Data *(dollars in billions)*

	2010	2009	Percent
FHA Insurance-In-Force	$1,041.0	$817.1	27.4%
Ginnie Mae Mortgage-Backed Securities Guarantees	$1,046.0	$826.0	26.6%
Other HUD Program Commitments	$64.8	$68.4	-5.3%
Improper Payments*	3.1%	3.5%	-11.4%

*Represents reporting of prior year results.

Net Cost: Net Cost of Operations consists of total costs, including direct program and administrative costs, offset by program exchange revenues. Net Cost of Operations totaled $52.5 billion for FY 2010, a decrease of $6.2 billion (11 percent) from the prior fiscal year. The decrease in Net Cost is attributable to a $12.0 billion decrease in FHA credit subsidy expense from current year endorsements in the Mutual Mortgage Insurance financing account, which was offset by a 10 percent increase in spending for the Section 8 amounting to $2.5 billion. The remaining decrease in gross costs resulted from a decrease in bad debt expense in the General Insurance/Special Risk Insurance liquidating account, a decrease in subsidy expense in the GI/SRI financing account, and other changes in program costs as shown in the AFR. The table shown below reflects an estimated distribution of the net costs by the Department's Strategic Goals.

Costs by Strategic Goal* and FY 2010 Appropriations



Strategic Goals:

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

2 – Meet The Need For Quality Affordable Rental Homes

3 – Utilize Housing As A Platform For Improving Quality Of Life

4 – Build Inclusive And Sustainable Communities Free From Discrimination

5 – Transform The Way HUD Does Business

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

If you have any questions or comments, please call

Jerome A. Vaiana
Acting Assistant Chief Financial Officer for Financial Management
at 202-402-8106.

Written comments or suggestions for improving this report
may be submitted by mail to:

U.S. Department of Housing and Urban Development

451 7th St. SW, Room 2210

Washington, DC 20410

Attention: Jerome A. Vaiana

Acting Assistant Chief Financial Officer for Financial Management

Or by e-mail to

Jerome.A.Vaiana@hud.gov

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