U.S. Department of Housing and Urban Development

Washington, DC

HUD's Fiscal Year 2019
Consolidated Financial Statements Audit

Office of Audit, Financial Audits Division
Washington, DC

Audit Report Number: 2020-FO-0004
February 14, 2020

To:	Irving L. Dennis, Chief Financial Officer, F
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From:	Sarah D. Sequeira, Acting Director, Financial Audits Division, Washington DC, GAF
Subject:	HUD's Fiscal Year 2019 Consolidated Financial Statements Audit

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) independent auditor's report on HUD's fiscal year 2019 consolidated financial statements and reports on internal controls over financial reporting and compliance with laws, regulations, contracts, and grant agreements.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, appendix 8M, requires that OIG post its reports on the OIG website. Accordingly, this report will be posted at https://www.hudoig.gov.

If you have any questions or comments about this report, please do not hesitate to call me at 202-402-3949.

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Highlights

What We Audited and Why

In accordance with the Chief Financial Officers Act of 1990, as amended, we are required to annually audit the consolidated financial statements of the U.S. Department of Housing and Urban Development (HUD) and the stand-alone financial statements of the Federal Housing Administration and the Government National Mortgage Association (Ginnie Mae). Our objective was to express an opinion on the fair presentation of HUD's consolidated financial statements in accordance with U.S. generally accepted accounting principles applicable to the Federal Government. This report presents our independent auditor's report on HUD's fiscal year 2019 consolidated financial statements and reports on internal controls and compliance with laws, regulations, contracts, and grant agreements.

What We Found

We expressed a qualified opinion on HUD's fiscal year 2019 consolidated financial statements because of the significant effects of certain unresolved audit matters, which restricted our ability to obtain sufficient, appropriate evidence about HUD's other noncredit reform loans[1] and other liabilities resulting from Ginnie Mae's guaranty asset and guaranty liability. This report contains one material weakness, three significant deficiencies, and three instances of noncompliance with applicable laws, regulations, contracts, and grant agreements. Additional details on the material weakness, significant deficiencies, and instances of noncompliance with laws, regulations, contracts, grant agreements, and related recommendations are included in separate audit reports entitled (1) Additional Details To Supplement Our Fiscal Year 2019 U.S. Department of Housing and Urban Development Financial Statements Audit (audit report 2020-FO-0003); (2) Federal Housing Administration Fiscal Years 2019 and 2018 Financial Statements Audit (audit report 2020-FO-0001); and (3) Audit of the Government National Mortgage Association Fiscal Year 2019 Financial Statements (audit report 2020-FO-0002).

What We Recommend

We make no recommendations in this report because it is supplemented by three separate reports as described above to provide specific recommendations to HUD management.

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[1] HUD's other noncredit reform loans include Ginnie Mae's nonpooled loan asset portfolio, consisting of mortgages held for investment, net; claims receivable, net; and acquired property, net.

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Background and Objective

We were engaged to audit the U.S. Department of Housing and Urban Developments' (HUD) consolidated financial statements in accordance with government auditing standards generally accepted in the United States of America (GAGAS) and the requirements of Office of Management and Budget (OMB) Bulletin 19-03, Audit Requirements for Federal Financial Statements, and as required by the Chief Financial Officers Act of 1990 as amended. The objective of our audit was to express an opinion on the fair presentation of HUD's consolidated financial statements.

In planning our audit of HUD's consolidated financial statements, we considered internal controls over financial reporting and tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements that may materially affect the consolidated financial statements. Providing an opinion on internal controls or compliance with selected provisions of laws, regulations, contracts, and grant agreements was not an objective, and, accordingly, we do not express such an opinion.

Management is responsible for

- Preparing the financial statements in conformity with accounting principles generally accepted in the United States of America.
- Establishing, maintaining, and evaluating internal controls and systems to provide reasonable assurance that the broad objectives of the Federal Financial Management Improvement Act of 1996 (FFMIA) are met.
- Complying with applicable laws, regulations, contracts, and grant agreements.

We were required by GAGAS to obtain reasonable assurance about whether HUD's consolidated financial statements were presented fairly, in accordance with accounting principles generally accepted in the United States of America (GAAP), in all material respects.

This report is intended solely for the use of HUD management, OMB, and Congress. However, this report is a matter of public record, and its distribution is not limited.

U.S. DEPARTMENT OF

HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL

Independent Auditor's Report[2]

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

In our audit of the fiscal year 2019 consolidated financial statements of the U.S. Department of Housing and Urban Development (HUD), we found

- That HUD's consolidated financial statements as of and for the fiscal year ended September 30, 2019, were presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph.
- One material weakness and three significant deficiencies in internal control over financial reporting, based on the procedures we performed.
- Three reportable noncompliances with provisions of applicable laws, regulations, contracts, and grant agreements tested.

The following sections discuss in more detail (1) our report on the financial statements, which includes emphasis-of-matter paragraphs related to single-year presentation of the financial statements, the Government National Mortgage Association's (Ginnie Mae) modified Federal

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2 This report is supplemented by three separate reports issued by HUD's Office of Inspector General (OIG) to provide a more detailed discussion of the internal controls over financial reporting and compliance with laws, regulations, contracts, and grant agreements and to provide specific recommendations to HUD management. The findings have been included in the Internal Controls Over Financial Reporting and Compliance With Laws, Regulations, Contracts, and Grant Agreements sections of the independent auditor's report. The supplemental reports are available on the HUD OIG internet site at https://www.hudoig.gov and are entitled (1) Additional Details To Supplement Our Fiscal Year 2019 U.S. Department of Housing and Urban Development Financial Statement Audit (audit report 2020-FO-0003, issued February 7, 2020); (2) Federal Housing Administration Fiscal Years 2019 and 2018 Financial Statements Audit (audit report 2020-FO-0001, issued November 14, 2019); and (3) Government National Mortgage Association Audit of Fiscal Year 2019 Financial Statements (audit report 2020-FO-0002, issued February 7, 2020).

credit reform accounting and implementation of Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) 51 – Insurance Programs, correction of errors, required supplementary information (RSI),[3] and other information included with the financial statements;[4] (2) our report on internal control over financial reporting; (3) our report on compliance with laws, regulations, contracts, and grant agreements; and (4) agency comments and our evaluation.

Report on the Financial Statements

In accordance with the Chief Financial Officers Act of 1990, as amended, we have audited HUD's consolidated financial statements. HUD's consolidated financial statements comprise the consolidated balance sheet as of September 30, 2019; the related consolidated statement of net cost, changes in net position, and combined statement of budgetary resources for the fiscal year then ended; and the related notes to the financial statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion, except for the significant effects of certain unresolved audit matters, which restricted our ability to obtain sufficient, appropriate evidence about HUD's other non-credit reform loans and other liabilities related to Ginnie Mae's liability for loss on remaining coverage under its mortgage-backed securities (MBS) guarantee program.[5]

Management's Responsibility for the Financial Statements

HUD management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; (2) preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles; (3) preparing and presenting other information included in documents containing the audited financial statements and auditor's report, and ensuring the consistency of that information with the audited financial statements and the RSI; and (4) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the fair presentation of these consolidated financial statements based on our audit. U.S. generally accepted government auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial

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[3] In its fiscal year 2019 agency financial report, HUD presents "required supplemental stewardship information" and "required supplementary information," which are included with the financial statements. The required supplemental stewardship information presents information on investments in non-Federal physical property and human capital and investments in research and development. The required supplementary information presents management's discussion and analysis and a combining statement of budgetary resources.

[4] Other information consists of information included with the financial statements, other than the RSI and the auditor's report.

[5] Part of HUD's other liabilities includes Ginnie Mae's liability for loss on remaining coverage under its MBS guarantee program. This amount is determined by subtracting Ginnie Mae's guaranty asset from its guaranty liability.

statements are free from material misstatement. We are also responsible for applying certain limited procedures to the RSI and other information included with the financial statements.

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the auditor's assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit of financial statements also involves evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audits also included performing such other procedures as we considered necessary in the circumstances.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

During the audit of HUD's component entity, Ginnie Mae, sufficient, appropriate audit evidence on which to base an opinion could not be obtained related to (1) material asset balances for nonpooled loans and allowance for loan loss account balances, and (2) significant estimates related to guaranty asset and guaranty liability. These unresolved matters are a scope limitation in our audit work that contributes to our qualified opinion.

> Material asset balances related to other noncredit reform loans could not be fully audited. We could not audit $2.6 billion (net of allowance) in other noncredit reform loans related to Ginnie Mae's nonpooled loan assets (NPA) as of September 30, 2019. This condition occurred because Ginnie Mae's NPA accounts could not be fully audited due to documentation challenges; and, in part due to time constraints imposed by the statutory reporting deadlines. In addition, Ginnie Mae made various restatement adjustments and correction of errors to these accounts which we were not notified about until October 2019. The late notification of the restatements toward the latter part of the audit limited our ability to adequately review them and gather sufficient, appropriate evidence to validate the accuracy and propriety of these accounting adjustments.
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> Modeling concerns impacting guaranty asset, guaranty liability, and allowance for loan loss estimates. Our audit work noted significant modeling concerns affecting Ginnie Mae's guaranty asset and guaranty liability, which are netted and consolidated into HUD's other liabilities financial statement line item totaling $977 million.[6] These concerns also affected the allowance for loan loss estimates, totaling $144 million, related to Ginnie Mae's mortgage loans held for investment which are consolidated into HUD's

[6] $972 million for liability for loss on remaining coverage under SFFAS 51 – Insurance programs and $5 million for related liabilities recorded under account 2990 – Other Liabilities without related budgetary obligations.

other noncredit reform loans financial statement line item. We were unable to complete our planned audit work due to time constraints imposed by the statutory reporting deadlines. The modeling concerns relate to appropriateness and reasonableness of the model methodologies, specifications, and model assumptions used in various models, which raised questions about the reliability of the accounting estimates produced by the Ginnie Mae models.

When evaluating these areas and their impacts on HUD's consolidated financial statements as a whole, we determined that material financial statement line items were impacted and the possible effects of undetected misstatements in these areas could be material but not pervasive to HUD's fiscal year 2019 consolidated financial statements. There were no other satisfactory audit procedures that we could adopt to obtain sufficient, appropriate evidence or we were unable to complete other audit procedures within the statutory timeframes required with respect to these matters. This determination impacted the following areas reported on HUD's consolidated financial statements: (1) other noncredit reform loans totaling $2.3 billion, net of allowance; (2) $977 million in other liabilities; (3) $213 million in elimination from the Federal Housing Administration's (FHA) loan guarantee liability; (4) $52.6 million in accounts receivable; and (5) note 8, note 15, and note 25 to HUD's consolidated financial statements. These areas also impacted HUD's statement of net costs and its statement of changes in net position. Readers are cautioned that amounts reported in the consolidated financial statements and related notes impacted by these areas may not be reliable.

<u>Qualified Opinion</u>

We have audited the financial statements of HUD, which comprise the consolidated balance sheet as of September 30, 2019, and the related consolidated statement of net costs, changes in net position, combined statement of budgetary resources, and related note disclosures for the fiscal year then ended in accordance with U.S. generally accepted accounting principles.

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion section, the accompanying consolidated financial statements present fairly, in all material respects HUD's financial position as of September 30, 2019, and its net cost of operations, changes in net position, and budgetary resources for the fiscal year then ended in accordance with U.S. generally accepted accounting principles. Accordingly, we express a qualified opinion on HUD's consolidated financial statements.

<u>Emphasis of Matter</u>

The following are matters that we draw users' attention to that are presented or disclosed in the financial statements, which we believe are of such importance that it is fundamental to users' understanding of these financial statements.

<u>Single-Year Presentation of Ginnie Mae Financial Statements</u>

We were engaged to audit HUD's fiscal year 2019 financial statements and not the prior-year financial statements. Therefore, HUD presented single-year financial statements for fiscal year 2019 activity and did not present comparative statements. This independent auditor's report's scope is related to only HUD's fiscal year 2019 financial statements.

Modified Federal Credit Reform Accounting and SFFAS 51 Implementation
As discussed in note 1 to the financial statements, although Ginnie Mae's MBS guarantee program does not follow the Federal Credit Reform Act, it uses a program, financing, liquidating, and capital reserve account to process its cash receipts and disbursements through the U.S Department of the Treasury. Ginnie Mae established this fund structure at the direction of OMB in 2012. Under this structure, OMB also instructed Ginnie Mae to annually record an upward or downward reestimate and negative subsidy payment for budgetary purposes only. Based on these estimates, Ginnie Mae transfers money between its accounts. These transfers are reflected in the spending authority from offsetting collections and new obligations and upward adjustments financial statement line items on the statement of budgetary resources and impact the amount held in fund balance with Treasury versus investments on the balance sheet. Therefore, although HUD accounts for Ginnie Mae's MBS guarantee program in accordance with SFFAS 51, it also performs a modified credit reform accounting at the direction of OMB.

Correction of Errors in HUD's Fiscal Year 2019 Financial Statements
As discussed in note 1 to the financial statements, HUD corrected its 2019 beginning balances to correct the following errors: (1) incorrect classification of the Rental Assistance Demonstration Program (RAD) conversion funds under the Section 8 program as funds from dedicated collections instead of all other funds, (2) incorrect recognition of Indian Housing Block Grant disbursements used for investment as expenses instead of advances, (3) abnormal balances that resulted from incorrect posting logic, (4) differences between the subledger and general ledger, and (5) incorrect subsidy expense for loan guarantees due to erroneous postings of Section 108 upfront fees to the account for the subsidy expense fee component.

HUD's component entity, Ginnie Mae, also performed two sets of restatements to its fiscal year 2018 financial statements, which were consolidated into HUD's financial statements as corrections of errors. These corrections were due to (1) the implementation of a subledger database and new accounting policies to account for NPA portfolio balances, presented as other noncredit reform loans on HUD's balance sheet in compliance with GAAP requirements, and (2) errors identified by Ginnie Mae internal controls due to erroneous data inputs, incorrect formulas, and incorrect information used to determine various NPA balances.

HUD also changed its accounting principles to account for Ginnie Mae's MBS guarantee program and HUD's internal use software. In fiscal year 2019, Ginnie Mae began accounting for its MBS program as an insurance program as defined in SFFAS 51 – Insurance Programs. SFFAS 51 became effective for all agencies beginning in fiscal year 2019. HUD also used the accounting principles of SFFAS 48 and 50 to establish an opening balance for internal use software as part of HUDs' general property, plant, and equipment.

Our opinion was not modified with respect to these matters in fiscal year 2019.

Other Matters
The following are other matters that are relevant to the users' understanding of the audit we conducted of HUD's consolidated financial statements, our responsibilities as the auditor, and our audit report included herein.

Required Supplementary Information
U.S. generally accepted accounting principles issued by FASAB require that the RSI be presented to supplement the financial statements. Although the RSI is not a part of the financial statements, FASAB considers this information to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with U.S. generally accepted government auditing standards, which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency with management's responses to the auditor's inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. We did not audit and we do not express an opinion or provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

Other Information
HUD's other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or the RSI. We read the other information included with the financial statements in order to identify material inconsistencies, if any, with the audited financial statements. Our audit was conducted for the purpose of forming an opinion on HUD's financial statements. We did not audit and do not express an opinion or provide any assurance on the other information.

Report on Internal Controls Over Financial Reporting

In connection with our audit of HUD's consolidated financial statements, we considered HUD's internal control over financial reporting, consistent with our auditor's responsibility discussed below. We performed our procedures related to HUD's internal control over financial reporting in accordance with U.S. generally accepted government auditing standards.

Management's Responsibility
HUD management is responsible for maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
In planning and performing our audit of HUD's consolidated financial statements as of and for the year ended September 30, 2019, in accordance with U.S. generally accepted government auditing standards, we considered HUD's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances 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 over financial reporting. Accordingly, we do not express an opinion on HUD's internal control over financial reporting. We are required to report all deficiencies that are considered to be significant deficiencies[7] or material weaknesses.[8] We did not consider all internal controls relevant to operating objectives, such as those controls relevant to preparing performance information and ensuring efficient operations.

Definition and Inherent Limitations of Internal Control Over Financial Reporting
An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles and assets are safeguarded against loss from unauthorized acquisition, use, or disposition and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect and correct misstatements due to fraud or error.

Results of Our Consideration of Internal Control Over Financial Reporting
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 material weaknesses and significant deficiencies or to express an opinion on the effectiveness of HUD's internal control over financial reporting. Given these limitations, other deficiencies in internal control that might be material weaknesses or significant deficiencies may exist that have not been identified.

During our fiscal year 2019 audit, we identified four deficiencies in HUD's internal control over financial reporting, one of which we classified as a material weakness and three of which we considered to be significant deficiencies. We have communicated these matters and have reported them in separate audit reports to HUD management.[9] These separate audit reports contain details regarding HUD's, FHA's, and Ginnie Mae's internal controls over financial reporting and augment the discussions of instances in which HUD did not comply with applicable laws, regulations, contracts, and grant agreements.

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[7] A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

[8] 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.

[9] Audit Report 2020-FO-0003, Additional Details To Supplement Our Fiscal Year 2019 U.S. Department of Housing and Urban Development Financial Statement Audit, issued February 7, 2020; Audit Report 2020-FO-0001, Federal Housing Administration Fiscal Years 2019 and 2018 Financial Statements Audit, issued November 14, 2019; Audit Report 2020-FO-0002, Government National Mortgage Association Audit of Fiscal Year 2019 Financial Statements, issued February 7, 2020

Material Weakness

1. HUD did not always comply with GAAP, significant estimates were not reliable, and adequate support for material asset balances could not be provided in time to be audited.
    a. HUD did not properly account for or have adequate accounting support for all of its assets, liabilities, and budgetary resources. Specifically, HUD did not (1) use an appropriate method to commit and disburse fiscal year 2014 and prior obligations for the Office of Community Planning and Development's (CPD) formula grant programs; (2) adequately validate CPD's accrued grant liability estimate; (3) use complete and accurate data to estimate the Office of Public and Indian Housing's (PIH) prepayment balance; (4) recognize all financial events resulting from PIH's cash management process; (5) ensure the completeness of or accurately report on accounts receivable; or (6) properly account for property, plant, and equipment. These deficiencies occurred because of continued weaknesses in HUD's internal controls and insufficient financial management controls and systems. As a result, several financial statement line items were misstated or at risk of material misstatement as of September 30, 2019.

    b. Ginnie Mae's accounting estimates for guaranty asset, guaranty liability, and mortgage loans held for investment allowance for losses could not be audited. We identified significant concerns regarding the reliability of these material accounting estimates. In addition, we encountered supporting documentation challenges when testing the validity and accuracy of claims receivable and reimbursable costs receivable which prevented us from completing our audit work. These conditions occurred due to weaknesses in Ginnie Mae's financial management governance, including estimation model governance, and weaknesses in internal controls. Further, these accounts could potentially have undetected misstatements that could be material and pervasive. For mortgage loans held for investment and acquired property, we could not complete our audit of these accounts, partly due to the impact of late notification of restatement adjustments and corrections of errors, and timing of the receipt of the yearend data that we needed to complete our yearend balances testwork to meet statutory timeframes. Therefore, we were unable to express an opinion on Ginnie Mae's $2.6 billion in NPA and related accounts and the $7.1 billion and $8.1 billion in guarantee asset and guarantee liability respectively, as of September 30, 2019.

Significant Deficiencies

1. There were HUD-wide weaknesses in internal controls over financial reporting (HUD, FHA, and Ginnie Mae). Our audits of the HUD consolidated, FHA, and Ginnie Mae financial statements identified weaknesses in internal controls over financial reporting. While some of the weaknesses identified were specific to HUD, and FHA and Ginnie Mae component financial reporting processes, the impact of the component-level weaknesses also impacted the completeness and accuracy of HUD's financial reporting

process when consolidating component-entity financial information to prepare HUD's consolidated financial statements and accompanying notes.

- HUD financial reporting. In fiscal year 2019, HUD continued to significantly improve the accuracy and completeness of its financial reporting; however, we still noted errors in its interim financial statements and notes. Specifically, HUD (1) incorrectly classified RAD as funds from dedicated collections in its first and second quarter fiscal year 2019 financial statements and (2) reported an incomplete Note 25 – Insurance Programs in its third quarter financial statements. We attributed these conditions to limitations in HUD's financial reporting controls. As a result, HUD's quarterly consolidated financial statements were misstated, and without our review, HUD's yearend financial statements would have been misstated and not fully compliant with GAAP or OMB Circular A-136.

- FHA financial reporting. During the fiscal year 2019 audit, we identified control deficiencies in financial reporting, and some control deficiencies reported in prior fiscal years remained. The new control deficiencies identified this fiscal year were related to the insufficient research and model documentation for a key assumption in the home equity conversion mortgage (HECM) model, improper recording of refunds for the single-family and HECM programs, and errors in reporting the HECM insurance-in-force and the reestimates in the financial statement note disclosures. These conditions occurred because FHA did not properly research and concurrently document its rationale for a decision on a key HECM model assumption, properly design its posting models, and have effective processes in place to ensure that data reported in the financial statement note disclosures were properly presented and reported. As a result, the loan guarantee liability was potentially overstated by approximately $309.1 million, and obligations, outlays, and collections were understated by $81.8 million in FHA's general ledger at the end of fiscal year 2019.

  Also, as in prior years, FHA continued to face challenges in deobligating invalid obligations in a timely manner and may have missed an opportunity to put $55.4 million to better use in fiscal year 2019 because it did not deobligate invalid obligations. Further, FHA had not addressed the weaknesses in processing recorded HECM assignments that we identified during our fiscal year 2018 audit.

- Ginnie Mae financial reporting. Ginnie Mae continued to make progress in strengthening internal control over financial reporting during fiscal year 2019. However, we identified deficiencies that demonstrated weaknesses in certain internal controls over financial reporting. Specifically, Ginnie Mae (1) was unable to provide assurance on the effectiveness of its internal controls, (2) had control weaknesses regarding its nonpooled loan assets, and (3) had weaknesses in its data processing controls within its nonpooled assets audit remediation (NPAAR)[10] solution. These conditions occurred because Ginnie Mae (1) did not complete necessary OMB Circular A-123 testing, (2) lacked sufficient communication and coordination with its mastersubservicers[11] during the planning and development phase of its subledger database (SLDB), (3) relied on detective controls to validate data from the Office of Enterprise Risk (OER) to SLDB rather than preventive controls, and (4) deferred a significant number of programming code corrections and enhancements. As a result, Ginnie Mae's loan-level data contained errors that were corrected through (1) manual adjustments in fiscal year 2019 totaling $219 million, and (2) restatement of its fiscal year 2018 financial statements by an absolute value of $65.4 million in assets and liabilities and net impact of $19.6 million in its investment in the U.S. Government. These corrections impacted the September 30, 2019, balances of all 23,476 active loans in its NPA portfolio. Until remaining weaknesses are resolved, Ginnie Mae cannot provide assurance that its internal controls can be relied on to prevent and correct misstatements or the risk of material misstatements in its financial statements in a timely manner.

2. <u>Despite progress, HUD's financial management system and computing environment weaknesses continued.</u> While HUD continued to make progress in its multiyear effort to address financial management system weaknesses and limitations during fiscal year 2019, challenges remained. These challenges remained due to a continued lack of key functionality and critical financial systems to meet financial management needs. Additionally, HUD did not ensure that controls over its computing environment fully complied with HUD policy and Federal guidance. Specifically, we identified weaknesses related to HUD's IBM mainframe general support system and the New Core Interface Solution as well as deficiencies in application-level general and data management system controls in Ginnie Mae's Financial Accounting System and subledger database. As a result of the shortcomings in HUD's financial management systems, we continued to report on weaknesses in HUD's financial reporting, which increased the risk of a misstatement on HUD's financial statements, as discussed in this audit report. Further, without adequate controls over its computing environment, (1) HUD lacked assurance that financial management applications and the data within them would be adequately protected and (2) was not in full compliance with Federal information system controls requirements for certain systems.

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[10] Ginnie Mae developed a new nonpooled assets (NPA) SLDB to support financial accounting and reporting. The new NPA SLDB is used to produce loan-level accounting following GAAP and Federal budgetary accounting guidance. Its output feeds into Ginnie Mae's general ledger and financial statements. The NPA audit remediation solution is commonly referred to as NPAAR.

[11] Ginnie Mae engages mastersubservicers to perform servicing responsibilities for its pooled and nonpooled loan portfolios. As part of these activities, the mastersubservicers routinely request advances from Ginnie Mae for shortfalls in borrower taxes and insurance payments and other costs. In August 2014, Ginnie Mae transferred servicing responsibilities to different servicing entities, referred to as the current mastersubservicers.

3. HUD financial management governance had progressed, but financial management processes had not fully matured. During fiscal year 2019, HUD experienced progress with its financial management governance; however, several areas remained unaddressed or require further improvements to fully address weaknesses and reach maturity of financial management processes. Specifically, as of September 30, 2019, (1) risk mitigation responsibilities for enterprise risk management were not assigned, (2) organizational assessments found weaknesses with financial management and internal control, (3) management reviews and assessments were not performed, and (4) program offices did not implement internal controls, including funds control, for key operations. Weaknesses in program and component internal controls, which impacted financial reporting, developed, in part due to a lack of fully matured financial management processes. These financial management maturity weaknesses contributed considerably to the (1) significant deficiencies in internal controls over financial reporting; (2) instances of noncompliance with laws, regulations, contracts, and grant agreements; and (3) consecutive years of identifying and recording correction of errors that impacted prior-year balances. Further, these weaknesses allowed for identified risks to continue and not be managed. While financial management leadership continued to provide direction and priorities to ensure proper oversight and implementation of robust financial management practices, HUD continued to experience challenges in significant areas, indicative of HUD's need for continued growth toward financial management maturity.

Intended Purpose of Report on Internal Control Over Financial Reporting

The purpose of this report is solely to describe the scope of our consideration of HUD's internal control over financial reporting and the results of our procedures, and not to provide an opinion on the effectiveness of HUD's internal control over financial reporting. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering internal control over financial reporting. Accordingly, this report on internal control over financial reporting is not suitable for any other purpose. In addition to separate reports detailing the internal control issues included in this report and providing specific recommendations to HUD management, we noted other matters involving internal control over financial reporting and HUD's operations that we are reporting to HUD management in a separate management letter.

Report on Compliance With Laws, Regulations, Contracts, and Grant Agreements

In connection with our audit of HUD's consolidated financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditor's responsibility discussed below. We caution that noncompliance may occur and not be detected by these tests. We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards.

Management's Responsibility

HUD's management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to HUD.

Auditor's Responsibility

Our responsibility is to test compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements applicable to HUD that have a direct effect on the determination of material amounts and disclosures in HUD's consolidated financial statements and perform certain other limited procedures. Accordingly, we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to HUD.

Results of Our Tests for Compliance With Laws, Regulations, Contracts, and Grant Agreements

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed three instances of noncompliance for fiscal year 2019 that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to HUD. Accordingly, we do not express such an opinion.

1. HUD's financial management system did not comply with the Federal Financial Management Improvement Act. HUD's FFMIA noncompliance continued in fiscal year 2019. We noted a number of instances of FFMIA noncompliance within HUD's financial management system. HUD's continued noncompliance was due to ineffectively designed and operating key internal controls over financial reporting and unimplemented recommendations from longstanding issues related to component and program offices' system weaknesses.

2. HUD and Ginnie Mae did not comply with the Debt Collection Improvement Act. HUD did not comply with the Debt Collection Improvement Act (DCIA) as amended. HUD had 81 sustained audit receivables,[12] dating back to 2006, for which it had not established a repayment agreement or received reasonable collections. Without repayment agreements, HUD could not determine whether these receivables were in delinquent status, nor could it maximize collection efforts. In addition, HUD did not have reasonable assurance that its accounts receivable records included all debts owed to it. Similar to the lack of repayment agreements and collections, without assurance that it had recorded all debts owed to it, HUD could not ensure that it serviced and took necessary steps to collect all debts. We attributed these conditions to weaknesses in HUD's management system for debt collection, as the Office of the Chief Financial Officer's debt collection efforts had not led to an effective system for identifying and servicing debts or maximizing collections. As a result, HUD was hampered in its ability to comply with DCIA and to recoup money owed to it that could have been used to serve the public.

   Ginnie Mae also continued its noncompliance with the Act in fiscal year 2019. As reported in the past 4 fiscal years, Ginnie Mae continued its practice of not analyzing the possibility of collecting on certain uninsured mortgage debts owed to Ginnie Mae, using all debt collection tools allowed by law, before discharging them. This condition occurred because Ginnie Mae continued to take the position that DCIA did not apply to it; therefore, it did not need to comply with DCIA requirements. Thus, HUD's and

[12] Sustained audit receivables are receivables that result from HUD OIG audits.

Ginnie Mae's noncompliance with the Act continued, and as a result, they were unable to recoup funds due them that could be used to serve the public.

3. HUD did not always comply with the Improper Payments Elimination and Recovery Act of 2010. A HUD Office of Inspector General (OIG) audit[13] found that fiscal year 2018 marked the sixth consecutive year in which HUD did not always comply with the Improper Payments Elimination and Recovery Act of 2010 (IPERA). Specifically, it did not always (1) publish improper payment estimates for all required programs and (2) report an improper payment rate of less than 10 percent. These conditions occurred because HUD was continuing to revamp its program to address prior-year IPERA compliance issues. Until all of the prior- and current-year IPERA issues have been remediated, HUD will likely continue to miss opportunities to prevent, identify, reduce, and recover improper payments.

Intended Purpose of Report on Compliance With Laws, Regulations, Contracts, and Grant Agreements

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements and the results of that testing and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

Results of the Audit of FHA's Financial Statements

We performed a separate audit of FHA's fiscal years 2019 and 2018 financial statements. Our report on FHA's financial statements[14] includes an unmodified opinion on FHA's financial statements, along with discussion of one significant deficiency in internal controls.

Results of the Audit of Ginnie Mae's Financial Statements

We performed a separate audit of Ginnie Mae's fiscal year 2019 financial statements. Our report on Ginnie Mae's financial statements[15] includes a disclaimer of opinion on these financial statements, along with discussion of two material weaknesses; one significant deficiency in internal control; and one instance of noncompliance with laws, regulations, and contracts.

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13 Audit Report 2019-AT-0001, Compliance With the Improper Payments Elimination and Recovery Act, issued June 3, 2019.

14 Audit Report 2020-FO-0001, Federal Housing Administration Fiscal Years 2019 and 2018 Financial Statements Audit, issued November 14, 2019.

15 Audit Report 2020-FO-0002, Government National Mortgage Association Audit of Fiscal Year 2019 Financial Statements, issued February 7, 2020.

Auditee Comments and Our Evaluation

HUD's Chief Financial Officer (CFO) provided a response to our draft independent auditor's report on January 31, 2020, which can be found in its entirety, along with our evaluation, in appendix A.

The CFO recognized that, overall, the report demonstrates considerable improvements in HUD's financial management and reporting processes when compared to prior years. However, the CFO did not agree with the way certain conclusions and characterizations were presented in this report.

We will work with HUD during the audit resolution process as HUD develops and implements corrective action plans to address these findings. We look forward to working with HUD through its finance transformation efforts to advance HUD's financial management maturity.

Kimberly R. Randall
Deputy Assistant Inspector General for Audit
Washington, DC

February 7, 2020

Appendixes

Appendix A

Auditee Comments to Independent Auditor's Report

Ref to OIG Evaluation

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-3000

CHIEF FINANCIAL OFFICER

HUD OCFO MEMO 20-21

MEMORANDUM FOR:	Rae Oliver Davis, Inspector General, HUD, GAF
	1/31/2020
FROM:	Irving L. Dennis, Chief Financial Officer, HUD, F
SUBJECT:	Response to Fiscal Year 2019 Financial Statement Audit – Transmittal of Draft Fiscal Year 2019 Independent Auditor's Report On HUD's Fiscal Year 2019 Financial Statements

Comment 1

HUD continues to be committed to fulfilling its mission to create strong, sustainable, inclusive communities and quality affordable homes for American families and individuals. We are also committed to building strong processes to protect tax payor funds from fraud, waste and abuse. The work of HUD's Office of Inspector General (OIG) helps to ensure that HUD programs and employees work to successfully accomplish these goals.

Through our finance transformation efforts, we are overcoming several historical challenges. We have built strong and robust governance practices, made significant improvement in our internal controls and financial policies, improved our operations, leveraged intelligent automation, and built a strong foundation to continue towards financial excellence.

Comment 2

While, in my professional opinion as a CPA and former audit partner, I may not agree with certain conclusions, and characterizations, in the audit opinion related to the Office of Inspector General's ("OIG") inability to obtain audit evidence for GNMA's fully implemented processes and controls related to non-pooled loans and related balances, I do appreciate that the Independent Audit Report recognizes the significant improvements made in our financial controls over the last two years.

Comment 3

My office also acknowledges the importance of the audit process in our finance transformation efforts and we will continue to work jointly with the OIG to address and improve the way we do business. Our business process improvements will be driven by our assessment of materiality and will pursue meaningful changes based on allocated resources. Our focus will be on improving internal controls throughout the department, continuing to enable the remediation of HUD's weaknesses, and using intelligent automation to allow our employees to work more efficiently and effectively for high risk areas.

Through the efforts of the Office of the Chief Financial Officer's Financial Transformation plan, including robust governance, HUD will continue to make progress and fully restore sound financial management and stability throughout the department. The entire HUD team is committed to serving America's communities in everything that we do. It is our goal to do so in the most effective and efficient way possible—and we look forward to working with the OIG to make our working relationship productive and valuable to the American taxpayer.

OIG Evaluation of Auditee Comments

Comments 1 We recognize the progress that HUD, particularly the current Office of the Chief Financial Officer (OCFO), has made in the development and implementation of a finance transformation plan to advance the Department's financial management maturity and to bring it into a compliant state. The OCFO continues to make concerted efforts to fully realize this plan, and the results thus far have demonstrated considerable progress.

Comment 2 The HUD Chief Financial Officer recognized that, overall, the report demonstrates considerable improvements in HUD's financial management and reporting processes when compared to prior years. However, the CFO did not agree with the way certain conclusions and characterizations were presented in this report.

During fiscal year 2019, Ginnie Mae implemented a subledger database, business processes, and internal controls related to its portfolio of nonpooled loan assets and related balances. However, as discussed in the audit report, we were unable to conduct all of the necessary audit procedures to obtain sufficient and appropriate audit evidence that Ginnie Mae's financial statements do not include material misstatements, due to timeframes required to conduct the audit and documentation challenges encountered during the audit.

Comment 3 We remain encouraged that remaining challenges affecting HUD's financial reporting will be resolved during the fiscal year 2020 audit. We look forward to working with HUD as it strives to address our findings and as it continues its finance transformation efforts to advance HUD's financial management maturity.

Appendix B

HUD's Fiscal Year 2019 Consolidated Financial Statements and Notes

Financial Statements

As discussed in this document, HUD implemented several new processes to improve its internal financial controls and its financial statement close processes, which addressed several issues previously reported by the Office of Inspector General (OIG). In some instances, the extent of HUD's improvements required the OIG to conduct additional testing procedures, which required additional time for OIG to complete its audit process. Related to GNMA, GNMA fully implemented the subledger database, but the audit process and audit procedures could not be completed in a timely manner, resulting in a qualified opinion and delayed audit report.

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 statements have been prepared from HUD's books and records in accordance with GAAP for Federal entities and the formats prescribed by the 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 statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

The following financial statements are presented:

The **Consolidated BS**, as of September 30, 2019, 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 SNC**, which presents the net cost of HUD operations for the fiscal year ended September 30, 2019. HUD's net cost of operations includes the gross costs incurred by HUD less any exchange revenue earned from HUD activities.

The **Consolidated SCNP**, 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 fiscal year ended September 30, 2019.

The **Combined Statement of Budgetary Resources (SBR)**, which presents the budgetary resources available to HUD during FY 2019, the status of these resources and the outlay of budgetary resources for the fiscal year ended September 30, 2019.

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

Financial Statements
U.S. Department of Housing and Urban Development
Consolidated Balance Sheet
As of September 30, 2019
(Dollars in Millions)

Assets:		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$	110,743
Investments (Note 5)		66,120
Other Assets (Note 11)		33
Total Intragovernmental	**$**	**176,896**
Cash and Other Monetary Assets (Note 4)	$	126
Investments (Note 5)		6
Accounts Receivable, Net (Note 6)		513
Direct Loans and Loan Guarantees (Note 7)		37,012
Other Non-Credit Reform Loans (Note 8)		2,313
General Property, Plant, and Equipment, Net (Note 9)		85
PIH Prepayments and Advances (Note 10)		629
Total Assets	**$**	**217,580**
Liabilities (Note 12):		
Intragovernmental:		
Accounts Payable	$	67
Debt (Note 13)		32,384
Other Liabilities (Note 15)		3,528
Total Intragovernmental Liabilities	**$**	**35,979**
Accounts Payable	$	825
Accrued Grant Liabilities		1,288
Loan Guarantee Liability (Note 7)		2,514
Debt Held by the Public (Note 13)		2
Federal Employee and Veteran Benefits (Note 14)		60
Other Liabilities (Note 15)		2,389
Total Liabilities	**$**	**43,057**
Commitments and Contingencies (Note 16)	$	18
Net Position:		
Unexpended Appropriations - Funds from Dedicated Collections (Combined Totals) (Note 17)	$	-
Unexpended Appropriations - All Other Funds (Combined Totals)		86,250
Cumulative Results of Operations - Funds From Dedicated Collections (Combined Totals) (Note 17)		25,859
Cumulative Results of Operations - All Other Funds (Combined Totals)		62,414
Total Net Position - Funds from Dedicated Collections (Combined Totals) (Note 17)	**$**	**25,859**
Total Net Position - All Other Funds (Combined Totals)	**$**	**148,664**
Total Net Position	**$**	**174,523**
Total Liabilities and Net Position	**$**	**217,580**

The accompanying notes are an integral part of these statements.

Financial Statements
U.S. Department of Housing and Urban Development
Consolidated Statement Of Net Cost
As of September 30, 2019
(Dollars in Millions)

COSTS		
Federal Housing Administration (FHA)		
Gross Costs	$	(23,201)
Less: Earned Revenue		(1,636)
Net Program Costs	**$**	**(24,837)**
Government National Mortgage Association (GNMA)		
Gross Costs	$	1,260
Less: Earned Revenue		(1,946)
Net Program Costs	**$**	**(686)**
Section 8 Rental Assistance		
Gross Costs	$	34,813
Less: Earned Revenue		-
Net Program Costs	**$**	**34,813**
Public and Indian Housing Loans and Grants (PIH)		
Gross Costs	$	2,856
Less: Earned Revenue		-
Net Program Costs	**$**	**2,856**
Homeless Assistance Grants		
Gross Costs	$	2,147
Less: Earned Revenue		(3)
Net Program Costs	**$**	**2,144**
Housing for the Elderly and Disabled		
Gross Costs	$	942
Less: Earned Revenue		(62)
Net Program Costs	**$**	**880**
Community Development Block Grants (CDBG)		
Gross Costs	$	5,088
Less: Earned Revenue		-
Net Program Costs	**$**	**5,088**
HOME		
Gross Costs	$	961
Less: Earned Revenue		-
Net Program Costs	**$**	**961**
All Other		
Gross Costs	$	5,692
Less: Earned Revenue		(29)
Net Program Costs	**$**	**5,663**
Costs not Assigned to Programs	$	212
Consolidated		
Gross Costs	$	30,770
Less: Earned Revenue		(3,676)
Net Cost of Operations	**$**	**27,094**

The accompanying notes are an integral part of these statements.

Financial Statements
U.S. Department of Housing and Urban Development
Combining Statement Of Changes In Net Position
As of September 30, 2019
(Dollars in Millions)

	Funds From Dedicated Collections (Combined Totals)	All Other Funds (Combined Totals)	Eliminations	Consolidated Total
Unexpended Appropriations:				
Beginning Balances	$ (308)	$ 82,005	$ -	$ 81,697
Adjustments:				
Corrections of Errors	308	267	-	575
Beginning Balance, as Adjusted	**$ -**	**$ 82,272**	**$ -**	**$ 82,272**
Budgetary Financing Sources:				
Appropriations Received	$ -	$ 59,193	$ -	$ 59,193
Other Adjustments	-	(565)	-	(565)
Appropriations Used	-	(54,650)	-	(54,650)
Total Budgetary Financing Sources	**$ -**	**$ 3,978**	**$ -**	**$ 3,978**
Total Unexpended Appropriations	**$ -**	**$ 86,250**	**$ -**	**$ 86,250**
Cumulative Results from Operations:				
Beginning Balances	$ 25,571	$ 38,683	$ -	$ 64,254
Changes in Accounting Principles	50	(332)	-	(282)
Corrections of Errors	(458)	7	-	(451)
Beginning Balances, as Adjusted	**$ 25,163**	**$ 38,358**	**$ -**	**$ 63,521**
Budgetary Financing Sources:				
Other Adjustments	$ -	$ (10)	$ -	$ (10)
Appropriations Used	-	54,650	-	54,650
Nonexchange Revenue	3	12	-	15
Transfers-in/out without Reimbursement	-	(414)	409	(5)
Other Financing Sources (Nonexchange):				
Transfers-in/out without Reimbursement	-	409	(409)	-
Imputed Financing	2	78	-	80
Other	(3)	(2,881)	-	(2,884)
Total Financing Sources	**$ 2**	**$ 51,844**	**$ -**	**$ 51,846**
Net Cost of Operations	**$ 694**	**$ (27,788)**	**$ -**	**$ (27,094)**
Net Change	**$ 696**	**$ 24,056**	**$ -**	**$ 24,752**
Cumulative Results of Operations	**$ 25,859**	**$ 62,414**	**$ -**	**$ 88,273**
Net Position	**$ 25,859**	**$ 148,664**	**$ -**	**$ 174,523**

The accompanying notes are an integral part of these statements.

Financial Statements
U.S. Department of Housing and Urban Development
Combined Statement of Budgetary Resources
As of September 30, 2019
(Dollars in Millions)

	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources:		
Unobligated Balance From Prior Year Budget Authority, Net	$ 81,543	$ 33,079
Appropriations (discretionary and mandatory)	59,445	-
Borrowing Authority (discretionary and mandatory)	-	11,479
Spending Authority from Offsetting Collections	28,045	21,547
Total Budgetary Resources	**$ 169,033**	**$ 66,105**
Status of Budgetary Resources:		
New Obligations and Upward Adjustments (Total) (Note 21)	$ 62,653	$ 50,794
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	34,835	13,389
Unapportioned, Unexpired Accounts	70,647	1,922
Unexpired Unobligated Balance, End of Year	**$ 105,482**	**$ 15,311**
Expired Unobligated Balance, End of Year	$ 898	$ -
Unobligated Balance, End of Year (Total)	**$ 106,380**	**$ 15,311**
Total Budgetary Resources	**$ 169,033**	**$ 66,105**
Outlays, Net:		
Outlays, Net (Total) (discretionary and mandatory)	$ 31,753	$ 22,963
Distributed Offsetting Receipts (-)	(2,565)	-
Agency Outlays, Net (discretionary and mandatory)	**$ 29,188**	**$ 22,963**

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements
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Notes to the Financial Statements

As discussed in this document, HUD implemented several new processes to improve its internal financial controls and its financial statement close processes, which addressed several issues previously reported by the Office of Inspector General (OIG). In some instances, the extent of HUD's improvements required the OIG to conduct additional testing procedures, which required additional time for OIG to complete its audit process. Related to GNMA, GNMA fully implemented the subledger database, but the audit process and audit procedures could not be completed in a timely manner, resulting in a qualified opinion and delayed audit report.

Note 1: Summary of Significant Accounting Policies

Reporting Entity

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, including FHA and Ginnie Mae, are discussed in the Management Discussion & Analysis (MD&A) section. Also, FHA and Ginnie Mae are considered consolidating entities to HUD. The other major programs are as follows:

The Section 8 Rental Assistance programs assist low-income and very low-income families in obtaining decent and safe rental housing. HUD makes up the difference between what a low-income and very low-income families 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 Authorities (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.

The Homeless Assistance Grants (HAG) fund the formula Emergency Solutions Grant (ESG) program and the competitive Continuum of Care (CoC) program. Together, these programs fund the activities that comprise communities' homeless crisis response systems.

The Supportive Housing for the Elderly (Section 202) and Persons with Disabilities (Section 811) grant programs provide capital to nonprofit organizations sponsoring rental housing for the elderly and disabled. Prior to these programs being operated as grants, they were administered as 40-year loans.

The Community Development Block Grant (CDBG) programs provide funds for metropolitan cities, urban counties, and other communities to use for neighborhood revitalization, economic development, disaster recovery assistance (DR), and improved community facilities and services.

The Home Investments Partnerships (HOME) 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-income and very low-income families.

HUD also has smaller programs which provide grants, subsidy funding, and direct loans to support other HUD objectives such as fair housing and equal opportunity, energy conservation, rehabilitation of housing units, removal of lead hazards, and maintenance costs of PHA and TDHE housing projects. These smaller programs are also included within the HUD consolidated revenues and financing sources reflected on the financial statements.

Under Federal Accounting Standards Advisory Board's (FASAB) S*tatements of Federal Financial Accounting Standards (SFFAS) No. 47: Reporting Entity*, HUD does not have any disclosure entities or related parties. Also, HUD does not consider activities with a parent agency as a disclosure entity or a related party. HUD provides financial information to the parent agency monthly to facilitate the agency's reporting consolidation.

Ginnie Mae's mission is primarily accomplished through its Mortgage Backed Security (MBS) guaranty program, which guarantees the timely payment of principal and interest on MBS to MBS investors. These securities are supported by federally insured or guaranteed residential loans. The structure of this MBS Guaranty program meets the definition of Public-Private Partnerships (P3s), based on Conclusive Risk Characteristics established in *SFFAS No. 49: Public-Private Partnerships: Disclosure Requirements*.

Most of the disclosure requirements are covered by Ginnie Mae's compliance with other disclosure requirements, notably *SFFAS No. 51: Insurance Programs* and are covered in Notes (1) Summary of Significant Accounting Policies, (8) Other Non-Credit Reform Loans, (17) Funds from Dedicated Collections, and (25) Insurance Programs. However, there are other *SFFAS No. 49*-specific disclosure requirements that are covered in Note (24) Public Private Partnerships (P3s).

FHA's portfolio is comprised of loan guarantees and direct loans for Single-Family, Multifamily, and Healthcare programs. The structure of these loan guarantees and direct loans fall under the definition of Public-Private Partnerships (P3s), based on Conclusive Risk Characteristics established in *SFFAS No. 49: Public-Private Partnerships: Disclosure Requirements*.

Most of the disclosure requirements are covered by FHA's compliance with other disclosure requirements, notably those under *SFFAS No. 2: Accounting for Direct Loans and Loan Guarantees,* and are covered in Notes (7) Direct Loans and Loan Guarantees, Non-Federal Borrowers, (16) Contingencies, (20) Commitments under HUD's Grant, Subsidy, and Loan Programs, and the consolidated Statement of Net Cost. However, there are other *SFFAS No. 49*-specific disclosure requirements that are covered in Note (24) Public Private Partnerships (P3s).

HUD Proper has many grant subsidies and loans programs that meet the definition of P3 as defined in *SFFAS No. 49: Public Private Partnerships:* Disclosure Requirements. Most programs meet the exclusion criteria outlined in the Statement and are not subject to the provisions. Others, like the credit reform programs, do not meet the exclusion criteria but do meet the conclusive characteristics criteria and therefore require disclosure.

Most of the disclosure requirements are covered by HUD's compliance with other disclosure requirements, notably *SFFAS No. 2: Accounting for Direct Loans and Loan Guarantees* and are covered in Notes (7) Direct Loans and Loan Guarantees, Non-Federal Borrowers, (16) Contingencies, (20) Commitments under HUD's Grant, Subsidy, and Loan Programs, and the consolidated Statement of Net Cost. However, there are other *SFFAS No. 49*-specific disclosure requirements that are covered in Note (19) Net Cost of HUD's Cross-Cutting Programs and Note (24) Public Private Partnerships (P3s).

Basis of Accounting and Presentation

The accompanying principal financial statements have been prepared to report the financial position, net cost, changes in net position, and budgetary resources of HUD in accordance with the OMB *Circular A-136, Financial Reporting Requirements*, and in conformance with the FASAB's *SFFAS* except for the presentation of comparative data. HUD Consolidated and Ginnie Mae Component presented its FS and Notes as a single year presentation for FY 2019. Due to the large volume and complexity of GNMA's non-pooled assets, HUD's OIG requested that HUD only present consolidated single-year (non-comparative) FY 2019 financial statements and notes. HUD was prepared and positioned to produce comparative financial statements and notes for FY 2019 and FY 2018 however, to be supportive of OIG's position, HUD agreed to present only single-year financial statements and notes for the FY 2019 AFR. The FHA Component presented its FS and Notes comparatively in its Annual Management Report for FY 2019.

Pursuant to *SFFAS No. 34: The Hierarchy of Generally Accepted Accounting Principles (GAAP),* if the accounting treatment for a transaction or a similar event is not specified in FASAB and its related guidance, agencies are allowed to consider other accounting standards and guidance. Ginnie Mae has applied *SFFAS No. 34* in the accounting and presentation of its reimbursable costs, which is included on the Accounts Receivable, Net line in the accompanying Balance Sheet, and its Other Non-Credit Reform Loans line, including associated interest income and accrued interest receivable.

Details of the accounting policies for these items are included in the sections titled “Accounts Receivable, Net” and “Other Non-Credit Reform Loans” below.

Pursuant to *SFFAS No. 56: Classified Activities, under paragraph 12,* the accounting standards require all reporting entities to disclose certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

HUD’s financial statements include all the accounts and transactions of HUD Proper, FHA, Ginnie Mae, and its grant, subsidy, and loan programs. All inter-fund accounts receivable, accounts payable, advances, prepayments, transfers in, and transfers out within these programs have been eliminated.

The financial statements are presented on the accrual and budgetary basis 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. The budgetary basis of accounting recognizes the obligation of funds according to legal requirements, which in many cases occurs prior to an accrual-based transaction. The use of budgetary accounting is essential for compliance with legal requirements and controls over 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* (CMIA). The exception is Public and Indian Housing’s (PIH) HCV and Moving to Work (MTW) programs, where funds are paid on the first day of the month to cover rental expenses for that month.

Use of Estimates

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

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

To estimate the Allowance for Subsidy associated with loans receivable, related foreclosed property, and the Liability for Loan Guarantees, the Department uses cash flow model assumptions associated with the loan guarantees subject to the *Federal Credit Reform Act of 1990 (FCRA)* 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 programs, 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.

OCFO and PIH worked together to develop an estimation methodology to determine its quarterly prepayment balances due to timing constraints on obtaining the actual data. In FY 2019, OCFO, PIH, and Indian Housing Block Grant (IHBG) worked to develop an estimation methodology to determine its annual advance balances on the portion that is invested by eligible grantee recipients due to timing constraints on obtaining the actual data.

The PIH prepayment and advance estimate assumptions are disclosed in Note (10) PIH Prepayments and Advances.

HUD has a grant accrual policy and continues to refine its methodologies and the underlying assumptions within that policy to develop the estimates. Grant accruals are calculated by the various program areas listed below on a quarterly basis and recorded in the trial balance to be included in the Financial Statements. The accruals are reversed in a later accounting period.

PIH**:** The grant accruals are completed for the following programs within PIH: Public Housing Capital Fund, HOPE VI/Choice Neighborhoods, Indian Housing Block Grant, and Native Hawaiian Housing Block Grant. This accrual calculates HUD's obligations/liability for work completed but has not been billed in its grant programs. The grant accrual is calculated by taking the actual total disbursements over a twelve-month period, divided by the number of months in a year, times a month and a half or 1.5. The two key assumptions are equal monthly disbursements and one month and a half or 45 days processing time.

CoC: This grant accrual uses historical data based on the pattern of declining monthly grant balances. Based on the pattern of the balances, the program office can project the expenses that will be incurred and billed monthly based on the volume and timing of grant funding and reasonable assumptions about the time period over which incurred expenses are billed.

Community Planning & Development (CPD): This grant accrual consists of HOME Investment Partnership Program (HOME); Community Development Block Grants Program (CDBG); Housing Opportunities for Persons with Aids (HOPWA); HUD Emergency Assistance Grant Program (HESG); and the Homelessness, Prevention and Rapid Re-Housing Program (HPRP). HOME and CDBG follow the same methodology. The working assumption for each is that the expenses accrue over a period of time (which varies by activity and type) and are generally billed to the government within a particular interval of time from being incurred. The calculation process involves a financial model that takes into account the past history of the total funded amounts by month for each CDBG and HOME activity type.

Housing Opportunities for Persons with Aids (HOPWA), HUD Emergency Assistance Grant (HESG), and Homelessness Prevention and Rapid Rehousing (HPRP)**:** Each program follows the same methodology and has calculations based on historical figures for each program's current year (which is expressed as a percentage of current period draws). This number is then applied to the total monthly withdrawn amount for the specified period.

Housing Counseling Assistance Program**:** The program takes actual disbursements made to grantees for a 12-month period ending on the financial reporting date. Grantees' drawdowns and spending patterns throughout the year may vary by grantee, and by month, based on various factors. By taking a 12-month average it allows for "smoothing" or "normalization" of data and eliminates any seasonal effect or big variations in appropriations or award announcement timing. The grant accrual is calculated by taking the total disbursements for the 12-month period and dividing it by 6 which will give the average 2-month disbursements that is used for the grant accrual.

Housing for the Elderly and Housing for Disabilities': This methodology is based on four assumptions. (1) Disbursements under the Project Rental Assistance Contract (PRAC) and Section 811 Project Rental Assistance (PRA) are excluded because they are project based and operate the same way as the Project Based Rental Assistance (PBRA) program which is on the CFO's Excluded Programs list. (2) The number of traditional Section 202 and Section 811 projects remaining in the pipeline have decreased since no new projects have been funded since the *Appropriations Act of 2011*. (3) Disbursements tend to be higher during the fiscal year 4th quarter as offices try to achieve their goals of completing initial and final closings for Section 202 and Section 811 projects. (4) On average, there is a 30-day (or less) processing time for project/grantee to request and draw down funds. Disbursements for a month will generally reflect the expenses invoiced in the previous month.

OCFO and CPD revised its methodology in FY 2018 for estimating CDBG-DR accruals. The revised methodology uses a point estimate in conjunction with the program specific unliquidated obligations to determine a ratio. Once this ratio is determined, it is applied to the period in which an accrual is desired to be calculated. Neighborhood Stabilization Program (NSP) was not included in the accrual calculation for FY 2019 due to immaterial amounts of outlays. CPD's grant accrual estimates are statistically validated through annual execution of grantee survey responses.

Ginnie Mae has made significant estimates in a variety of areas including, but not limited to, its valuation of certain financial instruments such as: acquired property, allowance for loss on mortgage loans held for investment including accrued interest, claims and other loan receivables which are all included in the balance of Other Non-Credit Reform Loans line in the accompanying Balance Sheet (BS); as well as the liability for loss on remaining coverage associated with the administration of the MBS program guaranty included in the balance of Other Liabilities in the accompanying BS. Actual results could differ from those estimates. See Note (6) Accounts Receivable, Net, Note (8) Other Non-Credit Reform Loans, and Note (25) Insurance Programs for additional information.

Entity and Non-Entity Assets

Assets are classified as either entity or non-entity assets. Entity assets are those that HUD has authority to use for its operations. Non-entity assets are those held by HUD but unavailable for use in its operations. Non-entity assets are offset by liabilities to third parties and have no impact on net position. HUD combines its entity and non-entity assets on the balance sheet and discloses its non-entity assets. For additional information see Note (2) Non-Entity Assets.

Fund Balance with U.S. Department of the Treasury (Treasury)

HUD maintains all cash accounts with Treasury. Treasury processes cash receipts and disbursements on behalf of HUD. HUD's accounting records are reconciled with Treasury on a monthly basis. HUD has several types of funds which include General, Revolving, Trust, and other fund types such as deposit and clearing accounts.

Ginnie Mae's business operations are fully funded by dedicated offsetting collections paid by Financial Institutes (Issuers) participating in the Mortgage-Backed Securities (MBS) Guarantee Program. Although Ginnie Mae's MBS Guarantee Program is not subject to *Federal Credit Reform Act* (FCRA), Ginnie Mae uses the program, financing, liquidating and capital reserve accounts to process its cash receipts and disbursements through Treasury. Cash held with Treasury includes Ginnie Mae's capital reserves (unavailable until apportioned by OMB) and available spending authority of obligated and unobligated balances available to finance allowable expenditures.

The capital reserve is a budget account that retains the MBS Guarantee Program's negative subsidy, downward re-estimates, and overnight securities interest collections. The capital reserve account maintains Ginnie Mae's unobligated reserve balances which are transferred to the program and/or financing accounts (as needed) to fund business operations.

The program account is a budget account that receives multiclass, commitment and service fee collections from Issuers and non-expenditures transfers (NET) from Ginnie Mae's capital reserve account to cover program contract obligations. The program account also disburses the upward re-estimates to the financing account; and receives spending authority appropriations enabling Ginnie Mae to use its Multiclass and Commitment fee collections to fund its administrative salaries and expenses.

The liquidating account is a budget account that receives overnight securities interest collections and records unclaimed security holders cash flows. The liquidating account maintains a spending authority level of $100 million and transfers collections in excess of that threshold to the capital reserve account.

The financing account is a non-budgetary account that records all cash flows resulting from Ginnie Mae's MBS guarantee. The financing account receives guarantee pool transfers and other program fee collections from Issuers. It receives claim payments from direct loan and loan guarantee agencies. It receives non-expenditure transfers (NET) from Ginnie Mae's capital reserve account to cover contract obligations, MBS guarantee program disbursements such as principle and interest past-through payments to MBS investors, and negative subsidy and downward re-estimate payments to the capital reserve account. The financing account also receives upward re-estimate payments from the program account. The unobligated balances in the financing account are not invested in Treasury securities and does not receive an uninvested interest collection from Treasury.

Prior to September 30, 2018, Ginnie Mae earned and collected interest on uninvested funds, which was calculated using the applicable version of the Credit Subsidy Calculator (CSC2) provided by the OMB. In September 2018, Treasury clarified rules regarding the collection of interest on uninvested funds in the Financing Account. Based on additional conversations with Treasury, Ginnie Mae was not entitled to earn interest on uninvested funds without a signed borrowing agreement in accordance with FCRA. Ginnie Mae is in ongoing discussions with OMB and its legal counsel on whether the Financing Account is fully subject to the provisions of FCRA. Resolution of the matter between Ginnie Mae and OMB is pending, Treasury and Ginnie Mae have agreed that Ginnie Mae will not earn and collect interest on uninvested funds. At present, there is uncertainty regarding applicability of FCRA to Ginnie Mae, and whether Ginnie Mae would be required to repay prior interest income received by Ginnie Mae (amounts, if any, to be determined) or be able to earn interest in the future.

Investments

HUD limits its investments that are principally comprised of investments by FHA's Mutual Mortgage (MMI)/Cooperative Management Housing Insurance (CMHI) Fund and 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 to Treasury policy's which: 1) only allows investment in Treasury notes, bills, and bonds; and 2) prohibits HUD from engaging in practices that result in "windfall" gains and profits, such as security trading and full-scale restructuring of portfolios in order to take advantage of interest rate fluctuations. FHA's normal policy is to hold investments in U.S. Government securities to maturity. However, in certain circumstances, FHA may have to liquidate its U.S. Government securities before maturity. FHA uses the straight-line amortization method for the interest accrual and amortization of discounts for its investments in short-term Treasury bills. For its investments in long-term Treasury notes and bonds, FHA uses the effective interest rate method to account for bond discount accretion and bond premium amortization.

Ginnie Mae's U.S. Treasury short-term investments consist of one-day overnight certificates that are issued with a stated rate of interest to be applied to their par value with a maturity date of the next business day. These overnight certificates are measured at cost, which approximates fair value. There is no amortization on Ginnie Mae's short-term investments.

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 most cases, they are held to maturity. See Note (5) Investments for additional information.

Accounts Receivable, Net

HUD's accounts receivables include partial claims and generic debt, fees, interest, reimbursable costs, criminal restitution and other.

FHA's Single-Family Notes (SFN), Accounting Area 65, records the loss mitigation activity for all partial claim notes. Each subsection of the loss mitigation program has a particular set of qualifications and requirements that were put in place to assist borrowers who were in default or imminent default of retaining their homes, and/or to reduce losses to the insurance fund that result from mortgage foreclosures. Any FHA-insured borrower who is in default for a least 120 days and who occupies the mortgaged property as a primary residence can obtain a partial claim for the delinquent portion of their mortgage. The partial claimed note is not due until the 1st lien has been paid in full.

All HUD/FHA debt types are referred to as Generic Debts. Generic Debts may be consumer debts or commercial debts. Each debt type is associated with an accounting category, which facilitates appropriate financial reporting. The Financial Operations Center (FOC) is responsible for servicing and collection of debts and receivables that are transferred from other organizations within HUD to FOC. It has established processes and systems to automatically refer delinquent non-tax debts to the Department of Treasury and can take other actions that are required by the *Debt Collection Improvement Act (1996)*. FOC responsibility for debt collection begins when it receives a referral package and this package contains sufficient documentation to load the debt into the DCAMS system. The actual documents and information submitted will vary based on the type of debt.

Ginnie Mae accrues interest on mortgage loans held for investment at the contractual rate and records an allowance on accrued interest to the extent interest is uncollectable for conventional loans, and to the extent interest is not expected to be recovered per insurance guidelines for insured or guaranteed loans. Ginnie Mae's policy is to record interest on FHA-insured delinquent loans at the debenture rate, or rate per relevant insuring agency guidelines, as applicable, and place delinquent uninsured loans on nonaccrual status. Ginnie Mae determines the allowance for uncollectable accrued interest for loans which are not impaired under *SFFAS No. 1*: *Accounting for Selected Assets and Liabilities – Accounts Receivable* and *SFFAS No. 5*: *Accounting for Liabilities of the Federal Government – Contingencies*.

Ginnie Mae places uninsured loans on a nonaccrual status, which means that the interest is no longer accrued or recorded as earned for the loan, once principal and interest are 90 days or more past due, and Ginnie Mae believes collectability of payments is not reasonably assured. For uninsured loans placed on non-accrual status, interest previously accrued but not collected becomes a part of Ginnie Mae's recorded investment for the loan. The recorded investment represents the total recorded book value which is assessed for impairment purposes. Since FASAB currently does not directly address the accounting treatment for impairment of non-credit reform loan receivables, Ginnie Mae assesses interest under *Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 310 Receivables* for its impaired loans, in accordance with *SFFAS No. 34: The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board.* When a loan is on non-accrual status, Ginnie Mae has elected to apply any cash received for uninsured loans to the carrying value of the loan based on the cost recovery method. The cost recovery method defers recognition of any income related to the loan until the entire carrying value has been recovered.

Once insured loans are 90 days or more past due, they are placed on modified accrual status, whereby interest is accrued at the rate recoverable from the insurer, which is typically less than the original contractual rate. For insured loans placed on modified accrual status, interest previously recognized at the contractual rate is not reversed but becomes a part of Ginnie Mae's recorded investment. For FHA insured loans on modified accrual status, cash receipts are applied in accordance with the principal and interest amortization schedule due to the extent of the coverage provided by the FHA insurance which makes recovery more certain. For loans insured or guaranteed by other insurers/guarantors (Rural Development (RD), Veteran Affairs (VA), or PIH), Ginnie Mae has elected to apply cash received to the carrying value of the loan based on the cost recovery method, since amounts recovered may be less.

Loans can be returned to accrual status if Ginnie Mae is able to determine that all principal and interest amounts contractually due are reasonably assured of repayment within a reasonable period and there is a sustained period of reperformance. If a loan is modified, during the trial modification period, interest income is recognized when cash is received, rather than accrued under the modified terms, until the borrower has demonstrated the ability to meet the terms of the modified loan and the amounts become sufficiently assured of repayment to warrant accrual treatment.

Ginnie Mae advances funds to preserve its interests in mortgaged property, such as advances to cover shortfalls for mortgagors' taxes and insurance when escrow balances are insufficient, or pre-foreclosure and foreclosure costs and other expenses, such as Homeowners Association fees incurred during the foreclosure process. These costs may be recovered through borrower repayments, proceeds from liquidation of mortgaged property, or, for insured loans, from reimbursement by the insuring agency. Costs incurred on both pooled and non-pooled loans expected to be reimbursed are recorded as reimbursable costs receivable and reported net of allowance for amounts that management believes will not be collected. The allowance for reimbursable costs is estimated based on historical experience, which includes expected collections from the mortgagors, proceeds from the sale of the property, and reimbursements collected from insurers or guarantors such as FHA, RD, VA, and PIH. See Note (6) Accounts Receivables, Net for additional information.

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*, titled *Federal Credit Programs*, defines loan guarantee as any guarantee, insurance or other pledge with respect to the payment of all or part of the principal or interest on any debt obligation of a non-Federal borrower (Issuer) to a non-Federal lender (Investor).

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 Statement of Budgetary Resources (SBR).* The budgetary accounts include the program, capital reserve and liquidating accounts, whereas 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 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 Treasury, earns or pays interest, and receives the subsidy cost payment from the program account. Although Ginnie Mae does not follow Credit Reform, its financing account is a non-budgetary 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 fiscal year end, the fund balance in the general fund receipt account is transferred to Treasury's General Fund. The FHA general fund receipt accounts for the General Insurance (GI) and Special Risk Insurance (SRI) funds are also in this category.

The capital reserve account was created to retain the MMI/CMHI negative subsidy and subsequent downward re-estimates. Specifically, the *National Affordable Housing Act of 1990* (NAHA) requires that FHA maintain a 2 percent Capital Ratio in the MMI Fund.

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 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 only available 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 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.

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. FHA's loans receivable includes Mortgage Notes Assigned (MNAs), also described as Secretary-Held Notes, Purchase Money Mortgages (PMM), notes related to partial claims, and direct loans relating to the Federal Financing Bank (FFB) Risk Share Program. 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. The majority of MNAs are Home Equity Conversion Mortgages (HECM) notes. HECM loans, while not in default, are assigned to HUD when they reach 98 percent of their maximum claim amount. 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: Amendments to Accounting Standards for Direct Loans and Loan Guarantee in Statement of Federal Financial Accounting Standards No. 2."* Those obligated or committed on or after October 1, 1991 (post-Credit Reform) are valued at the net present value of expected cash flows associated with these assets, primarily from estimated proceeds less selling and maintenance costs. The difference between the cost of these loans and properties and the net present value is called the Allowance for Subsidy. Pre-Credit Reform loans receivable and related foreclosed property in inventory are recorded at net realizable value which is based on recovery rates net of any selling expenses. See Note (7) Direct Loans and Loan Guarantees, Non-Federal Borrowers for additional information on pre-credit reform loans.

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 principals is considered doubtful, the accrual of interest income is suspended and receipts (both interest and principal) are recorded as collections of principals. 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, property recovery rates, and net 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 of 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 cost of sales.

Other Non-Credit Reform Loans

Other Non-Credit Reform Loans consist of Ginnie Mae Advances, Mortgage Loans Held for Investment, Claims Receivable, and Properties Held for Sale.

Ginnie Mae Advances, Net

Advances represent Ginnie Mae pass-through payments to fulfill the guarantee of timely principal and interest (P&I) payments to Mortgage-Backed Securities (MBS) holders. Ginnie Mae reports advances net of an allowance for amounts not expected to be collected. Ginnie Mae calculates the allowance based on expected recovery amounts. The calculation incorporates reimbursements per established insuring or guaranteeing agency guidelines, Ginnie Mae's collections experience, and other economic factors. Ginnie Mae reclassifies advances associated with loans purchased out of the MBS pools as part of the total recorded investment in the purchased loan.

Mortgage Loans Held for Investment, Net

Ginnie Mae approves issuers to pool loans and issue Ginnie Mae guaranteed MBS. For federal income tax purposes, the MBS pool created by the issuer is considered a grantor trust. As such, each of these "virtual trusts" are considered individual legal entities. When a Ginnie Mae issuer defaults, and is terminated and extinguished, Ginnie Mae steps into the role of the issuer and assumes all servicing rights and obligations of the issuer's entire Ginnie Mae guaranteed portfolio of mortgage loans. This includes loans in MBS pools created by the issuer and the obligation to make timely pass through payments to securities holders. Ginnie Mae utilizes a Master Sub-servicer (MSS) to service these portfolios. There are currently two MSS that service the terminated and extinguished issuer portfolios (pooled and non-pooled loans). Loans held in MBS pools are not included in the Balance Sheet since they are not assets owned by Ginnie Mae until purchased out of the pools.

In its role as servicer, Ginnie Mae assesses individual loans within its pooled portfolio to determine whether the loan must be purchased out of the pool. Ginnie Mae must purchase mortgage loans out of the MBS pool when the mortgage loans are ineligible for insurance by the FHA, RD, VA, or PIH, as well as loans that have been modified beyond the trial modification period. Additionally, Ginnie Mae has the option to purchase mortgage loans out of the MBS pool when the mortgage loans are insured but are delinquent for more than 90 days.

Ginnie Mae has the ability and the intent to hold acquired loans for the foreseeable future or until maturity, therefore, the mortgage loans are classified as Held for Investment (HFI). HUD reports the carrying value of HFI loans on the Balance Sheet at the Unpaid Principal Balance (UPB) along with accrued interest, net of cost basis adjustments, and net of allowance for loan losses. Ginnie Mae records cost basis adjustments for HFI loans which are considered Troubled Debt Restructurings (TDR), or loans which are classified as Purchased Credit Impaired (PCI). Ginnie Mae also records an allowance for loan losses to reflect the collectability of the loans.

If HUD decides to sell the loans currently recognized on its Balance Sheet, HUD will reclassify the applicable loans from HFI to Held for Sale (HFS). For loans which are initially classified as HFI and subsequently transfers to HFS, those loans would be recognized at the lower of cost or fair value until sold, with any related cash flows classified as operating activities. At September 30, 2019, HUD had no loans classified as HFS, and mortgage loans held for investment included only single-family loans.

Allowance for Loan Losses

Ginnie Mae performs periodic and systematic reviews of its loan portfolios to identify credit risks and assess the overall collectability of the portfolios. Ginnie Mae recognizes the estimated uncollectable portion of its recorded investment in the loans when (1) available information at each BS date indicates that it is probable a loss has occurred and (2) the amount of the loss can be reasonably estimated.

Loans which have not been classified as TDR or PCI are evaluated collectively. For large groups of homogeneous loans that are collectively evaluated, Ginnie Mae records an allowance for loan losses against both principal and interest. When Ginnie Mae determines that it is probable, a credit loss will occur, and that loss can be reasonably estimated. Ginnie Mae recognizes the estimated amount of the incurred loss in the allowance for loan losses. Ginnie Mae aggregates its mortgage loans based on common risk characteristics, primarily by the type of guarantee or insurance (FHA, RD, VA, PIH) associated with the loan, as each has a different recovery rate. Ginnie Mae also categorizes uninsured loans separately from insured loans. The allowance for loan losses estimate is calculated using statistical models that are based on historical loan performance and insurance recoveries. The estimate also includes qualitative factors, where applicable. This estimated allowance for losses represents management's best estimate of probable credit losses inherent in Ginnie Mae's mortgage loan portfolio. The allowance is netted against the recorded investment in mortgage loans.

Ginnie Mae charges off accrued interest and unpaid principal balances when it believes collectability of interest or principal is not reasonably assured. Ginnie Mae charges off confirmed losses against the asset (loan) and allowance for loan losses when the asset is greater than 180 days delinquent. The charge off is determined based on the difference between the recorded investment and either fair market value or net recoverable value.

Ginnie Mae records recoveries of non-FHA insured loans previously charged-off when cash is received from the borrower related to principal and interest in excess of the recorded investment. For FHA loans, Ginnie Mae records recoveries of previously charged-off accrued interest amounts when cash is received from the borrower related to interest in excess of the recorded interest on its books. Recoveries of loans previously charged off are recognized as an increase to the allowance for loan losses when payment is received.

Ginnie Mae considers a loan to be impaired when, based on current information, it is probable that amounts due will not be received in accordance with the contractual terms of the loan agreement. Ginnie Mae's impaired loans include those modified in TDRs and PCI loans. Since FASAB currently does not directly address the accounting treatment for impairment of non-credit reform loans receivables, Ginnie Mae assesses loans under *FASB ASC 310 Receivables* for its impaired loans. For impaired loans, Ginnie Mae measures impairment based on the present value of expected future cash flows. Ginnie Mae's expectation of future cash flows incorporates, among other items, estimated probabilities of default and prepayment based on a number of economic factors as well as the characteristics of a loan. Additionally, Ginnie Mae considers the estimated value of the collateral, as reduced by estimated disposition costs, and estimated proceeds from insurance and similar sources, if applicable.

To avoid foreclosure, the MSS, on behalf of Ginnie Mae, may modify loans to help mortgagors who have fallen into financial difficulties with their mortgages. Methods of modifying loans may include offering concessions and restructuring the terms of the loan to alleviate the burden of the mortgagor. Some concessions made are a delay in payment that is more than insignificant; a reduction in the contractual interest rate that is lower than the market interest rate at the time of modification; interest forbearance for a period of time for uncollected interest amounts, that is more than insignificant; principal forbearance that is more than insignificant; and discharge of the mortgagor's obligation due to filing of Chapter (7) Bankruptcy. Ginnie Mae considers these modifications a concession to mortgagors experiencing financial difficulties and classifies these loans as TDRs. Ginnie Mae measures the impairment on these loans restructured in a TDR based on the excess of the recorded investment in the loan over the present value of the expected future cash flows discounted at the loan's original effective interest rate.

Ginnie Mae evaluates all purchased loans and assesses whether there is evidence of credit deterioration subsequent to the loan's origination and, if it is probable,at acquisition, that Ginnie Mae will be unable to collect all contractually required payments. Ginnie Mae considers insurance and guarantees from FHA, RD, VA, and PIH in determining whether it is probable that Ginnie Mae will collect all amounts due according to the contractual terms. Loans determined to meet these criteria are classified as Purchased Credit-Impaired (PCI). Ginnie Mae records realized losses on PCI loans when, upon purchase, the fair value is less than the acquisition cost of the loan. Ginnie Mae also recognizes the difference between the initial investment of the loan, and the undiscounted expected cash flows (known as the accretable yield) as interest income on a level-yield basis over the expected life of the loan.

Claims Receivable, Net

Claims receivable represent receivables for payments owed to Ginnie Mae from insuring agencies (FHA, RD, VA, and PIH). Claims receivable consist of two primary components:

Short sale claims receivable: A property may be sold for an agreed-upon price that falls short of amounts owed on the property as an alternative to foreclosure. This type of sale is known as a "short sale". Short sale proceeds are often times insufficient to fully pay off the mortgage. Ginnie Mae's MSS identifies loans that may be short sale eligible. This evaluation is based on factors such as delinquency, appraised value of the property, and location of the property. Ginnie Mae's Office of Issuer and Portfolio Management (OIPM) approves all short sales.

FHA is the largest insurer for Ginnie Mae. FHA typically pays Ginnie Mae the difference between the proceeds received from the sale and the UPB of the mortgage loan plus FHA-allowable delinquent interest, and other reasonable and customary costs per the FHA guidelines. FHA guidelines provide for interest claims to be calculated based on a debenture rate, as published by FHA. FHA does not reimburse the first two months of delinquent interest payments. Short sales on RD, VA, and PIH guaranteed loans follow a similar process in which the claims receivable amount is determined in accordance with the respective agency guidelines. Ginnie Mae records a short sale claims receivable while it awaits repayment of the shortfall amount from the insuring or guaranteeing agencies.

Ginnie Mae uses statistical models to assess the collectability of its claims receivable. The models estimate expected recovery based on insuring or guaranteeing agency guidelines and Ginnie Mae's historical experience. Ginnie Mae records an allowance for claims that are not expected to be recovered. Ginnie Mae charges off any uncollectable amounts against the allowance, once losses are confirmed.

Foreclosed property: Ginnie Mae records foreclosed property when the MSS receives title to a residential real estate property. Title may be received pursuant to a legal foreclosure process, or when the mortgagor conveys all interest in the property to satisfy the loan through a "deed in lieu of foreclosure" or similar legal agreement. These properties differ from acquired properties as Ginnie Mae intends to convey the property to an insuring or guaranteeing agency, instead of marketing and selling the properties. The amount of the claim receivable is determined based on the underlying insuring or guaranteeing agency guidelines. Typically, this includes the UPB for the loan and any allowable interest and other costs per the guidelines.

Ginnie Mae uses statistical models to assess the collectability of its claims receivable. The models estimate expected recovery based on insuring or guaranteeing agency guidelines and Ginnie Mae's historical experience. Ginnie Mae records an allowance for claims that are not expected to be recovered. Ginnie Mae charges off any uncollectable amounts against the allowance, once losses are confirmed.

Properties Held for Sale

Ginnie Mae recognizes properties held for sale ("acquired property"), when marketable title to the underlying property is obtained. Title may be obtained through a legal foreclosure process or deed in lieu of foreclosure or other similar legal agreements. These assets differ from "foreclosed property" as they are not conveyed to the insuring agencies and Ginnie Mae will hold the title while the properties are marketed for sale by the MSS.

Ginnie Mae initially measures acquired property at its fair value, net of estimated costs to sell. Ginnie Mae records a charge-off against the allowance for loan losses when the recorded investment in the loan prior to acquisition of title exceeds the fair value, net of estimated cost to sell, of the acquired property. If the fair value, net of estimated costs to sell, exceeds the recorded investment in the loan, Ginnie Mae recognizes a recovery for any forgone P&I. This amount is recognized with operating expenses included in gross cost in the accompanying Statement of Net Cost (SNC).

Ginnie Mae subsequently measures acquired property at the lower of its carrying value or fair value, less estimated costs to sell. Ginnie Mae recognizes any decreases in fair value, net of estimated costs to sell, below the carrying value through a valuation allowance. The offsetting charge for the valuation allowance is recorded as income (expense) on acquired property included in gross cost in the accompanying SNC. Any subsequent increase in fair value, net of estimated costs to sell, up to the cumulative loss previously recognized through the valuation allowance, is recognized with operating expenses included in gross cost in the SNC.

Ginnie Mae capitalizes subsequent improvement costs for acquired property. Ginnie Mae expenses other costs as incurred with operating expenses included in gross cost in the SNC. Ginnie Mae records gains and losses on sales of acquired property as the difference between the net sales proceeds and the carrying value of the property. These gains and losses are recognized through "Gains on Disposition of Assets – Other" included in earned revenues in the SNC. For additional information see Note (8) Other Non-Credit Reform Loans.

Liabilities

Liabilities represent actual and estimated amounts to be paid as a result of transactions or events that have already occurred. However, no liabilities can be paid by HUD without budget authority. Liabilities for which an appropriation has not been enacted are classified as liabilities not covered by budgetary resources, and there is no certainty that an appropriation will be enacted.

Borrowings

As further discussed in other notes, several of HUD's programs have the authority to borrow funds from Treasury for program operations. These borrowings, representing unpaid principal balances and future accrued interest, are reported as debt in HUD's consolidated financial statements. The Department also borrows 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.

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 sheet. As required by *SFFAS No. 2*, the Loan Guarantee Liability (LGL) includes the Credit Reform Related Liabilities for Loan Guarantees (LLG) and the pre-Credit Reform Liability for Loan Reform (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). FHA values its Pre-Credit Reform related notes and properties in inventory at net realizable value, determined on the basis of net cash flows. To value these items, FHA uses historical claim data, revenues from premiums and recoveries, and expenses of selling and maintaining properties.

Property, Plant, and Equipment, Net

Property, Plant, and Equipment, Net (PP&E) is comprised of capital assets used in providing goods or services. PP&E is stated at cost less accumulated depreciation. Acquisitions of PP&E include assets purchased or assets acquired through other means, such as through transfer in from another Federal entity, donation, devise (a will or clause of a will disposing of property), judicial process, exchange between a Federal entity and a non-Federal entity, and forfeiture.

Pursuant to *SFFAS No. 50: Establishing Opening Balances for General Property, Plant, and Equipment,* per paragraph 2, agencies can implement this standard, "after a period during which existing systems could not provide the information necessary for producing such GAAP-based financial statements without use of the alternative methods.

In FY 2019, HUD applied the "Prospective Capitalization" alternative method under *SFFAS No. 50* to write off the total balance for Internal Use Software (IUS) and IUS in Development in its HUD Proper component as of September 30, 2019. HUD's IUS subsidiary ledgers were not sufficient to support the HUD Proper component balances that were being reported in the financial statements

Federal Employees Compensation Act Liabilities

The *Federal Employees' Compensation Act* (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred a work-related injury or occupational disease, and to beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by the U.S. Department of Labor (DOL), which pays valid claims and subsequently seeks reimbursement from HUD for these paid claims.

The FECA liability consists of two components. The first component is based on actual claims paid by the DOL but not yet reimbursed by HUD. The second component is the estimated liability for future worker's compensation as a result of past events. HUD reports both components in the "Other Liabilities" line on the Consolidated Balance Sheet.

Accrued Unfunded Leave

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.

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 investment portfolio.

Appropriations for Grant and Subsidy Programs

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

Ginnie Mae Fees

Fees received for Ginnie Mae's guaranty of 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 when 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. Multiclass fees represent one-time upfront fees related to the issuance of multiclass products. Multiclass products include Real Estate Mortgage Investment Conduits (REMICs) and Platinum Certificates. The fees received for REMICs consist of guaranty fee and may include a modification and exchange (MX) Combination fee. The guaranty fee is paid by the sponsor and is based upon the total principal balance of the deal. The MX combination fee allows the sponsor to combine REMIC and/or MX securities at the time of issuance. The guaranty fee is deferred and amortized into income evenly over the contractual life of the security. The MX combination fee, on the other hand, is recognized immediately in earnings (i.e., upon the combination of REMIC and/or MX securities). The fees received for Platinum Certificates are deferred and amortized into income evenly over the contractual life of the security. Ginnie Mae also recognizes income through fees related to new issuer applications, transfers of issuer responsibilities, and mortgage servicing fees.

Imputed Financing Sources

In certain instances, operating costs of HUD are paid out of funds appropriated to other Federal agencies. For example, the Office of Personnel Management (OPM), by law, pays certain costs of retirement programs. When costs that are identifiable to HUD and directly attributable to HUD operations are paid for by other agencies, HUD recognizes these amounts as operating expenses. In addition, HUD recognizes an imputed financing source on the Consolidated SCNP to reflect the funding of HUD operations by other Federal agencies.

Appropriations and Monies Received from Other HUD Programs

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

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

Full Cost Reporting

SFFAS No. 4: Managerial Cost Accounting Concepts and Standards, for the Federal Government, requires 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 estimated each responsible segment's share of the program costs or resources provided by HUD or other Federal agencies. In accordance with *SFFAS No. 55: Amending Inter-Entity Cost Provisions*, HUD records the required inter-entity costs which includes personal benefits and Treasury Judgment fund settlements. HUD has also elected to record inter-entity costs for a non-business type activity with Homeland Security for IT services.

Retirement Plans

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, may have elected 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 1 percent of pay and matches any employee contribution up to 5 percent of an individual's basic pay. Under CSRS, employees can contribute up to $18,500 per year 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.

Fiduciary Activities

Fiduciary activities are the collection or receipt, and the management, protection, accounting, investment, and disposition by the Federal Government of cash or other assets in which non-Federal individuals or entities have an ownership interest that the Federal Government must uphold. Fiduciary assets are not assets of the Federal Government.

Ginnie Mae has immaterial fiduciary activities which involve the collection or receipt and subsequent disposition of cash in which non-Federal entities have an ownership interest. Fiduciary assets are not assets of Ginnie Mae or the Federal Government. The fiduciary assets held by Ginnie Mae include escrow funds held in trust. The fiduciary amount is $28 million at September 30, 2019.

Net Cost

Net cost consists of gross costs and earned revenue. Gross costs and earned revenue are classified as intragovernmental (exchange transactions between HUD and other entities within the Federal Government) or public (exchange transactions between HUD and non-Federal entities).

Net program costs are gross costs less revenue earned from activities. HUD determines gross cost and earned revenue by tracing amounts back to the specific program office. Administrative overhead costs of funds unassigned are allocated based on full-time employee equivalents of each program.

Net Position

Net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations include undelivered orders and unobligated balances, except for amounts in financing accounts, liquidating accounts, and trust funds. Cumulative results of operations represent the net difference since inception between 1) expenses and 2) revenues and financing sources.

Funds from Dedicated Collections

Funds from Dedicated Collections are financed by specifically identified revenues, often supplemented by other financing sources that are originally provided to the Federal Government by a non-Federal source, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes, and must be accounted for separately from the Federal Government's general revenues. See Note (17) Dedicated Collections for additional information.

HUD changed the presentation of its funds from dedicated collections on the BS and Statement of Changes in Net Position (SCNP), in FY 2018, from consolidating to combining based on the most recent guidance in the OMB *Circular A-136*. Non-exchange revenue and other financing sources from funds from dedicated collections, including net cost of operations, are shown separately on the SCNP. The portion of cumulative results of operations attributable to funds from dedicated collections is shown separately on both the SCNP and the BS.

Allocation Transfers

HUD is a party to allocation transfers with other Federal agencies as a transferring (parent) entity and/or a receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. Parent agencies report both the proprietary and budgetary activity, but the child agency does not report any financial activity related to budget authority allocated from the parent agency to the child agency. HUD is the child for two allocation transfers, the Appalachian Regional Commission and the Department of Transportation.

Corrections of Errors

HUD has made significant strides in improving its overall internal control processes over financial reporting. HUD has worked diligently over the past year to improve the integrity of its financial data by implementing controls through the financial management transformation initiative. Some of those controls included strengthening cross collaboration throughout HUD, establishing special purpose work groups to identify areas requiring refinement and implementing new processes to ensure financial data integrity and compliance with regulatory requirements. As a result of the improved processes put in place, HUD was able to identify correction of errors to avoid causing material misstatements to HUD's financial statements and notes. The correction of errors are listed below.

HUD's new internal controls identified that the Rental Assistance Demonstration (RAD) conversion funds under the Section 8 program were incorrectly classified as Funds from Dedicated Collections instead of All Other Funds. This caused a misclassification on the consolidated Statement of Changes in Net Position (SCNP)'s Unexpended Appropriations line in the amount of $68 million. The overall impact to the consolidated SCNP is zero, since this a reclassification between lines. The consolidated note impacted by this reclassification is Note (17) Funds from Dedicated Collections. The Unexpended Appropriations line was impacted by ($68) million on the Funds from Dedicated Collections column and $68 million on the All Other Funds column, with a net impact of zero.

In FY 2019, HUD implemented a new estimation methodology to determine the portion of expenses that should be recorded as advances for those investing grantees that participate in the PIH IHBG programs. The estimation methodology was recorded retroactively in the amount of $206 million affecting the beginning balance on the following consolidated financial statements: the BS's PIH Prepayment and Advances (Note 10) and Unexpended Appropriations-All Other lines and the SCNP's Unexpended Appropriations line. The consolidated note impacted by this correction is Note (10) PIH Prepayment and Advances.

HUD's new internal controls identified and corrected an abnormal unexpended appropriations balance in its Flexible Subsidy Program. The abnormal balance occurred due to an incorrect posting model used to record two rescissions. The correction of error in the amount of $376 million impacted the following consolidated financial statements: the BS's Unexpended Appropriations and Cumulative Results of Operations-Funds from Dedicated Collection lines and the SCNP's Unexpended Appropriations and Cumulative Results of Operations Corrections of Errors lines. The overall net impact on the BS and SCNP net position was zero. The consolidated note impacted by this correction is Note (17) Funds from Dedicated Collections.

HUD's new internal controls identified and corrected an invalid posting logic in its Housing for the Elderly and Handicapped program. This program does not receive an appropriation from the General Fund of the U.S. Government; it receives offsetting collections throughout the year. The posting logic used was where an appropriation is received from the General Fund of the U.S. Government via Treasury Appropriation Warrant. The correction of error in the amount of $6 million impacted the following consolidated financial statements: the BS's Unexpended Appropriations and Cumulative Results of Operations-All Other lines and the SCNP's Unexpended Appropriations and Cumulative Results of Operations lines.

HUD corrected an abnormal cumulative operations balance in its Housing for the Elderly and Housing for the Disabled program accounts. The abnormal balances occurred due to an incorrect posting logic used to record some of the program's expenditures. The correction of errors are in the amounts of $14 million and $0.3 million respectively which impacted the following consolidated financial statements: the BS's Unexpended Appropriations and Cumulative Results of Operations-All Other lines and the SCNP's Unexpended Appropriations and Cumulative Results of Operations Corrections of Errors lines. The overall net impact on the BS and SCNP net position was zero.

In FY 2017, HUD implemented a subledger to general ledger clean-up project. During its clean-up efforts this fiscal year, HUD found there were accounts receivable balances that needed to be corrected for the Excess Rental Income program between the subledger and the general ledger. The correction of error in the amount of $.6 million impacted the following consolidated financial statements: the BS's Accounts Receivable, net and Cumulative Results of Operations-Funds from Dedicated Collection line and the SCNP's Cumulative Results of Operations Corrections of Errors line. The consolidated notes impacted by this correction are Note (6) Accounts Receivable, Net and Note (17) Funds from Dedicated Collections.

HUD's new internal controls identified and corrected subsidy expense for loan guarantees due to erroneous postings of Section 108 upfront fees to the account for the subsidy expense fee component. The error resulted in a $.6 million overstatement of subsidy expenses in Note (7) Sections L1 and L3. Two lines in Note (7) Section N were also impacted (Subsidy Expense - Fees and Other Collections & Adjustments - Fees Received) but the overall net impact on Note (7) Section N was zero. There was no impact on the financial statements.

In 2019, Ginnie Mae fully implemented its Subledger Database (SLDB) solution for its non-pooled assets (NPA) and completed audit remediation efforts associated with material weaknesses over reporting of non-pooled loan portfolio balances. This accomplishment was highlighted by, but not limited to: (i) developing and enhancing Ginnie Mae's accounting and modeling infrastructure; (ii) working with third-party servicers to develop standardized loan-level reporting detail and implement accounting policies compliant with U.S. GAAP; (iii) designing, developing and implementing new technologies to track and account for the non-pooled loans; (iv) developing and implementing standard operating procedures for non-pooled assets to comply with existing accounting policies; and (v) enhancing the internal controls over financial reporting.

The implementation and remediation project culminated with the launch of Ginnie Mae's SLDB solution. The SLDB solution provides Ginnie Mae with the capability to translate loan servicing data into loan-level accounting entries in an integrated subledger to support appropriate accounting treatment in accordance with U.S. GAAP and Ginnie Mae's accounting policies. The implementation of the SLDB solution required significant enhancements to Ginnie Mae's models and modeling processes, new interfaces and protocols for data processing and movement, and far-reaching changes to the way Ginnie Mae personnel performs the critical accounting, reporting, data processing, technology support and oversight tasks required to track and report the non-pooled asset portfolio.

In addition to the non-pooled asset errors, Ginnie Mae also adjusted the opening balances of accounts receivable to reflect the gross accounts receivable for criminal restitution, along with an offsetting allowance for amounts not expected to be collected, in order to comply with GAAP requirements related to the accounting for criminal restitution.

Ginnie Mae recorded prior period adjustments to correct the accounting errors described above. The correction of error impacted the following Balance Sheet line items: $19 million increase in Accounts Receivables, Net, $69 million decrease in Other Non-Credit Reform Loans, $2 million increase in Accounts Payable, and $29 million increase in Contingent Liabilities (Loss Reserves). The correction of error also impacted the following Statement of Changes in Net Position line items: $81 million decrease in Beginning Balance Adjustments - Corrections of Errors line.

Changes in Accounting Principles

Ginnie Mae has determined that Ginnie Mae's guaranty program is an insurance program as defined in *SFFAS No. 51: Insurance Programs*. *SFFAS No. 51* became effective for all agencies beginning in fiscal year 2019. Pursuant to *SFFAS No. 51* requirements, agencies are to record a liability for loss on remaining coverage of the agencies' insurance program. Ginnie Mae previously did not recognize non-contingent liabilities associated with the guaranty program or amounts related to guaranty fees expected to be received in future periods since previous GAAP standards required only the contingent liability under *SFFAS No. 5* to be reported when guaranty costs became probable and measurable due to impending default of an issuer. Ginnie Mae implemented *SFFAS No. 51* effective as of the beginning of fiscal year 2019. This implementation resulted in an adjustment to increase Beginning Balance Adjustments - Changes in Accounting Principles by $50 million in the Statement of Changes in Net Position, with a corresponding decrease in Contingent Liabilities (Loss Reserves) of $50 million in the Balance Sheet. See Note (25) *Insurance Program* for additional information.

The FASAB issued *SFFAS No. 48* and *SFFAS No. 50*, which permit alternative methods in establishing opening balances and are effective for periods beginning after September 30, 2016 with early implementation allowed. HUD used the principles of these accounting standards for FY 2019 to establish an opening balance for Internal Use Software as part of HUDs' General Property, Plant, and Equipment.

During FY 2019, HUD decreased its beginning Cumulative Results of Operation on the Consolidated SCNP for HUDs' General Property, Plant, and Equipment for Internal Use Software utilizing *SFFAS No. 50* by $332 million through a prior period adjustment. This entry also impacted the ending balance of HUDs' General Property, Plant, and Equipment by decreasing the balance to $5 million.

Note 2: Non-Entity Assets

Non-entity assets consist of assets that belong to other entities but are included in the HUD consolidated financial statements and are offset by various liabilities to accurately reflect the Department's net position. The Department's non-entity assets principally consist of 1) FHA's downward re-estimates and negative subsidies in the General Fund receipt accounts for the General Insurance (GI) fund, 2) escrow monies collected by FHA that are either deposited at Treasury or in minority-owned banks or invested in Treasury securities, 3) capital transfers to the General Fund of the Treasury from the Housing for the Elderly and Disabled Liquating Fund, 4) sustained audit receivables and court-enforced restitution in HUD's miscellaneous receipt account, 5) Emergency Home Loan Program (EHLP) receivables in the General Fund receipt account, 6) unclaimed MBS security holder payments held by Ginnie Mae, and 7) cash remittances from Section 8 bond refunding deposited in the General Fund of the Treasury.

HUD's non-entity assets were as follows:

Note 2: Non-Entity Assets For The Year Ended September 30, 2019 (Dollars in Millions)		
Intragovernmental		
Fund Balance with Treasury	$	62
Total Intragovernmental	**$**	**62**
Public		
Cash and Other Monetary Assets	$	23
Accounts Receivable, Net		166
Loan Receivables and Related Foreclosed Property, Net		103
Total Public	**$**	**292**
Total Non-Entity Assets	**$**	**354**
Total Entity Assets	**$**	**217,226**
Total Assets	**$**	**217,580**

Note 3: Fund Balance with Treasury

Treasury performs cash management activities for all Federal agencies. The net activity represents Fund Balance with Treasury (FBWT). HUD's fund balances by fund type is as follows:

Note 3: Fund Balance with Treasury For The Year Ended September 30, 2019 (Dollars in Millions)		
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	$	47,217
Unavailable		8,476
Obligated Balance not yet Disbursed	$	55,021
Non-Budgetary FBWT	$	29
Total	**$**	**110,743**

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. An SBR is not prepared for these funds since any cash remittances received by the Department are not defined as budgetary resources.

Obligated and unobligated balances reported for the Status of Fund Balance with Treasury do not agree with obligated and unobligated balances reported in the Combined SBR because the budgetary balances reported in the Combined SBR

are also supported by amounts other than FBWT, such as investments, borrowing authority, and budgetary receivables. Additionally, the unobligated balances include collections related to Ginnie Mae which are not available to HUD unless approved by Congress. For additional disclosures on HUD's FBWT restrictions, see Note (18) Legal Arrangements Affecting the Use of Unobligated Balances for additional information.
In addition to FBWT, 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.
An immaterial difference exists between HUD's recorded Fund Balances with Treasury and Treasury's records. To be consistent with Treasury's guidance, the Department temporarily adjusts its records to agree with Treasury's balances at the end of the accounting period. The adjustments are reversed at the beginning of the following accounting period. The immaterial differences are researched the following accounting period(s) for resolution.

HUD implemented a project in FY 2017 which identified differences between the general ledger and sub-ledger balances. As of September 30, 2019, HUD has resolved, researched and analyzed, a significant amount of current and historical balances.

Note 4: Cash and Other Monetary Assets

Cash and other monetary assets of FHA consist of escrow monies collected that are deposited in minority-owned banks and deposits in transit. As of September 30, 2019, escrow monies and deposits in transit were $87 million.

Cash and other monetary assets of Ginnie Mae, which are Funds from Dedicated Collections, consist of cash that is received by its Master Sub-servicers but has not yet been transmitted to Ginnie Mae. As of September 30, 2019, deposits in transit were $39 million.

Note 5: Investments

The U.S. Government non-marketable intra-governmental securities are comprised of short-term and long-term securities. Short-term securities have an original maturity date of less than one year. Long-term securities have an original maturity date of one year or greater. FHA invests in short and long-term securities. Ginnie Mae primarily invests in one-day overnight certificates that are issued with a stated rate of interest to be applied to their par value amount with a maturity date on the next business day.

The cost, estimated market value, and amortization method of investments in debt securities are as follows:

Note 5: Investments For The Year Ended September 30, 2019 (Dollars in Millions)						
	Cost	**Amortization Method**	**Amortized (Premium)/ Discount, Net**	**Accrued Interest**	**Net Investments**	**Market Value**
Treasury Bills	$ 29,768	Straight-Line	$ 260	$ -	$ 30,028	$ 30,102
Treasury Notes	20,235	Effective Interest	1	72	20,308	20,318
Overnight Securities	15,784	No Amortization	-	-	15,784	15,784
Total Investments	**$ 65,787**		**$ 261**	**$ 72**	**$ 66,120**	**$ 66,204**

The federal government does not set aside assets to pay future benefits or other expenditures associated with funds from dedicated collections. The dedicated cash receipts collected from the public into the fund are deposited in the U.S. Treasury, which uses the cash for general government purposes. Treasury securities are issued to Ginnie Mae with a stated rate of interest to be applied to the par value with a maturity date of the next business day and are measured at cost, which approximates fair value. Treasury securities are an asset to the Ginnie Mae and a liability to the U.S. Treasury. Because Ginnie Mae and the U.S. Treasury are both parts of the government, these assets and liabilities offset each other from the standpoint of the government as a whole. For this reason, they do not represent an asset or a liability in the U.S. government-wide financial statements.

Investments in Private-Sector Entities

Investments in private-sector entities are the result of FHA's Section 601 and Family Notes and Risk Sharing Debentures. Multifamily Risk Sharing Debentures [Section 542(c)] is a program available to lenders where the lender shares the risk in the property by issuing debentures for the claim amount paid by FHA on defaulted insured loans.

The following table presents financial data on FHA's investments in Risk Sharing Debentures:

Note 5: Investments For The Year Ended September 30, 2019 (Dollars in Millions)						
	Beginning Balance	**Net Acquisitions**	**Share of Earnings or Loss**	**Return of Investment**	**Redeemed**	**Ending Balance**
Securities Held Outside of Treasury	$ -	$ -	$ -	$ -	$ -	$ -
601 Program	-	-	-	-	-	-
Risk Sharing Debentures	8	-	-	-	(2)	6
Total	**$ 8**	**$ -**	**$ -**	**$ -**	**$ (2)**	**$ 6**

Note 6: Accounts Receivable, Net

The following table shows the accounts receivable balances as reflected on the Balance Sheet:

Note 6: Accounts Receivable, Net For The Year Ended September 30, 2019 (Dollars in Millions)			
	Gross Accounts Receivable	**Allowance for Loss**	**Total, Net**
Intragovernmental	$ -	$ -	$ -
Public			
FHA Partial Claims and Generic Debt Receivables	85	(41)	44
Ginnie Mae Fees and Interest Receivables	174	(6)	167
Other Receivables	298	(3)	295
Criminal Restitution	-	-	-
FHA Criminal Restitution	15	(8)	7
Ginnie Mae Criminal Restitution	89	(89)	-
Other Criminal Restitution	48	(49)	-
Total Accounts Receivable	**$ 709**	**$ (196)**	**$ 513**

The Department's Accounts Receivable represents FHA Partial Claims and Generic Debt Receivables, Ginnie Mae Fees, Interest Receivables and Reimbursable Cost Receivables, Other Receivables, and Criminal Restitutions.

FHA Partial Claims and Generic Debt Receivables

FHA Partial Claims are paid to mortgagees as part of its loss mitigation efforts to bring delinquent loans current for which FHA does not yet have the promissory note recorded. The Generic Debt is mainly comprised of receivables from various sources, the largest of which are Single-Family Claims, Single-Family Indemnification, and Single-Family Restitutions.

Ginnie Mae Fees, Interest and Reimbursable Cost Receivables

Accrued Fees and Interest Receivable, Net

Ginnie Mae Fees consists of accrued guaranty fees due from issuers. Guaranty fees are payable monthly based on outstanding UPB in Ginnie Mae-guaranteed MBS pools at the appropriate statutory rate. At September 30, 2019, Ginnie Mae's accrued fees totaled $112 million.

Ginnie Mae also accrues interest on mortgage loans held for investment at the contractual rate and records an allowance on accrued interest to the extent interest is uncollectable for conventional loans, and to the extent interest is not expected to be recovered per insurance guidelines for insured or guaranteed loans.

At September 30, 2019, Ginnie Mae's accrued interest receivable totaled $19 million, of which $17 million relates to FHA-insured loans, $1 million relates to uninsured loans, and the remaining $1 million relates to loans insured by VA and RD. The associated allowance at September 30, 2019 was $2 million. For the year ended September 30, 2019, the provision was $1 million.

Reimbursable Costs Receivable, Net

Ginnie Mae advances funds to preserve its interests in mortgaged property, such as advances to cover shortfalls for mortgagors' taxes and insurance when escrow balances are insufficient, or pre-foreclosure and foreclosure costs and other expenses, such as Homeowners Association fees incurred during the foreclosure process.

The following table presents reimbursable costs and related allowance amounts associated with loans serviced by Ginnie Mae, by loan insurance type:

Note 6: Accounts Receivable, Net
For The Year Ended September 30, 2019
(Dollars in Millions)

	FHA	VA	RD	Conventional	Total
Reimbursable Costs	$ 37	$ 2	$ 1	$ -	$ 40
Allowance for Reimbursable Costs	(4)	(1)	-	-	(5)
Reimbursable Costs, Net	**$ 33**	**$ 1**	**$ 1**	**$ -**	**$ 35**

The above table includes only reimbursable costs that are attributable to underlying loans and insuring agencies. Accordingly, $2 million of receivables due to Ginnie Mae from the MSS related to overpayments for reimbursable costs that were not required are not included in the total above but are included in the total amount disclosed for Ginnie Mae Fees, Interest and Reimbursable Cost Receivables.

For the year ended September 30, 2019, the provision for allowance for reimbursable costs was $5 million. A 100 percent allowance for loss is established for all delinquent accounts 90 days and over for bond refunding. The allowance for loss methodology adjusts the total delinquencies greater than 90 days by the effects of economic stress factors, which include likely payoffs, foreclosures, bankruptcies, and hardships of the project. Every quarter, adjustments to the bond refunding allowance for loss account are made to ensure the allowances continue to be necessary.

Other Receivables

The Other Receivables line item represents Section 8 year-end settlements, claims to cash from the public, state and local authorities for bond refunding, Section 236 excess rental income, sustained audit findings, refunds of overpayment, FHA insurance premiums, and foreclosed property proceeds. Sustained audit costs are costs that have been challenged by the OIG and agreed upon by HUD. These are generally questioned costs, these are costs that have been challenged during the audit and are categorized by ineligible and unsupported, costs.

A 100 percent allowance for loss is established for all delinquent accounts 90 days and over for bond refunding. The allowance for loss methodology adjusts the total delinquencies greater than 90 days by the effects of economic stress factors, which include likely payoffs, foreclosures, bankruptcies, and hardships of the project. Adjustments to the bond refunding 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.

Criminal Restitution

Pursuant to the most recent OMB *Circular A-136*, HUD must disclose separately any criminal restitution that is included in AR, it must include the gross amount of receivables related to criminal restitution orders monitored by HUD and the estimate of net realizable value determined to be collectible for criminal restitution orders monitored by HUD. HUD Proper has recorded a 100 percent allowance against the criminal restitution accounts receivables based on management's expectation that these amounts are not probable of collection.

Criminal Restitution are payments by an offender to the victim for the harm caused by the offender's wrongful acts. Courts have the authority to order convicted offenders to pay restitution to victims as part of their sentences. There are several primary stakeholders in the criminal debt data management process. In the judicial branch, stakeholders are the District Court Clerk's Office and the Probation Office, in the executive branch, the stakeholders are the Department of Justice which includes the U.S. Attorney's Office (USAO) and the Bureau of Prison (BOP). The USAO is statutorily responsible for the enforcement of the collections of criminal debt and the District Courts are responsible for receipting payments, disbursing restitution to victims, and tracking the debt.

FHA's Criminal Restitutions are defined as criminal remedies for false claims and statements that were not sufficiently responsive to curtailing the serious problem of substantial loss to the Government when individuals were allowed to receive federal funds or benefits to which they were not entitled. FHA has recorded a 51 percent allowance against the criminal restitution accounts receivables.

Ginnie Mae's Criminal Restitution represent amounts due to Ginnie Mae as a result of court order in connection with criminal proceedings against certain defendants, primarily for fraud and false claims. Ginnie Mae has recorded a 100 percent allowance against the criminal restitution accounts receivables based on management's expectation that these amounts are not probable of collection. This assessment is based on Ginnie Mae's position in the recovery hierarchy for debts from defendants, its historical experience with collections on these accounts, and the overall historical experience for the U.S. Government in collecting on this category of receivable.

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

HUD reports pre-1992 direct loans and loan guarantees under the allowance for loss method. Under the allowance for loss method, the nominal amount of the direct loan is reduced by an allowance for uncollectable amounts. The liability for loan guarantees is the amount the agency estimates will more likely than not require a future cash outflow to pay default claims. Net loans receivable or the value of assets related to direct loans is not the same as expected proceeds from selling the loans.

Direct loan obligations and loan guarantee commitments made after FY 1991, and the resulting direct loans or loan guarantees, are governed by the FCRA, as amended. *SFFAS No. 2* requires that the present value of the subsidy costs, which arises from interest rate differentials, interest supplements, and defaults (net of recoveries, fee offsets and other cash flows) associated with direct loans and loan guarantees, be recognized as a cost in the year the direct or guaranteed loan is disbursed. Direct Loans are reported net of an allowance for subsidy at present value and loan guarantee liabilities are reported at present value.

The subsidy rates disclosed pertain only to the current fiscal year's cohorts. These rates cannot be applied to the direct loans and guarantees of loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans and loan guarantees reported in the current year result from disbursement of loans from both current year cohorts and prior year(s) cohorts. The subsidy expense reported in the current year also includes modifications and re-estimates.

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

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

FHA

FHA programs are operated through three insurance funds, the Mutual Mortgage Insurance/Cooperative Management Housing Insurance (MMI/CMHI), General Insurance Risk and Special Risk Insurance (GI/SRI) and the HOPE for Homeowners (H4H) funds, with MMI fund being the largest.

Mutual Mortgage Insurance (MMI)/Cooperative Management Housing Insurance (CMHI)

The MMI Fund provides mortgage insurance on single-family mortgage loans made by FHA-approved lenders and strives to meet the needs of many first-time and minority homebuyers who, without the FHA guarantee, may find mortgage credit to be unaffordable or simply unavailable. Through MMI, FHA offers several types of single-family forward (traditional) mortgage insurance products and Home Equity Conversion Mortgages (HECM) (reverse mortgages) for seniors. Activity for the CMHI fund, which insures mortgages for multifamily cooperatives is also reported together with MMI.

General Insurance and Special Risk Insurance (GI/SRI)

The GI/SRI Fund provides mortgage insurance on multifamily rental housing and healthcare facilities, and single-family Title I manufactured housing and property improvement loans. GI/SRI programs are a critical component of FHA's efforts to meet the Nation's need for decent, safe and affordable housing.

GI/SRI's mortgage programs are designed to operate without the need for subsidy appropriations, with fees set higher than anticipated losses.

In FY 2015, FHA began an FFB Risk Sharing Program, an inter-agency partnership between HUD, FFB, and the Housing Finance Authorities (HFAs). The FFB Risk

Sharing program provides funding for multifamily mortgage loans insured by FHA. Under this program, FHA records a direct loan from the public and borrowing from FFB. The program does not change the basic structure of Risk Sharing Program; it only substitutes FFB as the funding source. The HFAs would originate and service the loans and share in any losses.

Prior to FY 2015, FHA's Direct Loans were a result of Purchase Money Mortgages (PMMs). The Direct loan receivables were primarily multifamily loans and are in the liquidating fund. In addition, FHA has a small amount of new PMMs that are administered by Single-Family Housing. Due to the small size, there is no subsidy associated with these loans.

HOPE for Homeowners (H4H)

This program was authorized under the *Housing and Economic Recovery Act* of *2008*. This program was effective for endorsements on or before September 30, 2011. The *H4H Act* was designed to prevent qualified homeowners from defaulting on their loans and avert foreclosure. This is done through refinancing into affordable, fixed-rate mortgages.

FHA Foreclosed Property:

The balance relating to foreclosures as of September 30, 2019 is comprised of only Single-Family properties. There are no Multifamily properties currently in inventory. The Secretary has the authority under the *National Housing Act (12 U.S.C §1710(g))* to manage or dispose of eligible HUD-owned property assets in a manner that will provide affordable, safe and sanitary housing to low-wealth families, preserve and revitalize residential neighborhoods, expand homeownership opportunities, minimize displacement of tenants residing in rental or cooperative housing, and protect the financial interest of the Federal Government.

Single-Family properties may be sold to eligible entities *(24 Code of Federal Regulations (CFR) §291.303)* through public asset sales. Eligibility of bidders will be determined by the Secretary and included in the bid package with a notice filed in the *Federal Register*. In addition, HUD must ensure that its policies and practices in conducting the single-family property disposition program do not discriminate on the basis of disability *(24 CFR §9.155(a))*.

For FHA foreclosed property, the average number of days in inventory for sold cases is 138 days in FY 2019. The total number of foreclosed properties on-hand as of September 30, 2019 is 7,606.

HUD Proper

HUD Proper's direct loan and/or guarantee programs are in the Housing for the Elderly and Disabled Programs and All Other Programs.

Housing for the Elderly and Disabled Program (HED)

The HED, Sections 202 and 811, were established by the *Housing Act of 1959* and the *National Affordable Housing Act of 1990* respectively to provide critical affordable housing to our nation's elderly and supportive housing for disabled very low-income persons. Assistance was provided to eligible private nonprofit organizations to cover construction, acquisition or rehabilitation expenses as well as rental assistance. There are three parts to the calculation of allowance for loss: Part one is the Loss rate for loans issued a Foreclosure Hearing Letter; Part two is the Loss rate for the estimated number of foreclosures in the current year; and Part three is the Loss rate for loans delinquent for more than 180 days. Loss rates for parts one and two are determined by actual historical data from the previous five years. Loss rates for part three are determined or approved by the Housing Office of Evaluation.

All Other Programs

The All Other have the following direct loan and/or loan guarantee programs: Flexible Subsidy Fund, Section 108 Loan Guarantees, Indian Housing Loan Guarantee Fund, Loan Guarantee Recovery Fund, Native Hawaiian Housing Loan Guarantee Fund, Title VI Indian Housing Loan Guarantee Fund, Green Retrofit Direct Loan Program, and Emergency Homeowners' Loan Program.

Flexible Subsidy Fund

The Flexible Subsidy Fund provided federal assistance for troubled multifamily housing projects which included supporting capital improvements to maintain these low to moderate income projects as authorized by *12 U.S. Code 1715z-1*. There are four parts to the calculation of allowance for loss: Part one is the Loss rate for loans written-off; Part two is the Loss rate for restructured loans; Part three is the Loss rate for loans paid-off; and Part four is the Loss rate for loans delinquent or without repayment activity for 30 years. Loss rates for parts one and three are based on actual historical data derived from the previous three years. The loss rates for parts two and four are provided by or agreed to by the Housing Office of Evaluation.

Section 108 Loan Guarantees

This is a loan guarantee provision of the CDBG program which is authorized by the *Housing and Community Development Act of 1974*, as amended *(42 USC 5308(a))*. Neither the statute nor the regulations limit the portion of the loan guaranteed to less than 100 percent of the principal amount. Under this section, HUD offers communities a source of financing for certain community development activities, such as housing rehabilitation, economic development, and large-scale physical development projects. The purpose is to reaffirm the commitment of the Federal Government to assist local governments in their efforts in stimulating economic and community development activities needed to combat severe economic distress and to help in promoting economic development activities needed to aid in economic recovery as well as promote revitalization and development projects undertaken by local governments that principally benefit persons of low and moderate income, the elimination of slums, and to meet urgent community needs, with special priority for projects located in areas designated as enterprise zones by the Federal Government or by any State.

Indian Housing Loan Guarantee Fund

This loan guarantee fund was established under the *Housing and Community Development Act of 1992* to facilitate homeownership and increase access to capital in Native American Communities. A home mortgage product specifically designed for American Indian and Alaska Native families, Alaska villages, tribes, or tribally designated housing entities. The purpose is to provide access to sources of private financing to Indian families, Indian housing authorities, and Indian tribes, who otherwise could not acquire housing financing because of the unique legal status of Indian lands. The Secretary may guarantee, not to exceed, 100 percent of the unpaid principal and interest due on any loan eligible under subsection (b) made to an Indian family, Indian housing authority, or Indian tribe.

Loan Guarantee Recovery Fund

This loan guarantee fund provides certain nonprofit organizations with a source of financing to rebuild property damaged or destroyed by acts of arson or terrorism. This loan guarantee provision was authorized under the *Church Arson Prevention Act of 1996*.

Native Hawaiian Housing Loan Guarantee Fund

This loan guarantee fund was established by the *Hawaiian Homelands Homeownership Act of 2000* that added a new *Section 184A* to the *Housing and Community Development Act of 1992* which authorized the Native Hawaiian Housing Loan Guarantee Program. The program is designed to offer homeownership, property rehabilitation, and new construction opportunities for eligible Native Hawaiian individuals and families wanting to own a home on Hawaiian homelands. The purpose of the *Section 184A* loan is to provide access to sources of private financing on Hawaiian homelands. *Section 184A* permits HUD to guarantee 100 percent of the unpaid principal and interest due on an eligible loan. The use of the *Section 184A* Loan Guarantee Program is limited to owner-occupant single-family dwellings located on Hawaiian homelands.

Title VI Indian Housing Loan Guarantee Fund

This loan guarantee fund assists Indian Housing Block Grant (IHBG) recipients in financing additional construction or development, including new housing, rehabilitation, infrastructure, community facilities, land acquisition, architectural and engineering plans, and financing costs. It was authorized by Title VI of *Native American Housing Assistance and Self Determination Act (NAHASDA) of 1996*. A guarantee made under Title VI of *NAHASDA* shall guarantee repayment of 95 percent of the unpaid principal and interest due on the notes or other obligations guaranteed.

Green Retrofit Direct Loan Program

This direct loan program was authorized by the *American Recovery and Reinvestment Act of 2009* to ensure that grants and loans are made available to eligible property owners to make energy and green retrofit investments in property and to maintain energy efficient technologies.

Emergency Homeowners' Loan Program

This direct loan program was authorized by the *Dodd-Frank Wall Street Reform and Consumer Protection Act*. It provides mortgage payment relief to eligible homeowners experiencing a drop-in income of at least 15 percent directly resulting from involuntary unemployment or underemployment due to adverse economic conditions and/or a medical emergency.

Current year adjustments were made in the EHLP Substantially Similar States Program Receipt Account (86 2891) and EHLP Direct Loan Financing Account (86X4357) for $91 million and $61 million respectively. These adjustments were made in Northridge Loan System (NLS) using current year accounts and interfaced to ARC's Oracle system Adjustments were needed because NLS was automatically writing off a percentage on each loan annually to bad debt expense for the two EHLP loan programs accounts mentioned above. The SMART system subledger, serviced by Housing in Oklahoma, was tracking each loan in accordance with the specific program requirements. As a result, the SMART system only wrote-off the loan balance when specific circumstances indicated that a write-off was eligible and appropriate for that loan. Because these two systems used different write-off methodologies and since the servicing system SMART is considered the system subsidiary of record for the EHLP Program, OCFO adjusted the write-off balances in NLS to bring the balances in sync with SMART after OCFO Accounting and Systems reconciled the two systems on a loan by loan basis. In addition, this activity was part of the sub-ledger reconciliation effort to reconcile the general ledger and NLS subsidiary ledger.

HUD Proper Foreclosed Property

The Indian Housing Loan Guarantee program had 124 foreclosed properties on-hand as of September 30, 2019. The average number of days in inventory for fee simple property (39 properties) is 121 days and 903 days for Indian Trust Land (85 properties). The following tables are 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 September 30, 2019:

B. Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method)

Note 7: Direct Loans and Loan Guarantees, Non-Federal Borrowers
For The Year Ended September 30, 2019
(Dollars in Millions)

	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans
Direct Loan Programs					
FHA					
b) GI/SRI Direct Loan Program	$ 8	$ 14	$ (4)	$ -	$ 18
Housing for the Elderly and Disabled	672	10	(10)	-	672
All Other					
b) Flexible Subsidy Fund	$ 311	$ 44	$ (36)	$ -	$ 319
Total	**$ 991**	**$ 68**	**$ (50)**	**$ -**	**$ 1,009**

C. Direct Loans Obligated After-1991

Note 7: Direct Loans and Loan Guarantees, Non-Federal Borrowers
For The Year Ended September 30, 2019
(Dollars in Millions)

	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Costs (Present Value)	Foreclosed Property	Value of Assets Related to Direct Loans
Direct Loan Programs					
FHA					
a) MMI/CMHI Direct Loan Program	$ -	$ -	$ -	$ -	$ -
b) GI/SRI Direct Loan Program	1,970	5	306	-	2,281
All Other					
a) Green Retrofit Program	$ 46	$ 1	$ (39)	$ -	$ 8
b) Emergency Homeowners' Relief Fund	60	-	(61)	-	(1)
c) EHLP Assigned Loans Receipt Account	103	-	-	-	103
Total	**$ 2,179**	**$ 6**	**$ 206**	**$ -**	**$ 2,391**

D. Total Amount of Direct Loans Disbursed (Post-1991)

Note 7: Direct Loans and Loan Guarantees, Non-Federal Borrowers
For The Year Ended September 30, 2019
(Dollars in Millions)

Direct Loan Programs	
FHA Risk Sharing Program	$ 324
All Other	
a) Green Retrofit Program	$ (3)
b) Emergency Homeowners' Relief Fund	(2)
Total	**$ 319**

E. Subsidy Expense for Direct Loans by Program and Component

1. Subsidy Expense for New Direct Loans Disbursed

Note 7: Direct Loans and Loan Guarantees, Non-Federal Borrowers
For The Year Ended September 30, 2019
(Dollars in Millions)

	Interest	Defaults	Fees	Other	Total
Direct Loan Programs					
FHA Risk Sharing Program	$ (66)	$ -	$ (1)	$ 17	$ (50)
All Other					
a) Green Retrofit Program	$ -	$ -	$ -	$ -	$ -
b) Emergency Homeowners' Relief Fund	-	-	-	-	-
Total	**$ (66)**	**$ -**	**$ (1)**	**$ 17**	**$ (50)**

2. Modifications and Re-estimates

Note 7: Direct Loans and Loan Guarantees, Non-Federal Borrowers
For The Year Ended September 30, 2019
(Dollars in Millions)

	Total Modifications	Interest Rate Re-estimates	Technical Re-estimates	Total Re-estimates
Direct Loan Programs				
FHA Risk Sharing Program	$ -	$ -	$ (48)	$ (48)
All Other				
a) Green Retrofit Program	$ -	$ -	$ (3)	$ (3)
b) Emergency Homeowners' Relief Fund	-	-	(2)	(2)
Total	**$ -**	**$ -**	**$ (53)**	**$ (53)**

3. Total Direct Loan Subsidy Expense

Note 7: Direct Loans and Loan Guarantees, Non-Federal Borrowers
For The Year Ended September 30, 2019
(Dollars in Millions)

Direct Loan Programs	
FHA Risk Sharing Program	$ (98)
All Other	
a) Green Retrofit Program	$ (3)
b) Emergency Homeowners' Relief Fund	(2)
Total	**$ (103)**

F. Subsidy Rates for Direct Loans by Program and Component

Budget Subsidy Rates for Direct Loans

Note 7: Direct Loans and Loan Guarantees, Non-Federal Borrowers
For The Year Ended September 30, 2019
Forms

	Interest	Defaults	Fees and Other Collections	Other	Total
FHA Risk Sharing Program	-17.29%	0.01%	-2.05%	4.95%	-14.38%
Green Retrofit Program (HUD Appropriation 86X4589)	41.00%	42.60%	0.00%	-1.30%	82.30%
Emergency Homeowners' Relief fund (HUD Appropriation 86X4357)	0.00%	0.00%	0.00%	97.70%	97.70%

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

Note 7: Direct Loans and Loan Guarantees, Non-Federal Borrowers
For The Year Ended September 30, 2019
(Dollars in Millions)

	FHA Programs	All Other Financing Only	Total
Beginning Balance, Changes, and Ending Balance			
Beginning Balance of Subsidy Cost Allowance	$ (203)	$ 47	$ (156)
Add: subsidy expense for direct loans disbursed during reporting years by component:			
(a) Interest rate differential costs	$ (66)	$ -	$ (66)
(b) Default Costs (net of recoveries)	-	-	-
(c) Fees and Other Collections	(1)	-	(1)
(d) Other Subsidy Costs	17	-	17
Total of the above subsidy expense components	**$ (50)**	**$ -**	**$ (50)**
Adjustments:			
(a) Loan Modifications	$ -	$ -	$ -
(b) Fees Received	1	-	1
(c) Foreclosed Properties Acquired	-	-	-
(d) Loans Written Off	-	59	59
(e) Subsidy Allowance Amortization	(3)	-	(3)
(f) Other	(3)	-	(3)
Ending balance of the subsidy cost allowance before re-estimates	**$ (258)**	**$ 106**	**$ (152)**
Add or subtract subsidy re-estimates by component:			
(a) Interest Rate Re-estimate	$ -	$ -	$ -
(b) Technical/default Re-estimate	(193)	(5)	(198)
Adjustment prior years' credit subsidy re-estimates	145	-	145
Total of the Above Re-estimate Components	**$ (48)**	**$ (5)**	**$ (53)**
Ending Balance of the Subsidy Costs Allowance	**$ (306)**	**$ 101**	**$ (205)**

H. Defaulted Guaranteed Loans from Pre-1992 Guarantees

Note 7: Direct Loans and Loan Guarantees, Non-Federal Borrowers
For The Year Ended September 30, 2019
(Dollars in Millions)

	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					
MMI/CMHI					
a) Single Family	$ 16	$ -	$ (3)	$ 4	$ 17
b) Multi Family	-	-	-	-	-
c) HECM	-	-	-	-	-
GI/SRI					
a) Single Family	$ 1	$ -	$ (5)	$ 9	$ 5
b) Multi Family	1,422	243	(587)	(5)	1,073
c) HECM	3	-	(1)	(2)	-
Total	**$ 1,442**	**$ 243**	**$ (596)**	**$ 6**	**$ 1,095**

I. Defaulted Guaranteed Loans from Post-1991 Guarantees

Note 7: Direct Loans and Loan Guarantees, Non-Federal Borrowers
For The Year Ended September 30, 2019
(Dollars in Millions)

	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property, Net	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
FHA					
MMI/CMHI					
a) Single Family	$ 12,705	$ -	$ (4,584)	$ 1,005	$ 9,126
b) Multi Family	-	-	-	-	-
c) HECM	15,010	10,799	(7,925)	142	18,026
GI/SRI					
a) Single Family	$ 410	$ -	$ (147)	$ 13	$ 276
b) Multi Family	735	-	(344)	19	410
c) HECM	4,685	2,860	(3,030)	152	4,667
H4H					
a) Single Family	$ 6	$ -	$ (3)	$ -	$ 3
All Other					
a) Indian Housing Loan Guarantee	$ -	$ -	$ -	$ 9	$ 9
b) Native Hawaiian Housing Loan Guarantee	-	-	-	-	-
Total	**$ 33,551**	**$ 13,659**	**$ (16,033)**	**$ 1,340**	**$ 32,517**
Total Credit Program Receivables and Related Foreclosed Property, Net					**$ 37,012**

J. Guaranteed Loans Outstanding

1. Guaranteed Loans Outstanding:

Note 7: Direct Loans and Loan Guarantees, Non-Federal Borrowers For The Year Ended September 30, 2019 (Dollars in Millions)		
	Outstanding Principal Guaranteed Loans Face Value	**Amount of Outstanding Principal Guaranteed**
Loan Guarantee Programs		
FHA		
a) MMI/CMHI Funds	$ 1,367,830	$ 1,224,998
b) GI/SRI Funds	156,702	141,185
c) H4H Program	69	60
All Other	$ 8,859	$ 8,855
Total	**$ 1,533,460**	**$ 1,375,098**

2. Home Equity Conversion Mortgage Loans Outstanding:

Note 7: Direct Loans and Loan Guarantees, Non-Federal Borrowers For The Year Ended September 30, 2019 (Dollars in Millions)			
	Current Year Endorsements	**Current Outstanding Balance**	**Maximum Potential Liability**
Loan Guarantee Programs			
FHA Programs	$ 10,856	$ 87,908	$ 128,584

3. New Guaranteed Loans Disbursed:

Note 7: Direct Loans and Loan Guarantees, Non-Federal Borrowers For The Year Ended September 30, 2019 (Dollars in Millions)		
	Principal of Guaranteed Loans, Face Value	**Amount of Principal Guaranteed**
FHA		
a) MMI/CMHI Funds	$ 214,634	$ 212,981
b) GI/SRI Funds	15,220	15,166
c) H4H Program	-	-
All Other	$ 459	$ 459
Total	**$ 230,313**	**$ 228,606**

K. Liability for Loan Guarantees

1. Liability for Loan Guarantees (Estimated Future Default Claims for Pre-1992 Guarantees):

Note 7: Direct Loans and Loan Guarantees, Non-Federal Borrowers
For The Year Ended September 30, 2019
(Dollars in Millions)

Loan Guarantee Programs	Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims	Liabilities for Loan Guarantees, for Post 1991 Guarantees, (Present Value)	Total Liabilities For Loan Guarantees
FHA Programs	$ -	$ 2,355	$ 2,355
All Other	-	159	159
Total	**$ -**	**$ 2,514**	**$ 2,514**

L. Subsidy Expense for Post-1991 Guarantees

1. Subsidy Expense for Loan Guarantees:

Note 7: Direct Loans and Loan Guarantees, Non-Federal Borrowers
For The Year Ended September 30, 2019
(Dollars in Millions)

Loan Guarantee Programs	Endorsement Amount	Interest Supplements	Default Component	Fees Component	Other Component	Subsidy Amount
FHA						
a) MMI/CMHI Funds, Excluding HECM	$ 214,634	$ -	$ 5,266	$ (14,153)	$ 2,016	$ (6,871)
b) MMI/CMHI Funds, HECM	10,856	-	426	(442)	-	(16)
c) GI/SRI Funds	15,220	-	120	(567)	-	(447)
d) H4H Program	-	-	-	-	-	-
All Other	$ -	$ -	$ 9	$ (7)	$ -	$ 2
Total	**$ 240,710**	**$ -**	**$ 5,821**	**$ (15,169)**	**$ 2,016**	**$ (7,332)**

2. Modification and Re-estimates:

Note 7: Direct Loans and Loan Guarantees, Non-Federal Borrowers For The Year Ended September 30, 2019 (Dollars in Millions)				
	Total Modifications	**Interest Rate Re-estimates**	**Technical Re-estimates**	**Total Re-estimates**
Loan Guarantee Programs				
FHA				
a) MMI/CMHI Funds	$ -	$ (129)	$ (17,051)	$ (17,180)
b) GI/SRI Funds	-	(34)	(108)	(142)
c) H4H Program	-	-	(18)	(18)
All Other	$ -	$ (3)	$ (79)	$ (82)
Total	**$ -**	**$ (166)**	**$ (17,256)**	**$ (17,422)**

3. Total Loan Guarantee Subsidy Expense

Note 7: Direct Loans and Loan Guarantees, Non-Federal Borrowers For The Year Ended September 30, 2019 (Dollars in Millions)	
	Current Year
Loan Guarantee Programs	
FHA	
a) MMI/CMHI Funds	$ (24,067)
b) GI/SRI Funds	(589)
c) H4H Program	(18)
All Other	$ (80)
Total	**$ (24,754)**

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

Note 7: Direct Loans and Loan Guarantees, Non-Federal Borrowers
For The Year Ended September 30, 2019
(Dollars in Millions)

	Default	Fees and Other Collections	Other	Total
MMI/CMHI Funds				
Single Family - Forward	3.58%	-6.79%	0.00%	-3.21%
Single Family - HECM	4.45%	-4.60%	0.00%	-0.15%
Multi Family - Default CMHI (Cooperatives)	3.58%	-6.79%	0.00%	-3.21%
GI/SRI Funds				
Title I - Manufactured Housing	6.09%	-9.96%	0.00%	-3.87%
Title I - Property Improvements	4.43%	-5.43%	0.00%	-1.00%
Apartments - NC/SC 10/1/18-05/13/19	1.34%	-1.54%	0.00%	-0.20%
Apartments - NC/SC Current	1.34%	-1.53%	0.00%	-0.19%
Tax Credit Projects 10/1/18-05/13/19	0.26%	-2.75%	0.00%	-2.49%
Tax Credit Projects Current	0.26%	-2.73%	0.00%	-2.47%
Apartments - Refinance	0.09%	-3.36%	0.00%	-3.27%
HFA Risk Share	0.01%	-0.23%	0.00%	-0.22%
Other Rentals 10/1/18-05/13/19	0.65%	-1.54%	0.00%	-0.89%
Other Rentals Current	0.65%	-1.52%	0.00%	-0.87%
Healthcare				
FHA Full Insurance - Health Care	1.47%	-7.28%	0.00%	-5.81%
Health Care Refinance	0.94%	-6.17%	0.00%	-5.23%
Hospitals	1.46%	-7.05%	0.00%	-5.59%
Other HUD Programs				
CDBG, Section 108(b)	0.64%	-0.64%	0.00%	0.00%
Loan Guarantee Recovery Fund	50.00%	0.00%	0.00%	50.00%
Indian Housing Loan Guarantee Fund	3.41%	-3.86%	0.71%	0.26%
Hawaiian Home Guarantee Loan Fund	0.68%	-1.00%	0.00%	-0.32%
Title VI Indian Housing Loan Guarantee	11.26%	0.00%	0.00%	11.26%

N. Schedule for Reconciling Loan Guarantee Liability Balances (Post-1991 Loan Guarantees)

Note 7: Direct Loans and Loan Guarantees, Non-Federal Borrowers For The Year Ended September 30, 2019 (Dollars in Millions)	
Beginning balance of the loan guarantee liability	$ 19,333
Add: subsidy expense for guaranteed loans disbursed during the reporting years by component:	
(b) Default costs (net of recoveries)	$ 5,821
(c) Fees and Other Collections	(15,169)
(d) Other subsidy costs	2,016
Total of the above subsidy expense components	**$ (7,332)**
Adjustments:	
(b) Fees Received	$ 14,158
(d) Foreclosed Properties and Loans Acquired	15,960
(e) Claims Payments to Lenders	(21,633)
(f) Interest Accumulation on the Liability Balance	(429)
(g) Other	92
Ending Balance of the Loan Guarantee Liability before reestimates	**$ 20,149**
Add or Subtract subsidy re-estimates by component:	
(a) Interest Rate Reestimate	$ (166)
(b) Technical Default Reestimate	(11,854)
(c) Adjustment of prior years' credit subsidy reestimates	(5,402)
Total of the above re-estimate components	**$ (17,422)**
Ending Balance of the Loan Guarantee Liability	**$ 2,727**
Adjustment for Unrealized Ginnie Mae claims from defaulted loans	**$ (213)**
Ending Balance of the Loan Guarantee Liability	**$ 2,514**

O. Administrative Expenses

Note 7: Direct Loans and Loan Guarantees, Non-Federal Borrowers For The Year Ended September 30, 2019 (Dollars in Millions)	
Loan Guarantee Programs	
FHA	$ 748
All Other	-
Total	**$ 748**

Note 8: Other Non-Credit Reform Loans

The following table shows HUD's Other Non-Credit Reform Loans Receivable:

Note 8: Other Non-Credit Reform Loans
For The Year Ended September 30, 2019
(Dollars in Millions)

	Ginnie Mae Reported Balances (Gross)	Ginnie Mae Allowance	Ginnie Mae Reported Balances	Allowance for Loan Losses Due to Payment of Probable Claims by FHA	ONCRL Value of Assets Related to Loans
Mortgage Loans Held for Investment	$ 2,485	$ (143)	$ 2,342	$ (195)	$ 2,147
Advances Against Defaulted Mortgage-Backed Security Pools, Net	1	-	1	-	1
Properties Held for Sale, Net	10	-	10	-	10
Claims Receivable	-	-	-	-	-
Foreclosed Property	204	(34)	170	(16)	154
Short Sale	3	-	3	(2)	1
Total	**$ 2,703**	**$ (177)**	**$ 2,526**	**$ (213)**	**$ 2,313**

Other Non-Credit Reform Loans consist of Ginnie Mae Advances, Mortgage Loans Held for Investment, Claims Receivable, and Properties Held for Sale. Ginnie Mae has applied *SFFAS No. 34: The Hierarchy of Generally Accepted Accounting Principles* in the accounting and presentation of its Other Non-Credit Reform Loans as the accounting treatment for these transactions are not specified in FASAB and its related guidance. Ginnie Mae Other Non-Credit Reform Loans disclosures below are presented in accordance with guidance in FASB *ASC 310: Receivables*, *ASC 820: Fair Value Measurement, ASC 825: Financial Instruments, ASC 835: Interest,* as well as relevant industry practices based on the U.S. Securities and Exchange Commission's Regulation S-X. Below is a description of each type of asset recorded by Ginnie Mae and associated disclosures.

A. Advances, Net

Advances include payments made to cover any shortfalls to investors resulting from mortgagors defaulting on their mortgage payments, and to active issuers under special assistance programs where Ginnie Mae may assist issuers with pass through payments if issuer have a qualifying portfolio. Advances are reported net of an allowance, which is based on management's expectations of future collections from issuers, mortgagors, or recoverability from third-party insurers such as FHA.

During the year ended September 30, 2019, 3 issuers defaulted, and were subsequently terminated and extinguished. Ginnie Mae assumed the servicing rights and obligations of the issuers and advanced funds to the MSS throughout 2019 to cover P&I not yet paid by mortgagors, but due to the MBS investors.

Ginnie Mae's advances are presented netted in accordance with guidance within *ASC 310: Receivables*. The net carrying value of the advances balance is $1 million at September 30, 2019 with immaterial allowance for uncollectable advances.

B. Mortgage Loans Held for Investment, Net

Ginnie Mae classifies loans as either HFS or HFI. At September 30, 2019, Ginnie Mae's loan portfolio did not include any HFS loans. Ginnie Mae initially reports the carrying value of HFI loans at the recorded investment of the mortgage loan, which represents the UPB along with accrued interest, net of cost basis adjustments, and net of allowance for loan losses.

These HFI loans are periodically evaluated for impairment in accordance with guidance in *SFFAS No. 1: Accounting for Selected Assets and Liabilities – Accounts Receivable and SFFAS No. 5: Accounting for Liabilities of the Federal Government – Contingencies or ASC 310-10-35: Receivables – Overall.* Ginnie Mae's credit risk exposure on its HFI mortgage loans portfolio is limited by the underlying guaranty or insurance on loans, which may include FHA, RD, VA, and PIH.

For the year ended September 30, 2019, Ginnie Mae purchased $7 million of HFI out of the MBS pools from terminated and extinguished issuers.

The table below presents the carrying value of HFI loans including accrued interest broken down by underlying insuring agencies:

8B1 Mortgage Loans Held for Investment, Net:

Note 8: Other Non-Credit Reform Loans
For The Year Ended September 30, 2019
(Dollars in Millions)

	Conventional	FHA	VA	RD	Total
Mortgage Loans Held for Investment UPB	$ 133	$ 2,203	$ 105	$ 44	$ 2,485
Accrued Interest Receivable	1	16	1	-	18
Total Recorded Investment in Loans	**$ 134**	**$ 2,219**	**$ 106**	**$ 44**	**$ 2,503**
Allowance for Loan Losses	$ (4)	$ (134)	$ (4)	$ (2)	$ (144)
Mortgage Loans Held for Investment, Net	**$ 130**	**$ 2,085**	**$ 102**	**$ 42**	**$ 2,359**

Note that carrying value above includes UPB, accrued interest and associated allowances. Accrued interest and associated allowances are included and disclosed in Note (6) Accounts Receivable, Net, under Ginnie Mae Fees and Interest Receivable line item. Disclosures included in tables 8B2, 8B6 and 8B7 are presented in terms of total recorded investment which reconciles to the disclosed recorded investment per the table above.

B2. Credit Quality Indicators

When estimating defaults, prepayments and recovery, Ginnie Mae considers a number of indicators including macro-economic factors such as interest rates, home price indices, and unemployment rates. In addition, Ginnie Mae considers a number of credit quality indicators such as loan-to-value (LTV) ratios, current delinquency status, and recent payment history over the past twelve months.

Ginnie Mae's Credit Quality Indicators are presented in accordance with guidance within ASC 310: *Receivables.* The recorded investment for mortgage loans by original LTV ratio was as follows:

Table 8B2 Recorded Investment for Mortgage Loans by Original LTV Ratio:

Note 8: Other Non-Credit Reform Loans
For The Year Ended September 30, 2019
(Dollars in Millions)

	Less than 80%	80 to 100%	Greater than 100%	Total
Conventional	$ 9	$ 120	$ 5	$ 134
FHA	147	2,032	40	2,219
VA	7	77	22	106
RD	1	32	11	44
Total	**$ 164**	**$ 2,261**	**$ 78**	**$ 2,503**

B3. Impaired Loans

Ginnie Mae's impaired loans include TDR and PCI loans. Ginnie Mae measures impairment based on the present value of expected future cash flows for each loan classified as TDR or PCI.

Ginnie Mae's Impaired Loans are presented in accordance with guidance in *ASC 310: Receivables*. The number of loans, recorded investment, related allowance, UPB, average recorded investment, and total interest income recognized for impaired mortgage loans at September 30, 2019 by underlying insurance agencies were as follows:

Table 8B3 - Number of loans, recorded investment, related allowance, UPB, average recorded investment, and total interest income recognized for impaired mortgage loans:

Note 8: Other Non-Credit Reform Loans For The Year Ended September 30, 2019 (Dollars in Millions)	Recorded Investment	Related Allowance	Unpaid Principal Balance	Average Recorded Investment	Total Interest Income Recognized
With Related Allowance Recorded:					
Conventional	$ 48	$ (3)	$ 48	$ 50	$ 2
FHA	1,510	(130)	1,502	1,560	68
VA	71	(4)	71	74	3
RD	29	(3)	28	30	2
Total Impaired Loans with Related Allowance Recorded	**$ 1,658**	**$ (140)**	**$ 1,649**	**$ 1,714**	**$ 75**
With No Related Allowance Recorded:					
Conventional	$ 15	$ -	$ 15	$ 18	$ -
FHA	319	-	314	363	13
VA	35	-	34	44	2
RD	16	-	16	19	1
Total Impaired Loans with No Related Allowance Recorded	**$ 385**	**$ -**	**$ 379**	**$ 444**	**$ 16**
Total Impaired Loans	**$ 2,043**	**$ (140)**	**$ 2,028**	**$ 2,158**	**$ 91**

Within the table above, interest income on impaired loans is recognized subject to Ginnie Mae's non-accrual policy (as applicable), as discussed in Note (1) Summary of Significant Accounting Policies. The recorded investment, related allowance, and UPB for TDRs was $1,989 million, $139 million, and $1,975 million respectively, at September 30, 2019. The recorded investment, related allowance, and UPB for PCI loans was $54 million, $1 million, and $54 million respectively. Note that the total of the TDRs and PCI loans above agree to the total "impaired loans" shown in the table above.

B4. Troubled Debt Restructuring

A restructuring of a debt constitutes a TDR if Ginnie Mae, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. Additionally, Chapter 7 Bankruptcies which result in a discharge to the borrower are considered TDR loans by Ginnie Mae, because the borrower is undergoing financial difficulty or insolvency and concessions are made to the borrower.

Based on Ginnie Mae's modification programs, most of the loan modifications that Ginnie Mae completes result in term extensions, interest rate reductions (lower than what the mortgagor would receive in the market at the time of the modification) or a combination of both concessions. Ginnie Mae considers these modifications a concession to mortgagors experiencing financial difficulties and therefore classifies these loans as TDRs.

The average term extension granted by Ginnie Mae was 118 months for the year ended September 30, 2019. The average interest rate reduction was 1.12 percentage points for the year ended September 30, 2019.

Ginnie Mae's Troubled Debt Structuring is presented in accordance with guidance in *ASC 310: Receivables*. The number of loans and recorded investment of loans newly classified as a by underlying insurance agencies were as follows:

Table 8B4 - Number of loans and recorded investment of loans newly classified as a TDR:

Note 8: Other Non-Credit Reform Loans For The Year Ended September 30, 2019 (Dollars in Millions)		
	Number of Loans	**Recorded Investment**
Conventional	13	$ 1
FHA	171	22
VA	9	1
RD	8	1
Total	**201**	**$ 25**

The number of loans and total recorded investment at September 30, 2019 for the loans that entered a TDR in the preceding year and for which there was a payment default:

Table 8B4A - Number of loans and total recorded investment for the loans that entered a TDR in the preceding twelve months and for which there was a payment default during the period:

Note 8: Other Non-Credit Reform Loans For The Year Ended September 30, 2019 (Dollar in Millions)		
	Number of Loans	**Recorded Investment**
Conventional	13	$ 1
FHA	154	20
VA	8	1
RD	8	1
Total	**183**	**$ 23**

B5. Purchased Credit-Impaired Loans

Upon acquisition, if the purchased loan is delinquent and is not guaranteed or insured by FHA, Ginnie Mae concludes that it is probable that it will not collect all contractually required payments receivable. Accordingly, these loans are considered PCI mortgage loans.

Historically, Ginnie Mae has not applied the PCI guidance to its loans purchased with evidence of credit deterioration due to data and infrastructure constraints. Currently, upon acquisition, the PCI loans are recorded at UPB, less allowance. Ginnie Mae measures subsequent impairment on these loans based on the present value of expected future cash flows. Refer to Note (1) Summary of Significant Accounting Policies for more information.

Ginnie Mae does not consider delinquent FHA guaranteed or insured acquired loans as PCI because the UPB and the majority of the delinquent accrued interest are deemed collectible per the FHA insurance reimbursement guidelines. The FHA insurance is inseparable from the underlying loan and remains with the loan upon transfer or disposition.

For the year ended September 30, 2019, there were $1 million purchases of loans classified as PCI. Due to its current approach, Ginnie Mae does not have the data to disclose the accretable yield for PCI mortgage loans. Additionally, Ginnie Mae does not have the data to disclose the cash flows expected to be collected, and fair value at the acquisition date for the loans acquired during the period.

B6. Aging Analysis

Ginnie Mae's Aging Analysis is presented in accordance with guidance within *ASC 310: Receivables.* An aging analysis of the total recorded investment in Ginnie Mae's HFI mortgage loans by underlying insuring agency includes accrued interest (which is separately classified in Note (6) Accounts Receivable, Net) follows:

Table 8B6 - Aging Analysis of the Total Recorded Investment in Ginnie Mae's HFI Mortgage Loan:

Note 8: Other Non-Credit Reform Loans
For The Year Ended September 30, 2019
(Dollars in Millions)

	One Month Delinquent	Two Months Delinquent	Three Months Delinquent	Four Months or More Delinquent	Total Delinquent	Current	Total	Loans Over 90 Days Delinquent and Accruing Interest	Recorded Investment in Non-accrual Loans
Conventional	$ 12	$ 5	$ 1	$ 13	$ 31	$ 103	$ 134	$ -	$ 24
FHA	278	100	28	317	723	1,496	2,219	317	-
VA	12	4	3	25	44	62	106	25	-
RD	5	3	1	9	18	26	44	9	-
Total	**$ 307**	**$ 112**	**$ 33**	**$ 364**	**$ 816**	**$ 1,687**	**$ 2,503**	**$ 351**	**$ 24**

B7. Foreclosures in Process

Physical possession of residential real estate property is achieved when either the creditor obtains legal title to the residential real estate property upon completion of a foreclosure or the mortgagor conveys all interest in the residential real estate property through completion of a deed in lieu of foreclosure in order to satisfy that loan.

Ginnie Mae accounts for the mortgage loans as Foreclosure in Process if the foreclosure has been filed but not completed. Although foreclosure has been filed, the foreclosure process has not been completed and Ginnie Mae has not received physical possession of the underlying property, and accordingly, Foreclosure in Process loans are accounted for similar to mortgage loans HFI and are reported as a part of the HFI portfolio.

Ginnie Mae's Foreclosures in Process is presented in accordance with guidance within *ASC 310: Receivables.* There were 1,029 properties for which formal foreclosure proceedings are in process with a recorded investment of $160 million as of September 30, 2019.

B8. Allowance for Loan Losses

Ginnie Mae maintains an allowance for probable incurred losses related to non-pooled mortgage loans. The allowance for loan losses involves significant management judgment and estimates of credit losses inherent in the mortgage loan portfolio. The allowance for loan losses is intended to reduce the carrying value of Ginnie Mae's HFI and related accrued interest for probable credit losses embedded in the loan portfolio at the balance sheet date. HFI and accrued interest are reported net of the allowance on the Balance Sheet as part of Other Non-Credit Reform Loans, Net and Accounts Receivable, Net lines, respectively.

Ginnie Mae relies on MSS reports for information to assess mortgagors' ability to pay current economic environment assessment, and potential insurance recoveries as determinants in the statistical models that evaluate HFI collectability. Homogeneous pools of mortgage loans are defined on common characteristics such as LTV ratios, loan product type, insurance type, and geographic region.

The projections are built based on actual loan performance data, current economic environment, and management judgment. Ginnie Mae monitors its projections of claim recoveries regularly to validate reasonableness. Ginnie Mae validates and updates its models and assumptions to capture changes in Ginnie Mae's servicing experience and changes in government policies and programs. When estimating defaults, prepayments and recoveries, Ginnie Mae considers a number of indicators including macro-economic factors such as interest rates, home price indices, and unemployment rates. In addition, Ginnie Mae considers a number of credit quality indicators such as LTV ratios, current delinquency status, and recent payment history. Other characteristics include age of loan, year of origination, insuring agency, spread of mortgage rate to relevant market rate, and payment structure. Ginnie Mae uses probability of default and probability of prepayment models which employ logistic regressions to calculate dynamic default and prepayment probabilities based on actual loan performance data for Ginnie Mae's loan population and macroeconomic conditions.

Ginnie Mae's Allowance for Loan Losses are presented in accordance with guidance within ASC 310: *Receivables*. The total recorded investment and allowance for loan losses by allowance methodology at September 30, 2019 were as follows:

Table 8B8 - Allowance for Loan Losses:

Note 8: Other Non-Credit Reform Loans For The Year End September 30, 2019 (Dollars in Millions)	
Recorded Investment:	
Collectively Evaluated	$ 461
Individually Evaluated	1,988
Purchase Credit Impaired	54
Total Recorded Investment in Loans	**$ 2,503**
Ending Balance of the Allowance for Loan Losses:	
Collectively Evaluated	$ (4)
Individually Evaluated	(139)
Purchase Credit Impaired	(1)
Total Allowance for Loan Losses	**$ (144)**
Net Investment in Mortgage Loans HFI	**$ 2,359**

Note that recorded investment above includes UPB, accrued interest and associated allowances. Accrued interest and associated allowances are included in Note (6) Accounts Receivable, Net.

The changes in Ginnie Mae's allowance for loan losses during the year were as follows:

Table 8B8(1) Changes in Allowance for Loan Losses:

Note 8: Other Non-Credit Reform Loans For The Year End September 30, 2019 (Dollars in Millions)	
	YTD as of September 2019
Beginning Balance	$ (209)
Recapture (provision) for Loan Losses	58
Charge Offs	12
Recoveries	(5)
Ending Balance	**$ (144)**

As discussed in Note (1) Summary of Significant Accounting Policies, Ginnie Mae determines the allowance for loan losses on a collective basis for whole loans under *SFFAS No. 1* and *SFFAS No. 5,* and determines the allowance under FASB *ASC 310 Receivables* for its impaired loans, in accordance with *SFFAS No. 34: The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board.*

Ginnie Mae's charge offs may include write downs recorded when the mortgage loan receivables are transferred between certain asset classes. Ginnie Mae's recoveries may include miscellaneous adjustments and charge offs reversals. During fiscal year 2019, Ginnie Mae began to receive and process the required information and account for charge-offs and recoveries on a prospective basis.

A. Claims Receivable, Net

Claims receivable are balances owed to Ginnie Mae from insuring or guaranteeing agencies (FHA, VA, RD, and PIH) related to conveyed properties and short sales. Short sales receivable represents payments owed to Ginnie Mae by insuring or guaranteeing agencies for properties where the net proceeds from a short sale are insufficient to repay amounts owed by the borrower, in accordance with the respective agency guidelines. Foreclosed property claims receivable represent amounts Ginnie Mae expects to receive from insuring or guaranteeing agencies for properties where Ginnie Mae has received title in lieu of foreclosure and intends to convey such title to the insuring or guaranteeing agency. Ginnie Mae records an allowance that represents the expected claims amounts which will not be recovered. Ginnie Mae's Claims Receivable is presented in accordance with guidance within *ASC 310: Receivables.*

Ginnie Mae's foreclosed property and short sale claims receivable and related allowance, were:

Table 8A1. Claims Receivable, Net

Note 8: Other Non-Credit Reform Loans
For The Year Ended September 30, 2019
(Dollars in Millions)

	FHA	VA	RD	Total
Foreclosed Property Claims Receivable	$ 192	$ 7	$ 5	$ 204
Short Sale Claims Receivable	2	1	-	3
Allowance for Claims Receivable	(31)	(2)	(1)	(34)
Claims Receivable, Net	**$ 163**	**$ 6**	**$ 4**	**$ 173**

The foreclosed property claims, and short sale claims allowance balances are estimated based on underlying insuring or guaranteeing agency guidelines, and historical collectability experience.

The allowance for claims receivable includes effects of charge offs and recoveries. A claims receivable is recognized for the amount recoverable from the insurers and any excess amounts not recoverable are charged off against the allowance for loan losses. The amount of claims receivable not reimbursed by insuring or guaranteeing agencies is charged off against the allowance for claims receivable. If the claim proceeds received exceed the claims receivable's carrying amount, Ginnie Mae will apply the excess to amounts previously charged-off (i.e., recovery) with any residual amounts recognized as a gain.

B. Properties Held for Sale, Net

Ginnie Mae records properties held for sale or "acquired property" when it obtains marketable title to the underlying property after the foreclosure process is complete or the date on which Ginnie Mae received marketable title to the property through a deed-in-lieu of foreclosure. The acquired properties are typically either RD insured, VA insured or uninsured conventional loans. Acquired properties are assets that Ginnie Mae intends to sell and is actively marketing through the MSS. Ginnie Mae initially recognizes acquired property at its initial fair value less estimated costs to sell the property. This requires Ginnie Mae to make significant estimates in determining the fair value of acquired properties at acquisition.

Ginnie Mae uses fair value measurements under *ASC 820: Fair Value Measurements* for the initial recognition of assets and liabilities and periodic re-measurement of certain assets and liabilities on a recurring or non-recurring basis. *ASC 820: Fair Value Measurements* defines fair value, establishes a framework for measuring fair value, and sets forth disclosure requirements regarding fair value measurements. This guidance applies whenever other accounting guidance requires or permits assets or liabilities to be measured at fair value. Fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or, in the absence of a principal market, in the most advantageous market for the asset or liability.

In determining fair value, Ginnie Mae uses various valuation techniques. The inputs to the valuation techniques are categorized into a three-level hierarchy, as described below:

Level 1: Quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.
Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Ginnie Mae subsequently measures acquired properties at the lower of cost or market "LOCOM". Ginnie Mae recognizes any subsequent write-downs of the property to its fair value less estimated costs through a valuation allowance with an offsetting charge to "Expense (income) on acquired property" included in gross cost in the SNC. Any recoveries for subsequent increases in fair value less estimated costs to sell are recognized up to the cumulative loss previously recognized through the valuation allowance.

Ginnie Mae applies the following valuation waterfall methodology in estimating the fair value of acquired properties:

- Appraisal value as of date the loan became an acquired property
- Broker Price Opinion (BPO) as of date the loan became acquired property
- Automated Valuation Model (AVM) as of the date the loan became an acquired property
- Appraisal/BPO of comparable property (e.g., similar zip code, square footage, construction year, etc.)
- AVM of comparable property (e.g. similar zip code, square footage, construction year, etc.)
- Internally developed model to approximate fair value less cost to sell for each property as of the date the loan became acquired property
- Other indications of value

Third party valuations will occasionally be adjusted for various factors including changing market conditions.

Ginnie Mae expenses all post-foreclosure costs as incurred in mortgage-backed securities program and other expenses included in gross cost in the Statements of Net Cost. Upon disposition of an acquired property, Ginnie Mae recognizes any gain or losses through “Gains on Disposition of Assets – Other” in earned revenues in the Statements of Net Cost.

Activity for acquired properties is presented in the table below:

Table 8B1. Activity for Acquired Properties:

Note 8: Other Non-Credit Reform Loans For The Year Ended September 30, 2019 (Dollars in Millions)		
	YTD as of September 2019	
Beginning balance - Acquired Properties	$	25
Additions		23
Dispositions		(37)
Ending Balance - Acquired Properties	**$**	**11**
Beginning Balance - Valuation Allowance	$	(4)
Change in Valuation Allowance		3
Ending Balance - Valuation Allowance	**$**	**(1)**
Ending Balance - Acquired Properties, Net	**$**	**10**

Note 9: General Property, Plant, and Equipment (PP&E), Net

PP&E 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 $500,000 (PP&E) and $750,000 Internal Use Software (IUS) or more are recorded as an asset and depreciated over their estimated useful life on a straight-line basis with no salvage value for general property, plant and equipment. Generally, the Department's assets are depreciated over a three-year period for PP&E and IUS, unless it can be demonstrated that the estimated useful life is significantly greater than the specified time period.

The Department purchases and maintains all property, plant and equipment used by FHA, along with other Office of Housing activities.

Ginnie Mae's purchases of $100,000 or more for PP&E and IUS are recorded as an asset. Ginnie Mae depreciates its PP&E and IUS using the straight-line basis over a three to five-year period beginning when the assets are placed in use, unless another systematic and rational basis is more representative of the assets use.

The following shows general property, plant, and equipment as of September 30, 2019:

Note 9: General Property, Plant, and Equipment (PP&E), Net
For The Year Ended September 30, 2019
(Dollars in Millions)

	Cost	Accumulated Depreciation and Amortization	Book Value
Equipment	$ 5	$ (3)	$ 2
Equipment - Ginnie Mae	2	(1)	1
Leasehold Improvements	2	-	2
Leasehold Improvements - Ginnie Mae	-	-	-
Internal Use Software	-	-	-
Internal Use Software - Ginnie Mae	210	(159)	51
Internal Use Software in Development	-	-	-
Internal Use Software in Development - Ginnie Mae	29	-	29
Capital Leases - Ginnie Mae	1	(1)	-
Total	**$ 249**	**$ (164)**	**$ 85**

Additional Disclosure for Internal Use Software Implementation of *SFFAS No. 50*

The Department of Housing and Urban Development (HUD) utilized the prospective capitalization method and wrote off all Internal Use Software (IUS) and IUS in Development balances as permitted by *SFFAS No. 50*, Establishing Opening Balances for General Property, Plant, and Equipment in FY 2019. HUD wrote off an IUS balance of $7.1 million and a balance of $333 million for IUS in Development to establish an opening balance for IUS and IUS in Development in FY 2020. In accordance with *SFFAS No. 50*, HUD is making an unreserved assertion that its IUS line item is presented fairly in accordance with GAAP and discloses this change.

Note 10: PIH Prepayments and Advances

HUD's assets include the Department's estimates for Restricted Net Position (RNP) balances maintained by PHA under the HCV Program. The voucher program is the Federal Government's major program for assisting very low-income families, the elderly, and the disabled to afford decent, safe and sanitary housing in the private market. RNP balances represent disbursements to PHAs that are in excess of their expenses. PHAs can use RNP balances to cover any valid Housing Assistance Program (HAP) expenses.

In FY 2018, OCFO and PIH developed and implemented an estimation methodology to calculate the prepayment balance. PHA's have 45 calendar days after the end of the month to report their expenses, which creates delays in utilizing actuals for the prepayment balance calculation. Therefore, the OCFO and PIH estimates the second and third month of a quarter's VMS expense data and the third month of the quarter's general ledger (GL) disbursement data. The estimation methodology uses the beginning balance of the RNP report, PHA's cash funding amount from the trial balance, PHA's expenses from the Voucher Management System (VMS) Data Report and adjusted for expenses greater than funding received. The estimation calculation is completed on a quarterly basis.

Since the 2nd quarter of FY 2019, the quarterly estimation has been significantly larger than the prior periods. The government shutdown contributed to the fluctuation of this estimate. Upon the government's reopening, there was a significant push to get the maximum amount of funding out to HUD's programs.

PIH has estimated RNP balances of $411 million for the 4th quarter FY 2019, consisting of $391 million for the HCV Program and $20 million for the Moving to Work Program.

PIH Advances - IHBG Programs

HUD's assets also include the Department's advance estimates for the PIH, Office of Native American Programs (ONAP), IHBG program. The ONAP program administers housing and community development programs that benefit American Indian and Alaska Native tribal governments, tribal members, the Department of Hawaiian Homelands, Native Hawaiians, and other Native American organizations. Its overall mission is to increase the supply of safe, decent, and affordable housing available to Native American families. The recipients of this program can either be an individual or may designate a Tribally Designated Housing Entity (TDHE) to draw down, invest, and/or expend funds on their behalf. If recipients are eligible through programmatic requirements to invest IHBG funding, then PIH will grant them authority. Those recipients that are not eligible to invest will draw their funds on a reimbursable basis.

In FY 2019, OCFO and PIH developed and implemented an estimation methodology to calculate advances on the portion that is invested by eligible recipients. The estimation is determined by multiplying the investment ratio by the current year's grant allocation amount for the recipients that meet the investment criteria. There are currently sixty-six recipients that have PIH authority to invest. The investment ratio is determined by adding the investment recipients September 30, 2019 balances for the last three fiscal years divided by the grant allocations made available to them during the same three previous fiscal years.

Due to the following constraints: 1) recipients have different fiscal year ends, 2) recipient financial report (SF425) do not report investment and expense amounts at the micro-level, i.e. individual grant and fiscal year, and 3) late funding availability causes investment portfolio fluctuations throughout the year. The advance estimation will be completed annually.

PIH's IHBG has estimated advance balances of $218 million for the 4th quarter of FY 2019.

Note 11: Other Assets

The following table shows HUD's Other Assets:

Note 11: Other Assets
For The Year Ended September 30, 2019
(Dollars in Millions)

	FHA	Ginnie Mae	Section 8	All Other	Total
Intragovernmental Assets:					
Advances and Prepayments	$ -	$ -	$ 1	$ 32	$ 33
Total Intragovernmental Assets	**$ -**	**$ -**	**$ 1**	**$ 32**	**$ 33**
Public:					
Advances and Prepayments	$ -	$ -	$ -	$ -	$ -
Total	**$ -**	**$ -**	**$ 1**	**$ 32**	**$ 33**

The Department's Intragovernmental Other Assets primarily represent Policy, Development, and Research (PD&R) programs with other federal agencies.

Note 12: Liabilities Not Covered by Budgetary Resources

The following table shows HUD's Liabilities Not Covered:

Note 12: Liabilities Not Covered by Budgetary Resources For The Year Ended September 30, 2019 (Dollars in Millions)		
Intragovernmental		
Accounts Payable	$	-
Other Intragovernmental Liabilities		22
Total Intragovernmental Liabilities	**$**	**22**
Public		
Federal Employee and Veteran Benefits	$	60
Other Liabilities		1,072
Total Public Liabilities	**$**	**1,132**
Total Liabilities Not Covered by Budgetary Resources	**$**	**1,154**
Total Liabilities Covered by Budgetary Resources	**$**	**38,376**
Total Liabilities Not Requiring Budgetary Resources	**$**	**3,527**
Total Liabilities	**$**	**43,057**

The Department's Intragovernmental liabilities not covered by budgetary resources principally consist of unfunded FECA liabilities. The Department's public liabilities not covered by budgetary resources principally consist of Ginnie Mae's Liability for Loss on Remaining Coverage and the Department's unfunded payroll and benefits costs such as unfunded leave, unfunded FECA liability, and actuarial FECA liability.

This note also includes the category "Total Liabilities Not Requiring Budgetary Resources" which consist of FHA's receipt account liabilities and HUD's deposit, clearing and general fund receipt account liabilities.

Note 13: Debt

Several HUD programs have the authority to borrow funds from 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 the FFB to finance construction and rehabilitation of low-rent housing. HUD is repaying these borrowings on behalf of the PHAs and TDHEs.

The following table shows HUD borrowings, and borrowings by PHAs/TDHEs for which HUD is responsible for repayment:

Note 13: Debt
For The Year Ended September 30, 2019
(Dollars in Millions)

	Beginning Balance	Net Borrowings	Ending Balance
Debt to the Federal Financing Bank	$ 1,671	$ 304	$ 1,975
Debt to the U.S. Treasury	24,842	5,567	30,409
Held by the Public	3	(1)	2
Total	**$ 26,516**	**$ 5,870**	**$ 32,386**

Classification of Debt:	
Intragovernmental Debt	$ 32,384
Debt Held by the Public	2
Total	**$ 32,386**

Interest paid on borrowings for FHA and HUD Proper as of September 30, 2019 was $1,220 million and $4 million respectively. The purpose of the borrowing is discussed in the following paragraphs.

Borrowings from Treasury

FHA borrows from the Bureau of the Fiscal Service's (BFS) Federal Investments and Borrowings Branch, which facilitates loans to federal agencies on behalf of the Department of the Treasury. The FCRA permits agencies to borrow from Treasury to support credit programs. Collections and disbursements with the public are transacted in FHA's financing accounts and are considered a means-of-financing (non-budgetary). When cash balances are insufficient to support its operations, FHA borrows from Treasury. When there is sufficient cash in the financing accounts, FHA can opt to repay principal. Repayments of principal can be made throughout the fiscal year.

Both interest revenue and expense are accrued at FHA's Single Effective Rate (SER). FHA's single effective rates range from 1.02 percent to 7.59 percent. Interest revenue is based on the cash balances in the financing accounts, whereas interest expense is based on the principal balances for the entire fiscal year (effective date of October 1st of the current fiscal year), regardless of the actual transaction date.

HUD's Other Programs with outstanding aggregate borrowings are the Indian Housing Loan Guarantee Program, the Native Hawaiian Housing Block Grant Program, the Emergency Homeowner's Loan Program, and the Green Retrofit Program. These borrowings have interest rates ranging from 1.67 percent to 7.23 percent.

Borrowings from the Federal Financing Bank and the Public

During the 1960s to 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. All FFB borrowings had been repaid.

FHA began an FFB Risk Share program in FY 2015 an inter-agency partnership between HUD, FFB, and the HFAs. The FFB Risk Share Program provides funding for multifamily mortgage loans insured by FHA. Under this program, FHA records a direct loan from the public and borrowing from FFB. The program does not change the basic structure of Risk Sharing; it only substitutes FFB as the funding source. The HFAs would originate and service the loans and share in any losses.

Note 14: Federal Employee and Veterans' Benefits

HUD 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 $60 million as of September 30, 2019. Future payments on this liability are to be funded by future financing sources.

Note 15: Other Liabilities

The following table shows HUD's Other Liabilities:

Note 15: Other Liabilities For The Year Ended September 30, 2019 (Dollars in Millions)	Non Current	Current	Total
Intragovernmental Liabilities			
FHA Special Receipt Account Liability	$ -	$ 3,219	$ 3,219
Unfunded FECA Liability	13	-	13
Employer Contributions and Payroll Taxes Payable	-	10	10
Miscellaneous Receipts Payable to Treasury	-	278	278
Advances to Federal Agencies	-	8	8
Intragovernmental Other Liabilities	**$ 13**	**$ 3,515**	**$ 3,528**
Other Liabilities			
FHA Other Liabilities	$ -	$ 463	$ 463
FHA Escrow Funds Related to Mortgage Notes Current	-	304	304
Ginnie Mae Deferred Income	419	14	433
Deferred Credits	38	13	51
Deposit Funds	5	16	21
Accrued Unfunded Annual Leave	82	-	82
Accrued Funded Payroll Benefits	-	36	36
Contingent Liability	18	-	18
Ginnie Mae Liability for Loss on Remaining Coverage	965	7	972
Other	5	4	9
Total	**$ 1,545**	**$ 4,372**	**$ 5,917**

Special Receipt Account Liability

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

Other Liabilities

As of September 30, 2019, FHA's Other Liabilities consisted of liabilities for premiums collected on unendorsed cases of $380 million and miscellaneous liabilities of $83 million, which include disbursements in transit and unearned premium revenue. In addition, FHA had liabilities for escrow funds related to mortgage notes totaling $304 million. Premiums collected for unendorsed cases represent liabilities associated with premiums collected for cases that have yet to be endorsed.

Other liabilities current consists mostly of suspense funds, receipt accruals, and payroll-related costs, as well as the current portions of Ginnie Mae deferred income and Liability for Loss on Remaining Coverage. See Note (25) Insurance Programs for additional information on Ginnie Mae's Liability for Loss on Remaining Coverage. Other liabilities non-current includes deferred income for Ginnie Mae fees, and the non-current portion of Ginnie Mae's Liability for Loss on Remaining Coverage. Current portions of liabilities are determined based on amounts projected to be realized in the following 12 months. The account balances are separately maintained at the general ledger account level between current and non-current portions and adjusted based on the underlying support and schedules for the balances maintained by Ginnie Mae. The classification of deferred income depends on the reason the revenue has not yet been recognized. Amounts received from a customer that are expected to be recognized as revenue upon completion of performance obligations are classified as deferred revenue prior to recognition as income. This includes commitment and multiclass fees received as issuers request commitment authority or issue multiclass products, respectively. Amounts are recognized into income over a period of time or at a point in time depending on when performance obligation is fulfilled. Cash collected that would have to be returned is classified as deferred liability. This includes unapplied deposits and cash received but transferred back to MSS for pass through to investors.

Note 16: Contingencies

Lawsuits and Other

HUD is party to several claims and tort actions related to pending or threatened litigation brought against it concerning the implementation or operation of its various programs. The Department recorded a contingent liability in its financial statements as of September 30, 2019 based on the cases listed below as "probable." HUD is also party to various other cases currently listed below as "reasonably possible:"

Note 16: Contingencies
For The Year Ended September 30, 2019
(Dollars in Millions)

	Number of Cases	Accrued Liabilities	Range of Loss - Lower	Range of Loss - Upper
Legal Contingencies:				
Probable	2	$ 18	$ -	$ 18
Reasonable Possible	6	-	-	152
Other Contingencies:				
Probable		$ -	$ -	$ -
Reasonable Possible		-	-	-

Of the six cases listed as reasonably possible, two of the cases have an unknown estimated amount or range of potential losses. All other case ranges have been disclosed in the table above. Other ongoing suits cannot be reasonably determined at this time, and in the opinion of management and general counsel, the ultimate resolution of the other pending litigation will not have a material effect on the Department's financial statements. The general counsel has reviewed FHA's and Ginnie Mae's claims for FY 2019 and determined that as of September 30, 2019, the ultimate resolution of legal actions would not affect HUD's consolidated financial statements. As a result, no contingent liability has been recorded for FHA and Ginnie Mae. In addition, there are no asserted or unasserted claims, or assessments in which Ginnie Mae's potential loss exceeds is $0.5 million individually, or in the aggregate for similar cases for which the amount of the potential loss exceeds $1.0 million in the aggregate for cases not listed individually or as part of similar cases that could be material to the financial statements as of September 30, 2019.

Note 17: Funds from Dedicated Collections

SFFAS No. 27: Identifying and Reporting Earmarked Funds, as amended by *SFFAS No. 43: Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27,* defines the following three criteria for determining a fund from dedicated collections: 1) a statute committing the Federal Government to use specifically identified revenue and/or other financing sources that are originally provided to the Federal Government by a non-federal source only for designated activities, benefits, or purposes; 2) explicit authority for the fund to retain revenue and/or other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and 3) a requirement to account for and report on the receipt, use, and retention of the revenue and/or other financing sources that distinguished the fund from the Federal Government's general revenue.

A fund from dedicated collection may contain non-federal sources of revenue and other financing sources that are material to the reporting entity provided it meets the criteria reported above. Each of HUD's programs are considered non-governmental inflow. Intradepartmental activity reported in a fund from dedicated collection is often offset with activity in other funds. Accordingly, the Department presents information for funds from dedicated collections and all other funds in the BS and SCNP on a combined basis. The elimination of intradepartmental activity between dedicated collections and all other funds is presented in the SCNP.

Ginnie Mae

Title III of the *National Housing Act* created Ginnie Mae as a government corporation to guarantee the timely payment of principal and interest on MBS certificates or other approved securities. Ginnie Mae is authorized under the *Act* to fund its program's operations through various off-setting collections, such as guaranty, commitment, multiclass, new issuer, civil penalty, servicing, and pool transfer fees. These collections are dedicated for Ginnie Mae use to administer its MBS guaranty program. In the event the issuer is unable to make any payment of principal or interest on any security guaranteed, Ginnie Mae shall make such payments as and when due in cash, and thereupon shall be subrogated fully to the rights satisfied by such payment. See Note (25) Insurance Programs for additional information.

Rental Assistance Demonstration (RAD) Conversion Program

The *United States Housing Act of 1937* (*42 U.S.C. 1437g*) where the section 9 assistance is insufficient to support conversion of the property under the demonstration, in accordance with procedures established by the Secretary.

The RAD conversion program was created in order to give PHAs a powerful tool to preserve and improve public housing properties and address a nationwide backlog of deferred maintenance. RAD also gives program owners the opportunity to enter into long-term contracts that facilitate the financing of improvements. The RAD programs that were designated as funds from dedicated collections were Tenant Based and Project Based programs. The Rental Assistance Demonstration (RAD) conversion funds under the Section 8 program were incorrectly classified as Funds from Dedicated Collections instead of All Other Funds. See Note (1) Summary of Significant Accounting Policies under the “Correction of Errors” section for more information.

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* amended in 1980 authorized the transfer of excess rent collections regardless of when collected.

Flexible Subsidy

As authorized by *12 U.S. Code 1715z-1*, the Flexible Subsidy Fund provides federal assistance for troubled multifamily housing projects which includes supporting capital improvements to maintain these low to moderate income projects. 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.

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.

American Recovery and Reinvestment Act Programs (*Recovery Act*)

The *Recovery Act* included 17 programs at HUD which were distributed across three themes that align with the broader Recovery goals. A further discussion of HUD's accomplishments for the *Recovery Act* program can be found on the HUD website, specifically on the Recovery page. Previously, all programs were categorized as Funds from Dedicated Collections. In FY 2017, two programs (*Working Capital Fund Recovery Act* and the Green Retrofit financing account) were changed to Other Funds based on exclusions noted in *SFFAS No. 27: Identifying and Reporting Dedicated Collections.* In the 4th quarter of FY 2019, the Green Retrofit program account had a downward technical re-estimate processed based on regulatory requirements in the OMB *Circular A-11.*

Other

The “Other” column has an immaterial amount in its Fund Balance with Treasury.

Note 17: Funds from Dedicated Collections
For The Year Ended 2019
(Dollars in Millions)

	Ginnie Mae	Tenant Based Rental Assistance	Project Based Rental Assistance	Rental Housing Assistance	Flexible Subsidy	Manufactured Housing Fees Trust Fund	Recovery Act Funds	Other	Total Dedicated Collections (Combined)
Balance Sheet									
Fund Balance with Treasury	$ 7,897	$ -	$ -	$ 15	$ 561	$ 28	$ -	$ -	$ 8,501
Cash and Other Monetary Assets	39	-	-	-	-	-	-	-	39
Investments	15,784	-	-	-	-	-	-	-	15,784
Accounts Receivable	167	-	-	-	-	-	-	-	167
Loans Receivable	-	-	-	-	319	-	-	-	319
Other Non-Credit Reform Loans Receivable	2,526	-	-	-	-	-	-	-	2,526
General Property, Plant and Equipment	81	-	-	-	-	-	-	-	81
Total Assets	**$ 26,494**	**$ -**	**$ -**	**$ 15**	**$ 880**	**$ 28**	**$ -**	**$ -**	**$ 27,417**
Debt - Intragovernmental	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Accounts Payable - Intragovernmental	50	-	-	-	-	-	-	-	50
Accounts Payable - Public	39	-	-	-	-	4	-	-	43
Other Liabilities - Public	1,465	-	-	-	-	-	-	-	1,465
Total Liabilities	**$ 1,554**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 4**	**$ -**	**$ -**	**$ 1,558**
Unexpended Appropriations	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Cumulative Results of Operations	24,940	-	-	15	880	24	-	-	25,859
Total Net Position	**$ 24,940**	**$ -**	**$ -**	**$ 15**	**$ 880**	**$ 24**	**$ -**	**$ -**	**$ 25,859**
Total Liabilities and Net Position	**$ 26,494**	**$ -**	**$ -**	**$ 15**	**$ 880**	**$ 28**	**$ -**	**$ -**	**$ 27,417**
Statement of Net Cost for the Period Ended									
Gross Costs	$ 1,261	$ -	$ -	$ 1	$ (2)	$ 11	$ (3)	$ -	$ 1,268
Less Earned Revenues	(1,946)	-	-	-	(2)	(14)	-	-	(1,962)
Net Costs	**$ (685)**	**$ -**	**$ -**	**$ 1**	**$ (4)**	**$ (3)**	**$ (3)**	**$ -**	**$ (694)**
Statement of Changes in Net Position for the Period Ended									
Net Position Beginning of Period	$ 24,284	$ 38	$ 30	$ 16	$ 874	$ 21	$ -	$ -	$ 25,263
Changes in Accounting Principles	50	-	-	-	-	-	-	-	50
Correction of Errors	(81)	(38)	(30)	(1)	-	-	-	-	(150)
Net Position Beginning of Period, as Adjusted	**$ 24,253**	**$ -**	**$ -**	**$ 15**	**$ 874**	**$ 21**	**$ -**	**$ -**	**$ 25,163**
Imputed Costs	$ 2	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 2
Nonexchange Revenue	-	-	-	1	2	-	-	-	3
Other Adjustments	-	-	-	-	-	-	(3)	-	(3)
Net Costs	**$ 685**	**$ -**	**$ -**	**$ (1)**	**$ 4**	**$ 3**	**$ 3**	**$ -**	**$ 694**
Change in Net Position	**$ 687**	**$ -**	**$ -**	**$ -**	**$ 6**	**$ 3**	**$ -**	**$ -**	**$ 696**
Net Position End of Period	**$ 24,940**	**$ -**	**$ -**	**$ 15**	**$ 880**	**$ 24**	**$ -**	**$ -**	**$ 25,859**

Note 18: Legal Arrangements Affecting the Use of Unobligated Balances

Pursuant to Title III of the *National Housing Act*, Ginnie Mae collections from Commitment and Multiclass fees are credited to offsetting collections in the Program Account. The portion of Commitment and Multiclass fees collection in excess of the enacted amounts available of annual and/or no-year S&E spending are precluded from being available for obligation.

The following table presents the precluded funds from obligation activities and balances:

Note 18: Legal Arrangements Affecting the Use of Unobligated Balances For The Year Ended September 30, 2019 (Dollars in Millions)		
Precluded Obligations Balance, Beginning	$	734
Collections		110
Precluded Obligations Balance, Ending	**$**	**844**

Note 19: 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 1 of 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 cross-cutting of HUD's major program areas that incur costs that cross multiple program areas:

Note 19: Net Costs of HUD's Cross-Cutting Programs
For The Year Ended 2019
(Dollars in Millions)

	Public & Indian Housing	Housing	Community Planning & Development	Other	Consolidated
HUD's Cross-Cutting Programs					
Section 8 Rental Assistance					
Intragovernmental Gross Costs	$ 83	$ 48	$ -	$ -	$ 131
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	**$ 83**	**$ 48**	**$ -**	**$ -**	**$ 131**
Gross Costs with the Public	$ 22,374	$ 12,232	$ 76	$ -	$ 34,682
Earned Revenues	-	-	-	-	-
Net Costs with the Public	**$ 22,374**	**$ 12,232**	**$ 76**	**$ -**	**$ 34,682**
Net Program Costs	**$ 22,457**	**$ 12,280**	**$ 76**	**$ -**	**$ 34,813**
Public and Indian Housing Loans and Grants (PIH)					
Intragovernmental Gross Costs	$ 17	$ -	$ -	$ -	$ 17
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	**$ 17**	**$ -**	**$ -**	**$ -**	**$ 17**
Gross Costs with the Public	$ 2,839	$ -	$ -	$ -	$ 2,839
Earned Revenues	-	-	-	-	-
Net Costs with the Public	**$ 2,839**	**$ -**	**$ -**	**$ -**	**$ 2,839**
Net Program Costs	**$ 2,856**	**$ -**	**$ -**	**$ -**	**$ 2,856**
Homeless Assistance Grants					
Intragovernmental Gross Costs	$ -	$ -	$ 16	$ -	$ 16
Intragovernmental Earned Revenues	-	-	(3)	-	(3)
Intragovernmental Net Costs	**$ -**	**$ -**	**$ 13**	**$ -**	**$ 13**
Gross Costs with the Public	$ -	$ -	$ 2,131	$ -	$ 2,131
Earned Revenues	$ -	$ -	$ -	$ -	$ -
Net Costs with the Public	**$ -**	**$ -**	**$ 2,131**	**$ -**	**$ 2,131**
Net Program Costs	**$ -**	**$ -**	**$ 2,144**	**$ -**	**$ 2,144**
Housing for the Elderly and Disabled					
Intragovernmental Gross Costs	$ -	$ 4	$ -	$ -	$ 4
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	**$ -**	**$ 4**	**$ -**	**$ -**	**$ 4**
Gross Costs with the Public	$ -	$ 936	$ -	$ 2	$ 938
Earned Revenues	-	(1)	-	(61)	(62)
Net Costs with the Public	**$ -**	**$ 935**	**$ -**	**$ (59)**	**$ 876**
Net Program Costs	**$ -**	**$ 939**	**$ -**	**$ (59)**	**$ 880**
Community Development Block Grants (CDBG)					
Intragovernmental Gross Costs	$ -	$ -	$ 40	$ -	$ 40
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	**$ -**	**$ -**	**$ 40**	**$ -**	**$ 40**
Gross Costs with the Public	$ 57	$ -	$ 4,991	$ -	$ 5,048
Earned Revenues	-	-	-	-	-
Net Costs with the Public	**$ 57**	**$ -**	**$ 4,991**	**$ -**	**$ 5,048**
Net Program Costs	**$ 57**	**$ -**	**$ 5,031**	**$ -**	**$ 5,088**
HOME					
Intragovernmental Gross Cost	$ -	$ -	$ 7	$ -	$ 7
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	**$ -**	**$ -**	**$ 7**	**$ -**	**$ 7**
Gross Costs with the Public	$ -	$ -	$ 954	$ -	$ 954
Earned Revenues	-	-	-	-	-
Net Costs with the Public	**$ -**	**$ -**	**$ 954**	**$ -**	**$ 954**
Net Program Costs	**$ -**	**$ -**	**$ 961**	**$ -**	**$ 961**
Other					
Intragovernmnetal Gross Costs	$ 82	$ 28	$ 31	$ 85	$ 226
Intragovernmental Earned Revenue	(7)	-	(1)	(4)	(12)
Intragovernmental Net Costs	**$ 75**	**$ 28**	**$ 30**	**$ 81**	**$ 214**
Gross Costs with the Public	$ 4,757	$ 216	$ 621	$ (128)	$ 5,466
Earned Revenues	-	(17)	-	-	(17)
Net Costs with the Public	**$ 4,757**	**$ 199**	**$ 621**	**$ (128)**	**$ 5,449**
Net Program Costs	**$ 4,832**	**$ 227**	**$ 651**	**$ (47)**	**$ 5,663**
Costs Not Assigned To Programs	**$ 103**	**$ 50**	**$ 59**	**$ -**	**$ 212**
Net Program Costs (Including indirect costs)	**$ 4,935**	**$ 277**	**$ 710**	**$ (47)**	**$ 5,875**
Eliminations					
Intragovernmental Gross Costs	$ -	$ -	$ -	$ -	$ -
Intragovernmental Earned Revenue	-	-	-	-	-
Intragovernmental Net Costs	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**

Note 20: Undelivered Orders and Commitments under HUD's Grant, Subsidy, and Loan Programs

Contractual Commitments

HUD has entered into extensive long-term obligations that consist of legally binding agreements to provide grants, subsidies, or loans. Obligations become liabilities when all actions required for payment under an agreement have occurred. The mechanism for funding subsidy obligations 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 Programs, and a portion of "All Other" programs, HUD management expects all of the programs to continue incurring new obligations under authority granted by Congress in future years. However, estimated future obligations under such new authority are not included in the amounts below.

Prior to fiscal year 1988, HUD's subsidy programs, primarily the Section 8 Program and 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 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 existed to draw on the permanent indefinite appropriations. Beginning in FY 1988, the Section 8 and 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 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 is comprise funds with Treasury which are available to fund existing obligations 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 unexpended 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 permanent indefinite authority for FHA as of September 30, 2019, was $78 million. The offsetting collections for FHA's undelivered orders as of September 30, 2019 were $2,907 million. The offsetting collection for Ginnie Mae's undelivered orders as of September 30, 2019 was $1,531 million.

The following table shows HUD's unpaid obligations and contractual commitments under its grant, subsidy, and loan programs:

Note 20: Undelivered Orders and Commitments under HUD's Grant, Subsidy, and Loan Programs
For The Year Ended September 30, 2019
(Dollars in Millions)

	Federal	Non-Federal	Total
Federal Housing Administration (FHA)	$ 5	$ 3,098	$ 3,103
Government National Mortgage Association (GNMA)	141	1,390	1,531
Section 8 Rental Assistance	-	8,283	8,283
Public and Indian Housing Loans and Grants (PIH)	-	5,601	5,601
Homeless Assistance Grants	-	2,845	2,845
Housing for the Elderly and Disabled	3	1,109	1,112
Community Development Block Grants (CDBG)	-	21,766	21,766
HOME	-	3,429	3,429
Section 235 & 236 Other	-	339	339
All Other	194	4,120	4,314
Total	**$ 343**	**$ 51,980**	**$ 52,323**

The following table shows HUD's paid obligations and contractual commitments under its grant, subsidy, and loan programs:

Note 20: Undelivered Orders and Commitments under HUD's Grant, Subsidy, and Loan Programs
For The Year Ended September 30, 2019
(Dollars in Millions)

	Federal	Non-Federal	Total
Federal Housing Administration (FHA)	$ -	$ -	$ -
Government National Mortgage Association (GNMA)	-	-	-
Section 8 Rental Assistance	1	411	412
Public and Indian Housing Loans and Grants (PIH)	-	218	218
Homeless Assistance Grants	-	-	-
Housing for the Elderly and Disabled	-	-	-
Community Development Block Grants (CDBG)	-	-	-
HOME	-	-	-
Section 235 & 236 Other	-	-	-
All Other	33	-	33
Total	**$ 34**	**$ 629**	**$ 663**

Administrative Commitments

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

The following table shows HUD's administrative commitments:

Note 20: Undelivered Orders and Commitments under HUD's Grant, Subsidy, and Loan Programs For The Year Ended September 30, 2019 (Dollars in Millions)	
Federal Housing Administration (FHA)	$ -
Government National Mortgage Association (GNMA)	-
Section 8 Rental Assistance	90
Public and Indian Housing Loans and Grants (PIH)	4
Homeless Assistance Grants	101
Housing for the Elderly and Disabled	104
Community Development Block Grants (CDBG)	27,324
HOME	231
Section 235 & 236 Other	-
All Other	167
Total	**$ 28,021**

Note 21: 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:

Note 21: Apportionment Categories of Obligations Incurred
For The Year Ended September 30, 2019
(Dollars in Millions)

	Category A	Category B	Total
Direct	$ 931	$ 106,304	$ 107,235
Reimbursable	-	6,212	6,212
Total	**$ 931**	**$ 112,516**	**$ 113,447**

Note 22: Explanation of Differences between the Statement of Budgetary Resources and the Budget of the United States Government

The President's Budget containing actual FY 2019 data is not available for comparison to the SBR. Actual FY 2019 data will be available at a later date at https://www.whitehouse.gov/omb/budget/. For FY 2018, an analysis to compare HUD's SBR to the President's Budget of the U.S. was performed to identify any differences. The following shows the difference between Budgetary Resources to the President's Budget for FY 2018.

Note 22: Consolidated Statement of Budgetary Resources to President's Budget
For The Year Ended September 2019
(Dollars in Millions)

	Budgetary Resources	New Obligations and Upward Adjustments	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	$ 221,625	$ 106,959	$ 1,548	$ 49,295
Resources related to HUD's expired accounts not reported in the President's Budget	(751)	(4)	-	-
Offsetting receipts not included in the President's Budget	(2)	-	(284)	-
Miscellaneous Differences	(5)	-	(1)	4
Increased collections	-	-	(4)	
Recoveries Prior Year Unpaid/paid Obligations	4	-	-	-
Budget of the U.S. Government	**$ 220,871**	**$ 106,955**	**$ 1,259**	**$ 49,299**

Note 23: Budget and Accrual Reconciliation

During FY 2018, FASAB issued *SFFAS No. 53: Budget and Accrual Reconciliation* which requires a reconciliation of HUD's net outlays on a budgetary basis to its net cost of operations during the reporting period. The reconciliation, called the Budget and Accrual Reconciliation replaces the Statement of Financing (SOF) net disclosure, which reconciled the budgetary resources obligated (and some non-budgetary resources) and the net cost of operations.

Budgetary and financial accounting information differ. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash, as well as reporting the federal deficit. Financial accounting is intended to provide a picture of the government's financial operations and financial position, so it presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. The reconciliation of net outlays presented on a budgetary basis, and the net cost presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting.

The unique nature of Ginnie Mae's business and accounting processes required to implement the Modified Credit Reform structure described in Note (1) Summary of Significant Accounting Policies requires that certain general ledger accounts are mapped differently than the suggested crosswalk published by Treasury. These differences are summarized below:

Components of Net Cost That Are Not Part of Net Outlays:

The Treasury crosswalk suggests mapping general ledger account "Interest Receivable – Investments" to the "Accounts Receivable" line. Ginnie Mae's includes the "Investments" line under "Increase (Decrease) in Assets." This is consistent with how Ginnie Mae presents its investments in the accompanying Balance Sheet and Note (5) Investments. The balance in this account pertains to interest receivable specifically attributable to Ginnie Mae investments.

Ginnie Mae's general ledger accounts for "Foreclosed Property" and "Foreclosed Property – Allowance" are included in the "Loans Receivable" line under "Increase (Decrease) in Assets", consistent with how Ginnie Mae presents its "Other Non-Credit Reform Loans" on the accompanying Balance Sheet.

The Treasury crosswalk does not include suggested mapping for Ginnie Mae's Other Non-Credit Reform Loans general ledger accounts. See Note (8) Other Non-Credit Reform Loan for additional information. The Treasury crosswalk suggests mapping general ledger account "Other Assets" to the "Other Assets" line. Ginnie Mae includes account "Other Assets" in the "Loans Receivable" line under "Increase (Decrease) in Assets", this is consistent with how Ginnie Mae presents its "Other Non-Credit Reform Loans" on the accompanying Balance Sheet. Ginnie Mae uses account "Other Assets "to record its Properties Held for Sale. For additional information see Note (8) Other Non-Credit Reform Loans.

The Treasury crosswalk suggests mapping general ledger accounts "Gains on Disposition of Assets – Other" to the "Property, Plant, and Equipment disposal & reevaluation" line. Ginnie Mae includes the impact of all costs not part of net outlays which are present in the general ledger account in the "Loans Receivable" line under "Increase (Decrease) in Assets", consistent with how Ginnie Mae presents its "Other Non-Credit Reform Loans" on the accompanying Balance Sheet. Ginnie Mae uses account "Gains on Disposition of Assets – Other" to record gains and losses on disposal or liquidation of its Other Non-Credit Reform Loan assets. For additional information see Note (8) Other Non-Credit Reform Loans and see Note (1) Significant Accounting Policies related to Other Non-Credit Reform Loans.

FHA's treatment of Credit Reform offsets to Receivables and Payables, "Deferred Debits" and "Deferred Credits" respectively have an impact on the presentation of the BAR. Deferred Debits, captured by FHA in USSGL account 199000 *Other Assets*, are contra-payables presented as liabilities, while Deferred Credits are captured by FHA in USSGL account 232000 *Other Deferred Revenue* are contra-receivables presented as assets. Although approved by the Bureau of Fiscal Service (BFS) for fiscal year

2019, the presentation is contrary to Treasury's financial statement crosswalk. FHA's treatment impacts the Accounts Receivable, Loans Receivable, Other Assets, Accounts Payable, and Other Liabilities lines of the BAR.

Components of Net Outlays that Are Not Part of Net Cost:

To determine the amount included in the "Acquisition of Capital Assets" line, Ginnie Mae computed the changes resulting from acquisition of assets in the proprietary property, plant and equipment accounts. This was necessary as the suggested Treasury crosswalk requires the use of the memorandum account which is not used by Ginnie Mae.

HUD's analysis below illustrates this reconciliation by listing the key differences between net cost and net outlays. The Budget and Accrual Reconciliation is as follows:

Note 23: Budget and Accrual Reconciliation
For The Year Ended September 30, 2019
(Dollars in Millions)

	Intragovernmental	With the Public	Total
Net Operating Cost	$ 115	$ 26,979	$ 27,094
Components of Net Operating Cost Not Part of the Budgetary Outlays			
Property, plant, and equipment depreciation	-	(22)	(22)
Property, plant, and equipment disposal & reevaluation	-	-	-
Unrealized valuation loss/(gain) on investment in GSE's	-	-	-
Year-end credit reform subsidy re-estimates	-	12,131	12,131
Other	1	-	1
Increase/(decrease) in assets:			
Accounts receivable	$ -	$ (135)	$ (135)
Loans receivable	-	4,554	4,554
Other assets	(13)	424	411
Investments	105	(2)	103
(Increase)/Decrease in Liabilities not affecting Budgetary Outlays:			
Accounts payable	$ (22)	$ 201	$ 179
Salaries and benefits	(1)	(4)	(5)
Insurance and guarantee program liabilities	-	3,922	3,922
Environmental and disposal liabilities	-	-	-
Other liabilities (Unfunded leave, unfunded FECA, actuarial FECA)	(383)	(963)	(1,346)
Other Financing Sources			
Federal employee retirement benefit costs paid by OPM and imputed to agency	$ (79)	$ -	$ (79)
Transfers out (in) without reimbursement	4	-	4
Other imputed finance	-	-	-
Total Components of Net Operating Cost Not Part of the Budgetary Outlays	**$ (388)**	**$ 20,106**	**$ 19,718**
Components of the Budgetary Outlays That Are Not Part of Net Operating Cost			
Effect of prior year agencies credit reform subsidy re-estimate	$ -	$ 5,344	$ 5,344
Acquisition of capital assets	-	17	17
Acquisition of inventory	-	-	-
Acquisition of other assets	-	-	-
Debt and equity securities	-	-	-
Other	3,007	(137)	2,870
Total Components of the Budgetary Outlays That Are Not Part of Net Operating Cost	**$ 3,007**	**$ 5,224**	**$ 8,231**
Other Temporary Timing Differences	$ (2,717)	$ (175)	$ (2,892)
Total Other Temporary Timing Differences	**$ (2,717)**	**$ (175)**	**$ (2,892)**
Net Outlays (Calculated Total)	**$ 17**	**$ 52,134**	**$ 52,151**
Related Amounts on the Statement of Budgetary Resources			
Outlays, Net (Total) (discretionary and mandatory) (SBR 4190)	$ -	$ -	$ 54,716
Distributed offsetting receipts (SBR 4200)	-	-	(2,565)
Outlays, Net (SBR 4210)	$ -	$ -	**$ 52,151**

Note 24: Public Private Partnerships (P3s)

Federal public-private partnerships (P3s) are risk-sharing arrangements or transactions with expected lives greater than five years between public and private sector entities. Such arrangements or transactions provide a service or an asset for government and/or general public use where in addition to the sharing of resources, each party shares in the risks and rewards of said arrangements or transactions.

FHA

FHA analyzed its loan portfolio and programs and determined that all of its programs meet the "Conclusive Characteristics" identified in *SFFAS No. 49: Public-Private Partnerships: Disclosure Requirements*. FHA's portfolio is comprised of loan guarantees and direct loans for Single-Family, Multifamily, and Healthcare programs. The structure of these loan guarantees and direct loans also fall under the definition of Public-Private Partnerships (P3s), based on Conclusive Risk Characteristics established in *SFFAS No. 49*. Accordingly, FHA is required to disclose its P3s and related information. Most of the disclosure requirements are covered by FHA's other disclosure requirements, notably those under *SFFAS No. 2: Accounting for Direct Loans and Loan Guarantees* and are included in HUD and FHA standalone notes. These are as follows; FHA standalone Note (1), HUD and FHA standalone Notes (6) and (7), FHA standalone Notes (13), (14), (19), and (20), and HUD Note (16) which is FHA's standalone Note (12). Additional required disclosures are covered by this note. FHA standalone notes for FY 2019 can be found in its Annual Management Report at the following site: https://www.hud.gov/federal_housing_administration, in the In Focus section.

Given the number of lenders, borrowers, and other counterparties that participate in FHA's programs, individual disclosure of these partnerships is impractical. Accordingly, FHA aggregates and reports its P3 information by program and fund, as outlined in FHA's Entity and Mission section in FHA's standalone Note (1).

The purpose and objective of FHA's P3 arrangements, as well as the statutory authority, are addressed in FHA's standalone Note (1) Significant Accounting Policies, Entity and Mission section, as well as in its introduction to FHA's standalone Note (7) Direct Loans and Loan Guarantees.

The operational and financial structure of FHA's P3 arrangements, along with its rights and responsibilities, are governed by the *Housing Act of 1934* and subsequent amendments, as well as other statutory authority covered in FHA's standalone Note (1). FHA's private sector partners must apply and be approved to issue FHA-insured mortgages, and once approved they agree to comply with FHA requirements, which vary depending on the program area. Additional FHA responsibilities and requirements for FHA's private sector partners are established in FHA's regulations, handbooks, and mortgagee letters. These partnerships continue indefinitely as long as FHA's partners comply with FHA requirements. FHA's private sector partners benefit from their relationship with FHA because FHA guarantees loans and mortgages that meet FHA requirements for insurance. FHA benefits because it can carry out its mission through these P3 arrangements.

Contractual terms governing payments to and from the government over the expected life of the P3 arrangement are covered in FHA's regulations, handbooks, and mortgagee letters. The basic structure of these arrangements is that FHA provides either a direct loan or a loan guarantee to a borrower or lender, respectively. In return, the borrower in the arrangement pays a premium for the loan guarantee to FHA, through the lender, and interest for a direct loan either directly to FHA or through a custodian. FHA assumes the loan under its loan guarantee arrangements if the underlying borrower defaults on the loan provided by FHA's partner, i.e. lender, and pays a claim directly to the lender. The expected life of FHA's arrangements varies by program, however most of FHA's loan guarantees and direct loans have 15-year to 30-year terms, with fixed interest rates.

The relative benefits being received by FHA as a result of its P3 arrangements are covered by FHA's standalone Note (14) Earned Revenues and standalone Note (19) Budgetary Resources-Collections. Earned revenues/benefits consist of insurance premium revenue, income from notes and property, and other revenues earned with the public. Premiums, notes, property, and collections from settlements, and are non-federal funding received by FHA as a result of its P3 arrangements for the current year. The aggregate amount of revenue to be received over the life of these P3 arrangements cannot be reported separately, in accordance with Credit Reform, and is instead reported as part FHA's individual program Loan Liability Guarantee (LLG) and total FHA Loan Guarantee Liability (LGL) in HUD's Note (7K) and FHA standalone Note (7).

The government's consideration for entering into these P3 arrangements is covered by FHA's standalone Note (13) Gross Costs and standalone Note (20) Budgetary Resources-Obligations. FHA's consideration, or costs, consist of claims paid to lenders, property expenses, interest on borrowings, subsidy costs, re-estimate costs, FFB direct loan costs, bad debt expense, loan loss reserve, and interest accumulation expense costs.

Funding over the expected life of FHA's P3 arrangements, in the form of net potential future losses, is covered in the entirety of HUD's and FHA's standalone Note (7), in each FHA program's LLG and FHA's total LGL on its BS. The LLG is calculated as the net present value of anticipated cash outflows and cash inflows. Anticipated cash outflows include lender claims arising from borrower defaults (i.e., claim payments), premium refunds, property costs to maintain foreclosed properties arising from future defaults and selling costs for the properties. Anticipated cash inflows include premium receipts, proceeds from asset sales and principal and interest on Secretary-Held Notes.

Identification of the contractual risks of loss that P3 partners are undertaking, including contractual risks and the potential effect on cash flows if the risks were realized, are not practical from an individual partner level due to the number of lenders, borrowers, and other counterparties that participate in FHA programs. Instead, these risks are aggregated and captured in HUD and FHA's standalone Note (7). The Credit Reform Valuation Methodology section of FHA's standalone Note (7) in particular, discloses and identifies risks associated with Credit Reform programs, which are the basis of FHA's P3 arrangements. They would also be reflected in the re-estimate expense reported under FHA's standalone Note (13). Gains or losses recognized by FHA would also be reflected FHA's standalone in Note (13), and capitalized items would be reflected in HUD's Note (7K) and FHA's standalone Note (7) as part of each program's LLG and over-all LGL.

Significant instances of non-compliance by FHA with legal and contractual provisions governing the P3 arrangements are reported under HUD's Note (16) Contingencies and FHA's standalone Note (12) Commitments and Contingencies. Significant instances of non-compliance by lenders in these same P3 arrangements, are reported as settlement agreement receivables and payments received. Receivables from settlement agreements are reported under HUD's Note (6) FHA Criminal Restitution and FHA's standalone Note (6) Accounts Receivable – Settlement Receivables, and payments received are reported under HUD's FHA Note (7K) and in FHA's standalone Note (7), in accordance with the FCRA, as part of the MMI/CMHI Loan Guarantee Liability, Net for the Single-Family Forward program. Settlement payments received from individual counterparties for non-compliance with FHA's P3 arrangements totaled $11.3 million in FY 2019.

Given the large number of lenders, borrowers, and other counterparties that participate in FHA program, it would be impossible for FHA to determine if FHA's private partners have borrowed or invested capital contingent upon FHA's loan guarantees or direct loans. However, at the aggregate level, FHA's programs are designed to serve as a guarantee for lenders and in turn make mortgage financing more accessible to the home-buying public. This is disclosed in the Entity and Mission section of FHA's standalone Note (1).

Description of events of termination or default are not practical from an individual loan guarantee or direct loan perspective in most cases, given the large number of loans or guarantees. However, FHA-approved lenders are contractually obligated to follow FHA guidelines and are subject to oversight by FHA staff. FHA's relationship with a lender may be terminated if FHA determines that the lender did not comply with FHA guidelines.

Ginnie Mae

Ginnie Mae analyzed the MBS Guaranty program and determined that it meets the "Conclusive Characteristics" identified in *SFFAS No. 49: Public-Private Partnerships: Disclosure Requirements*. Accordingly, Ginnie Mae is required to disclose its Public-Private Partnerships and related information.

Purpose, objective and rationale for P3 arrangement:

Ginnie Mae's mission is to bring global capital into the housing finance market to help make affordable housing possible for low and moderate-income households across America. The MBS Guaranty program represents Ginnie Mae's operational model to accomplish this goal. The MBS Guaranty program reduces risk to the U.S. Government while efficiently promoting stability and liquidity by guaranteeing a simple pass-through security to lenders of qualified loans insured or guaranteed by FHA, RD, VA, and PIH, without the need for Ginnie Mae to buy loans and issue its own securities. The Ginnie Mae MBS Guaranty allows mortgage lenders to obtain a better price for their mortgage loans in the secondary mortgage market. The lenders then use the proceeds to fund new mortgage loans available to households. Ginnie Mae's activities are self-financed and do not require financial assistance from the U.S. Government. Rather, Ginnie Mae generates income primarily through Guaranty fees. Guaranty fees are income streams earned for providing Ginnie Mae's guaranty. These fees are received over the life of the outstanding securities. Guaranty fees are collected on the aggregate UPB of the guaranteed securities outstanding.

Statutory Authority:

Statutory authority for the program is disclosed in Note (17) Funds from Dedicated Collections.

Description of federal and non-federal funding structure:

All funding for the MBS Guaranty Program is provided by dedicated collections from non-federal sources as described in Note (17), and no federal funding is required or used, with the exception of claims by Ginnie Mae on federal mortgage loan insurance or guarantees for individual loans which Ginnie Mae may purchase out of MBS pools as part of its loss mitigation efforts following an issuer default event. For details on these claims, refer to Note (8) Other Non-Credit Reform Loans, Section B8. Claims Receivable, Net.

Contractual terms governing payment:

Ginnie Mae's MBS Guaranty is contingent on timely payments of the P&I to investors in Ginnie Mae MBS issued by issuers. In exchange for the guaranty, issuers pay a monthly guaranty fee to Ginnie Mae. The underlying terms of the guaranty generally range from 15 to 30 years for single-family programs. For multifamily programs, the maximum guaranty term is capped at 40 years plus the applicable construction period. MBS guaranty fees were $1,318 million in fiscal year 2019, which are included in Earned Revenue in the accompanying Statement of Net Cost. Ginnie Mae has calculated a Guaranty Asset of $7,113 million at September 30, 2019 which represents the discounted cash flows of the expected future premiums from guaranty fees over the expected life of the mortgage pools, as amortized for declines in the UPB of the guaranteed MBS outstanding in the guaranteed portfolio. This amount is included in the determination of the Liability for Losses on Remaining Coverage as more fully described in Note (25) Insurance Programs. The outstanding MBS portfolio balance at the end of fiscal year 2019 was $2,092,829 million. This balance represents off-balance sheet risk and is considered in determining the Liability for Losses on Remaining Coverage.

Identification of contractual risk of loss:

Identification of the contractual risks of loss that P3 partners are undertaking, including contractual risks and the potential effect on cash flows if the risks were realized, are not practical from an individual partner level. Instead, these risks are aggregated and disclosed as liability for loss on remaining coverage in Note (25) Insurance Program.

Off balance-sheet exposures:

Ginnie Mae's guarantees of MBS are considered financial instruments with off-balance sheet risk. These securities are backed by pools of mortgage loans insured by FHA, PIH, and Rural Housing Service, and are guaranteed by the VA. Ginnie Mae is exposed to credit loss in the event of non-performance by other parties to the financial instruments. In the event of default, the underlying mortgages serve as primary collateral, and FHA, RD, VA and PIH insurance or guaranty 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. While Ginnie Mae's risks related to outstanding commitments are much less than outstanding securities due in part to the Federal guaranty on the underlying portfolio, Ginnie Mae is also able to mitigate risk through its ability to limit commitment authority granted to individual issuers of MBS. Generally, the 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.

Other applicable disclosures:

Financial operations of Ginnie Mae can be affected by large unanticipated losses from defaults by issuers and by an inability to sell the underlying collateral for an amount sufficient to recover all costs incurred. Ginnie Mae is not aware of any instances of non-compliance with its P3 arrangements in FY 2019. Three issuer defaults occurred in the 12 months ended September 30, 2019, as described in Note (8) Other Non-Credit Reform Loans, Section A. Advances, Net.

HUD Proper

HUD Proper analyzed its programs and determined there are programs that meet criteria identified in *SFFAS No. 49: Public-Private Partnerships.* Some of these programs were not subject to the provisions of *SFFAS No. 49* due to exclusions such as 1) programs that provide grants to state, local and Indian tribal governments; 2) programs with formal and informal arrangements or transactions that do not share risks or rewards and solely designed to foster goodwill, encourage economic development, promote research and innovation or coordinate and integrate strategic initiatives and 3) programs with acquisitions of supplies and services made pursuant to the FAR Simplified Acquisition Procedures (FAR Part 13). Other HUD Proper programs such as the credit reform programs did not meet the exclusion requirements but did meet most of the conclusive characteristics. Accordingly, HUD Proper is required to disclose its Public-Private Partnerships (P3) and related information for those credit reform programs. Most of the disclosure requirements are covered by other HUD Proper disclosure requirements, such as those under *SFFAS No. 2: Accounting for Direct Loans and Loan Guarantees,* and are included in Notes (1) Summary of Significant Accounting Policies, Note (7) Direct Loans and Loan Guarantee, Non-Federal Borrowers, Note (19) Net Costs of HUD's Cross-Cutting Programs, and Note (20) Undelivered Orders and Commitments under HUD's Grant, Subsidy, and Loan Programs. Additional required disclosures are covered by this note. Given the number of lenders, borrowers, and other counterparties that participate in HUD Proper programs, individual disclosure of these partnerships is impractical. Accordingly, HUD Proper aggregates and reports its P3 information by program and fund, as outlined in HUD's Note (1) Summary of Significant Accounting Policies, Reporting Entity section. The purpose and objective of HUD Proper's P3 arrangements, as well as the statutory authority, are addressed in Note (1) Summary of Significant Accounting Policies, Credit Reform Accounting section, as well as in Note (7) Direct Loans and Loan Guarantees, Non-Federal Borrowers, Section A under HUD Proper heading.

HUD benefits because it can carry out the mission of the agency and its programs through these P3 arrangements. The private lenders benefit because they can issue loans guaranteed by the government (HUD) and collect fee revenues as a result. The borrowers (including Elderly and Disabled Multifamily Project Owners, Native Americans, Native Hawaiians, and owners of certain community and economic development projects) benefit from their relationship with HUD because it enables them to qualify and obtain guaranteed or direct loans and mortgages that they may not otherwise be able to obtain in the regular market.

The relative monetary benefits being received by HUD Proper as a result of its P3 arrangements are covered by Note (7) Section N Fees and Other Collections for the current year only. These amounts are included in Note (19) Net Costs of HUD's Cross-Cutting Programs disclosures as well as the Consolidated Statement of Net Costs. Amounts to be collected over the life of the arrangements are unknown.

The operational and financial structure of the HUD Proper P3 arrangements, along with its rights and responsibilities, and contractual terms governing payments to and from the government over the expected life of the P3 arrangement are governed by and covered in various statutory authorities as noted in Note (7) Section A HUD Proper as well as other statutory authority covered in Note (1) under Credit Reform Accounting and Credit Program Receivables and Related Foreclosed Property Sections. Private lenders must apply and be approved to issue loans or mortgages under these programs, and once approved they agree to comply with HUD requirements, which vary depending on the program area.

The basic structure of these arrangements is that HUD provides either a loan guarantee or provided a direct loan to a lender or borrower, respectively. In return, the borrower in the arrangement pays a fee for the loan guarantee, through the lender, and pay interest for a direct loan directly to HUD. HUD assumes the loan under its loan guarantee arrangements if the underlying borrower defaults on the loan provided by our private partner, i.e. lender, and pays a claim directly to the lender. The expected life of these arrangements varies by program; however, most loan guarantees and direct loans have 15-year to 30-year terms, with fixed interest rates.

Identification of the contractual risks of loss that P3 partners are undertaking, including contractual risks and the potential effect on cash flows if the risks were realized, are not practical from an individual partner level. Instead, these risks are aggregated and disclosed as loan guarantees and direct loans in Note (7) Direct Loans and Loan Guarantee, Non-Federal Borrowers. Funding over the expected life of the P3 arrangements, in the form of net potential future losses, is covered in Note (7K) All Other Loan Liability Guaranty (LLG) and HUD Proper's (non-FHA) Loan Guarantee Liability (LGL) on its balance sheet. The LLG is calculated as the net present value of anticipated cash outflows and cash inflows.

HUD Proper is not aware of any instances of non-compliance in their P3 arrangements in FY 2019. In addition, description of events of termination or default are not practical from an individual loan guarantee or direct loan perspective in most cases, given the large number of loans or guarantees, unless material. There were no material instances of terminations or defaults.

Note 25: Insurance Programs

The *SFFAS No. 51, Insurance Programs*, establishes accounting and reporting standards for insurance programs to ensure they are adequately defined and report consistent information about the liabilities for losses incurred and claimed as well as expected losses during the remaining coverage. *SFFAS No. 51* became effective for periods beginning after September 30, 2018 and applies when a reporting entity is presenting General Purpose Federal Financial Reports (GPFFRs) in conformance with GAAP as defined by paragraphs 5 through 8 of *SFFAS No. 34: The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

HUD Proper and FHA administers some direct loans and loan guarantee programs that meet the definition of insurance programs; however, they are excluded from this provision as noted in paragraph 6 of the standard.

Ginnie Mae's MBS program guarantees the timely payment of P&I on securities backed by pools of mortgage loans insured by FHA, PIH and Rural Housing Service, or guaranteed by the VA. Ginnie Mae's MBS Guaranty program is considered an exchange transaction insurance program other than life insurance under *SFFAS No. 51: Insurance Programs*. Ginnie Mae's principal risk associated with the MBS Guaranty program is default risk. When estimating defaults, prepayments and recovery, Ginnie Mae considers a few indicators including macro-economic factors such as interest rates, home price indices, and unemployment rates. In addition, Ginnie Mae considers several credit quality indicators such as LTV ratios, current delinquency status, and recent payment history over the past twelve months. Ginnie also considers significant management judgment and estimates of credit losses inherent in the mortgage loan portfolio. At September 30, 2019, the UPB of Ginnie Mae's MBS securities amounted to $2,092,829 million which represents the maximum potential exposure risk to the program. It should be noted, however, that Ginnie Mae's potential loss is considerably less due to the financial strength of its issuers. In addition, the value of the underlying collateral and the insurance provided by insuring or guaranteeing agencies indemnify Ginnie Mae for most losses.

In accordance with the requirements of *SFFAS No. 51*, Ginnie Mae is required to recognize and disclose Revenue and Liability for Unearned Premiums; Liability for Unpaid Insurance Claims; and Liability for Losses on Remaining Coverage for its MBS Guaranty program.

Revenue and Liability for Unearned Premiums

Ginnie Mae guarantees the timely payment of P&I on MBS issued by approved issuers. In exchange for providing the guaranty, Ginnie Mae receives guaranty fees from the issuers on the UPB of the outstanding MBS in the non-defaulted issuer portfolio. These fees are received and recognized on a monthly basis over the contractual period that the guaranty is provided, and a liability for unearned premiums is recognized in the amount of the premiums collected but not earned on a monthly basis in accordance with the requirements of *SFFAS No. 51: Insurance Programs* and *SFFAS No. 7: Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*. The monthly guaranty fees received are a result of Ginnie Mae "lending" its creditworthiness to the issuer to enhance the issuer's ability to borrow funds from investors.

Pricing of the guaranty fees is prescribed by *12.U.S.C. 1721 Management and liquidation functions of Government National Mortgage Association*, which provides for a fee of 6 basis points for Single-Family Programs, 30 basis points for Manufactured Housing Program, and 13 basis points for Multifamily Housing Programs.

Ginnie Mae had guaranty fee revenue of $1,318 million for the year ended September 30, 2019.

Liability for Unpaid Insurance Claims

Ginnie Mae defines the “adverse event” which triggers exercise of its guaranty primarily as default by the Single-Family MBS issuer, which can occur for inability or failure to make pass-through payments to MBS holders, or other violations of Ginnie Mae requirements. For Multifamily, the “adverse event” is trigged in the event of a loan default, pursuant to the Multifamily guaranty agreement. Ginnie Mae is responsible for missed pass-through payments; however, any such pass-through payments are made immediately when due by Ginnie Mae to satisfy the terms of the guaranty agreement and the expectations of MBS holders to receive timely payment. As a result, Ginnie Mae does not have any liability for unpaid insurance claims as of September 30, 2019.

Liability for Loss on Remaining Coverage

Ginnie Mae determines its liability for loss on remaining coverage associated with outstanding MBS guarantees as the total non-contingent guaranty obligation and contingent liability less the total guaranty asset. If this amount is positive, indicating that losses are expected to exceed projected receipts of guaranty fees, this amount is recorded as the liability for loss on remaining coverage and is included in Other Liabilities on the Balance Sheet. Initial recognition and subsequent changes in the liability for loss on remaining coverage are reflected on the Balance Sheet and are recorded as a loss included in gross cost in the Statement of Net Cost. If the net amount is positive, that is the projected receipts of guaranty fees will exceed expected losses, no liability for loss on remaining coverage is recognized. During the third quarter of FY 2019, OER changed its default and prepayment modeling assumptions to incorporate additional inputs (i.e., change of estimates, including macroeconomic data at more granular, metropolitan statistical area (MSA) level that became available to Ginnie Mae through Moody’s Analytics). These additional inputs resulted in a $2,390 million decrease in the total guaranty asset (GA). This change in estimate caused the net non-contingent guaranty obligation and contingent liability to exceed the GA as of June 30, 2019. At September 30, 2019, the net non-contingent guaranty obligation and contingent liability continued to exceed the GA. At September 30, 2019, the liability for loss on remaining coverage was $972 million, which was recognized and included in gross cost for the year ended September 30, 2019.

The issuance of a guaranty under the MBS program obligates Ginnie Mae to stand ready to perform under the terms of the guaranty. Ginnie Mae’s GA represents the net present value of expected collections of guaranty fees associated with outstanding Ginnie Mae guaranteed MBS and is determined through a modeling process maintained by the Office of Enterprise Risk. The corresponding guaranty obligation (GO) represents the non-contingent liability for Ginnie Mae’s obligation to perform under its guaranty.

The GO is derived based on the market price of the guaranty, which represents the fair compensation the market would require making such a guaranty and is amortized systematically over the term of the MBS based on the amount of outstanding UPB for underlying loans. Ginnie Mae also records a contingent liability when it is probable that an issuer will default and the amount of the loss or a range of loss can be reasonably estimated. The contingent liability is measured initially and in subsequent periods in accordance with *SFFAS No. 5: Accounting for Liabilities of the Federal Government – Contingencies*. Once it is determined that an issuer default is probable to occur, Ginnie Mae estimates the probable credit losses in the underlying loan portfolio to calculate the loss contingency.

Determining a contingent liability requires considerable management judgment including the evaluation of the likelihood that future events will confirm the loss. When assessing whether it is probable that a default will occur, management takes into consideration various factors including the issuer's financial and operational vulnerability, a qualitative and quantitative corporate credit analysis, other evidence of potential default (e.g., known regulatory investigations or actions), interest rates, and general economic conditions.

Note 26: Reclassification of Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position

To prepare the Financial Report of the U.S. Government (FR), the Department of the Treasury requires agencies to submit an adjusted trial balance, which is a listing of amounts by U.S. Standard General Ledger account that appear in the financial statements. Treasury uses the trial balance information reported in the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) to develop a Reclassified Balance Sheet, Reclassified Statement of Net Cost, and a Reclassified Statement of Changes in Net Position for each agency, which are accessed using GTAS. Treasury eliminates all intragovernmental balances from the reclassified statements and aggregates lines with the same title to develop the FR statements. HUD's financial statements and HUD's reclassified statements prior to elimination of intragovernmental balances and prior to aggregation of repeated FR line items. The term "non-Federal" is used in this note to refer to Federal Government amounts that result from transactions with non-Federal entities. These include transactions with individuals, businesses, non-profit entities, and State, local, and foreign governments. A copy of the 2018 FR can be found here: https://www.fiscal.treasury.gov/reports-statements/ and a copy of the 2019 FR will be posted to this site as soon as it is released.

The Net Position section of the Balance Sheet presented in HUD's accompanying Balance Sheet is shown before eliminations, or "Combined." This is consistent with HUD's presentation of a "combining" Statement of Change in Net Position in the accompanying Balance Sheet. The Reclassified Balance Sheet from GTAS differs from HUD's accompanying Balance Sheet in that it elects to show two lines with no distinction between Cumulative Results of Operations and Unexpended Appropriations

“Funds from Dedicated Collections” and “All Other Funds”. Whereas, HUD’s accompanying Balance Sheet shows four lines with the distinction between “Funds from Dedicated Collections” and “All Other Funds.” HUD’s accompanying Balance Sheet has “Other Non-Credit Reform” and “PIH Prepayment and Advances” shown as separate lines, per Treasury’s crosswalk for the AFR Financial Statement reconciliation side, these lines crosswalk to “Direct Loan and Loan Guarantees, Net” and “Other” lines respectively.

Under the Reclassified Balance sheet column of the reconciliation, HUD captured FHA’s manual adjustments for deferred debits and deferred credit entries. There is also a reclass entry between FHA’s LLG and the Ginnie Mae allowance. The Reclassified Balance Sheet lines that were impacted by the manual adjustments are Accounts and Taxes Receivable, Loans Receivable, Other Assets, Accounts payable, Loan Guarantee Liabilities, and Other Liabilities.

Note 26: Reclassification of Balance Sheet to Line Items Used for the Government-wide Balance Sheet
For The Year Ended September 30, 2019
(Dollars in Millions)

FY 2019 U.S. Department of Housing and Urban Development Balance Sheet Financial Statement Line	Amounts	Line Items Used to Prepare FY 2019 Government-wide Balance Sheet Amounts	Reclassified Financial Statement Line
ASSETS			**ASSETS**
Intragovernmental Assets			**Intragovernmental Assets**
FBWT	$ 110,743	$ 110,743	FBWT
Investments, Net	$ 66,120	$ 66,047	Federal Investments
		73	Interest Receivable - Investments
Total Investments, Net	**$ 66,120**	**$ 66,120**	*Total Reclassified Investments, Net*
Accounts Receivable	$ -	$ -	Accounts Receivable
		-	Accounts Receivable, Capital Transfers
		-	Interest Receivable - Loans and Not Otherwise Classified
		-	Transfers Receivable
		-	Benefit Program Contributions Receivable
Total Accounts Receivable	**$ -**	**$ -**	*Total Reclassified Accounts Receivable*
Loans Receivable, Net	-	-	Loans Receivable, Net
Other	$ 33	$ 33	Advances to Others and Prepayments
		-	Other Assets
Total Other	**$ 33**	**$ 33**	*Total Reclassified Other*
Total Intragovernmental Assets	**$ 176,896**	**$ 176,896**	**Total Intragovernmental Assets**
Cash and Other Monetary Assets	$ 126	$ 126	Cash and Other Monetary Assets
Investments, Net	$ 6	$ 6	Debt and Equity Securities
		-	Investments in Government-Sponsored Enterprises
Total Investments, Net	**$ 6**	**$ 6**	*Total Reclassified Investments, Net*
Accounts Receivable, Net	$ 513	$ 513	Accounts and Taxes Receivable, Net
Taxes Receivable, Net	-		
Direct Loan and Loan Guarantees, Net	39,325	39,325	Loans Receivable, Net
Inventory and Related Property, Net	-	-	Inventory and Related Property, Net
General PP&E, Net	85	85	PP&E, Net
Other	629	629	Other Assets
Total Assets	**$ 217,580**	**$ 217,580**	**Total Assets**
LIABILITIES			**LIABILITIES**
Intragovernmental Liabilities			**Intragovernmental Liabilities**
Accounts Payable	$ 67	$ 76	Accounts Payable
		-	Transfers Payable
Total Accounts Payable	**$ 67**	**$ 76**	*Total Reclassified Accounts Payable*
Debt	**$ 32,384**	**$ 32,379**	Loans Payable
		-	Federal Debt
		-	Interest Payable, Debt
		5	Interest Payable - Loans and Not Otherwise Classified
Total Debt	**$ 32,384**	**$ 32,384**	*Total Reclassified Debt*
Other Liabilities	$ 3,528	$ 21	Benefit Program Contributions Payable
		3	Other Liabilities
		7	Advances from Others and Deferred Credits
		3,488	Liabilities to the General Fund of the U.S. Government for Custodial and Other Non-Entity Assets
Total Other - Miscellaneous Liabilities	**$ 3,528**	**$ 3,519**	*Total Reclassified Other - Miscellaneous Liabilities*
Total Intragovernmental Liabilities	**$ 35,979**	**$ 35,979**	**Total Intragovernmental Liabilities**
Accounts Payable	825	825	Accounts Payable
Debt Held by the Public	2	-	Federal Debt
Loan Guarantee Liability	2,514	2,514	Loan Guarantee Liability
Federal Employee and Veteran Benefits	60	63	Federal Employee and Veteran Benefits Payable
Environmental and Disposal Liabilities	-	-	Environmental and Disposal Liabilities
Benefits Due and Payable	-	-	Benefits Due and Payable
Other Liabilities	2,389	2,704	Other Liabilities
Accrued Grant Liabilities	1,288		
Loss Reserves	-		
		972	Insurance and Guarantee Program Liabilities
Total Liabilities	**$ 43,057**	**$ 43,057**	**Total Liabilities**
NET POSITION			**NET POSITION**
Unexpended Appropriations - Funds from Dedicated Collections	**$ -**	**$ -**	Unexpended Appropriations - Funds from Dedicated Collections
Unexpended Appropriations - All Other Funds	86,250	86,250	Unexpended Appropriations - All Other Funds
Cumulative Results of Operations - Funds From Dedicated Collections	25,859	25,863	Cumulative Results of Operations - Funds From Dedicated Collections
Cumulative Results of Operations - All Other Funds	62,414	62,410	Cumulative Results of Operations - All Other Funds
Total Net Position	**$ 174,523**	**$ 174,523**	**Total Net Position**
Total Liabilities and Net Position	**$ 217,580**	**$ 217,580**	**Total Liabilities & Net Position**

Note 26: Reclassification of Statement of Net Cost to Line Items Used for the Government-wide Statement of Net Cost
For The Year Ended September 30, 2019
(Dollars in Millions)

FY 2019 U.S. Department of Housing and Urban Development SNC Financial Statement Line	Amounts	Line Items Used to Prepare FY 2019 Government-wide SNC Amounts	Reclassified Financial Statement Line
			Non-Federal Costs
Gross Costs	$ 30,770	$ 28,751	Non-Federal Gross Cost
		-	Interest on Debt Held by the Public
		-	General Property Plant and Equipment (PP&E) Partial Impairment Loss
		$ 28,751	***Total Non-Federal Costs***
			Intragovernmental Costs
		$ 188	Benefit Program Costs
		79	Imputed Costs
		469	Buy/Sell Costs
		3	Purchase of Assets
		-	Federal Securities Interest Expense
		1,224	Borrowing and Other Interest Expense
		-	Borrowing Losses
		59	Other Expenses (w/o Reciprocals)
		(3)	Purchase of Assets Offset
		2,019	***Total Intragovernmental Costs***
Total Gross Costs	**$ 30,770**	**$ 30,770**	***Total Reclassified Gross Costs***
Earned Revenue	**$ (3,676)**	**$ (1,772)**	Non-Federal Earned Revenue
			Intragovernmental Revenue
		$ (6)	Buy/Sell Revenue
		-	Benefit Program Revenue
		(1,165)	Federal Securities Interest Revenue Including Associated Gains/Losses (Exchange)
		(733)	Borrowing and Other Interest Revenue
		-	Borrowing Gains
		(1,904)	***Total Intragovernmental Earned Revenue***
Total Earned Revenue	**$ (3,676)**	**$ (3,676)**	***Total Reclassified Earned Revenue***
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	-	-	Gains/Losses from Changes in Actuarial Assumptions
Total Net Cost of Operations	**$ 27,094**	**$ 27,094**	***Total Net Cost of Operations***

Note 26: Reclassification of Statement of Changes in Net Position to Line Items Used for Government-wide Statement of Operations and Changes in Net Position
For the Period Ended September 30, 2019
(Dollars in Millions)

FY 2019 U.S. Department of Housing and Urban Development SCNP Financial Statement Line	Amounts	Amounts	Line Items Used to Prepare FY 2019 Government-wide SCNP Reclassified Financial Statement Line
UNEXPENDED APPROPRIATIONS			
Unexpended Appropriations, Beginning Balance	$ 81,697	$ 81,697	Net Position, Beginning of Period
Changes in Accounting Principles	-	-	Changes in Accounting Principles - Federal
		-	Changes in Accounting Principles - Non-Federal
		575	Corrections of Errors - Federal
Corrections of Errors	575	-	Corrections of Errors - Non-Federal
		-	Corrections of Errors – Years Preceding the Prior Year - Federal
		-	Corrections of Errors – Years Preceding the Prior Year - Non-Federal
Total Corrections of Errors	***575***	***575***	***Total Reclassified Corrections of Errors***
Appropriations Received	$ 59,193	58,628	Appropriations Received as Adjusted
Other Adjustments	(565)		
Appropriations Transferred-in/out		-	Non-Expenditure Transfers-In of Unexpended Appropriations and Financing Sources (Federal)
	-	-	Non-Expenditure Transfers-Out of Unexpended Appropriations and Financing Sources (Federal)
Total Appropriations Transferred-in/out	-	-	*Total Reclassified Appropriations Transferred-in/out*
Appropriations Used	(54,650)	(54,650)	Appropriations Used (Federal)
Total Unexpended Appropriations	**$ 86,250**	**$ 86,250**	Total Unexpended Appropriations
CUMULATIVE RESULTS OF OPERATIONS			
Cumulative Results, Beginning Balance	$ 64,254	$ 64,254	Net Position, Beginning of Period
Changes in Accounting Principles	(282)	-	Changes in Accounting Principles - Federal
		(282)	Changes in Accounting Principles - Non-Federal
		(575)	Corrections of Errors - Federal
Correction of Errors	(451)	124	Corrections of Errors - Non-Federal
		-	Corrections of Errors – Years Preceding the Prior Year - Federal
		-	Corrections of Errors – Years Preceding the Prior Year - Non-Federal
Other Adjustments	(10)	(10)	Other Budgetary Financing Sources
			Non-Federal Nonexchange Revenues
		$ -	Individual Income Tax and Tax Withholdings
		-	Corporation Income Taxes
		-	Excise Taxes
		-	Unemployment Taxes
		-	Customs Duties
		-	Estate and Gift Taxes
		15	Other Taxes and Receipts
Nonexchange Revenues	$ 15	***$ 15***	***Total Non-Federal Nonexchange Revenues***
			Intragovernmental Nonexchange Revenue
		$ -	Federal Securities Interest Revenue, including Associated Gains/Losses (Nonexchange)
		-	Borrowings and Other Interest Revenue (Nonexchange)
		-	Benefit Program Revenue (Nonexchange)
		-	Accruals for Agency Amounts to be Collected in a TAS Other than the General Fund
		-	Other Taxes and Receipts
		$ -	***Total Intragovernmental Nonexchange Revenues***
Total Nonexchange Revenues	***$ 15***	***$ 15***	*Total Reclassified Nonexchange Revenues*
Donations and Forfeitures of Property	$ -	$ -	Other Taxes and Receipts (Non-Federal) - Donations and Forfeitures of Property
		-	Appropriation of Unavailable Special/Trust Fund Receipts Transfers-In
		-	Appropriation of Unavailable Special/Trust Fund Receipts Transfers-Out
		-	Non-Expenditure Transfers-In of Unexpended Appropriations and Financing Sources
		-	Non-Expenditure Transfers-Out of Unexpended Appropriations and Financing Sources
Transfers-in/out without Reimbursement - Budgetary	$ (5)	-	Expenditure Transfers-In of Financing Sources
		(5)	Expenditure Transfers-Out of Financing Sources
		-	Transfers-In without Reimbursement
		-	Transfers-Out without Reimbursement
		-	Other Non-Budgetary Financing Sources
		$ (5)	**Total Reclassified Transfers-In/Out without Reimbursement - Budgetary (Federal)**
Total Transfers-In/Out without Reimbursement - Budgetary	***$ (5)***	***$ (5)***	*Total Reclassified Transfers-In/Out without Reimbursement - Budgetary*
			Non-Federal Other
		$ 123	Other Taxes and Receipts
		-	Miscellaneous Earned Revenues
		$ 123	***Total Non-Federal Other***
			Intragovernmental Other
		$ -	Miscellaneous Earned Revenues
Other	$ (2,884)	-	Federal Securities Interest Revenue including Associated Gains/Losses (Nonexchange)
		-	Borrowing and Other Interest Revenue (Nonexchange)
		(3,007)	Accrual of Collections Yet to be Transferred to a TAS Other than the General Fund
		-	Other Budgetary Financing Sources
		-	Other Taxes and Receipts
		$ (3,007)	***Total Intragovernmental Other***
Total Other	***$ (2,884)***	***$ (2,884)***	*Total Reclassified Other*
Donations and Forfeitures of Cash and Cash Equivalents	$ -	$ -	Other Taxes and Receipts (Non-Federal) - Donations and Forfeitures of Cash and Cash Equivalents
Imputed Financing	80	80	Imputed Financing Sources (Federal)
Appropriations Used	54,650	54,650	Appropriations Used
Total Financing Sources	**$ 51,846**	**$ -**	
Net Cost of Operations	**(27,094)**	**(27,094)**	**Net Cost of Operations**
Ending Balance - Cumulative Results of Operations	**88,273**	**88,273**	**Net Position - Ending Balance**
Total Net Position	**174,523**	**174,523**	**Total Net Position**

UNAUDITED

Required Supplementary Stewardship Information (RSSI)

As discussed in this document, HUD implemented several new processes to improve its internal financial controls and its financial statement close processes, which addressed several issues previously reported by the Office of Inspector General (OIG). In some instances, the extent of HUD's improvements required the OIG to conduct additional testing procedures, which required additional time for OIG to complete its audit process. Related to GNMA, GNMA fully implemented the subledger database, but the audit process and audit procedures could not be completed in a timely manner, resulting in a qualified opinion and delayed audit report.

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 provides information that helps the reader to better assess the impact of HUD's operations and activities.

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

- Community Planning and Development (CPD),
- Public and Indian Housing (PIH), and
- Office of Lead Hazard Control and Healthy Homes (OLHCHH).

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:

- **CDBGs** 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 (Disaster Grants/CDBG-DR)** is a CDBG program that helps state and local governments recover from major natural disasters. A portion of these funds are used to acquire, rehabilitate, construct, or demolish physical property.
- **The HOME Investment Partnerships Program (HOME)** provides formula grants to states and localities (used often in partnership with local nonprofit groups) to fund a wide range of activities that build, buy, and/or rehabilitate affordable housing for low-income persons.
- **Homeless – Continuum of Care (CoC)** is a body of stakeholders in a specific geographic area that plans and implements homeless assistance strategies (including the coordination of resources) to address the critical needs of homeless persons and facilitate their transition to jobs and independent living.
- **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.
- **Neighborhood Stabilization Program (NSP)** stabilizes communities that have suffered from foreclosures and abandonment. This includes providing technical assistance **(NSPTA)** as well as the purchase and redevelopment of foreclosed and abandoned homes and residential properties.
- **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.
- **Rural Innovation Fund (RIF)** offers grants throughout the nation to address distressed housing conditions and concentrated poverty. The grants 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.
- **Community Compass** provides technical assistance and capacity building to CPD grantees including onsite and remote training, workshops, and 1:1 assistance.

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:

- **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.
- **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.
- **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 public housing agencies (PHAs) for state or local governments, while others help to provide education and job training to residents of the communities targeted for rehabilitation.
- **Choice Neighborhoods** grants transform distressed neighborhoods and public and assisted projects into viable and sustainable mixed-income neighborhoods by linking housing improvements with appropriate services, schools, public assets, transportation, and access to jobs.
- **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.

The **OLHCHH** 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, for fiscal years 2015 through 2019.

Investments in Non-Federal Physical Property
Fiscal Year 2015 – 2019
(Dollars in Millions)

Program	2015	2016	2017	2018	2019
CPD					
CDBG	$922	$996	$992	$1,068	$1,072
Disaster Grants [21]	471	466	377	371	370
HOME	18	14	10	9	14
CoC - Homeless	0	3	2	0	1
NSP [22]	1	1	0	1	0
PIH					
ICDBG [23]	$59	$57	$55	$63	$0
NHHBG	9	0	2	2	2
IHBG [24]	313	247	280	186	173
HOPE VI [25]	28	12	27	13	10
Choice Neighborhoods [26]	43	70	49	48	67
PH Capital Fund [27]	1,916	1,830	1,698	1,792	2,163
TOTAL	**$3,780**	**$3,696**	**$3,492**	**$3,553**	**$3,872**

[21] CDBG-DR has updated the data for FY 2015 through FY 2018 to ensure all grants with applicable activities are reported. The downward trend is due to an increase in housing investment and affordable housing development instead of public facilities/non-residential properties. Additionally, CDBG-DR closed six grants in FY 2017, eleven in FY 2018, and two in FY 2019.

[22] FY 2017 and FY 2019 amounts are not material to be included in the AFR.

[23] Amounts are reported under the fiscal year in which they were appropriated, not necessarily the fiscal year in which they were awarded or expended. Grants funded in FY 2019 are not yet awarded, as Office of Native American Programs is putting a 2-year NOFA through clearance.

[24] Historical amounts were updated since the last report. Amounts expended vary from year to year because annual grant amounts vary depending on funding levels, and grantees are free to expend funds on whatever activities address their current priorities.

[25] The final HOPE VI appropriation was in 2011. Except for grants awarded before 2001, all HOPE VI funds have been expended or have been canceled and returned to Treasury. Obligations will decrease each year until all HOPE VI grants have exhausted all funds.

[26] The increase in FY 2019 is due to more grantees being further into their grant and completing vertical construction. Typically, there is a lag of time of six months to a year from the time of grant award to the time that physical development can start.

[27] Positive and negative swings in Capital Fund appropriations has impacted the expenditure pattern stability in recent years. In FY 2019, the positive uptick in Capital Fund expenditures is within range and expected to occur as Capital Fund appropriations have significantly increased in recent fiscal cycles ($1 billion increase over last 5 years).

Human Capital

Investment in Human Capital: Human Capital investments support education and training programs that are intended to increase or maintain national economic productive capacity. These investments support HUD's strategic goals, which are to promote self-sufficiency and asset development of families and individuals; improve community quality of life and economic vitality; and ensure public trust in HUD. The table below summarizes material program investments in Human Capital, for fiscal years 2015 through 2019.

Investments in Human Capital
Fiscal Year 2015 – 2019
(Dollars in Millions)

Program	2015	2016	2017	2018	2019
CPD					
CDBG [28]	$25	$21	$32	$30	$34
Disaster Grants [29]	99	97	89	39	18
ESG	3	3	5	4	4
CoC - Homeless	25	16	15	14	14
HOPWA [30]	0	0	0	0	1
Community Compass	38	48	54	46	44
PIH					
IHBG	$2	$1	$8	$4	$3
HOPE VI [31]	8	5	4	1	0
Choice Neighborhoods [32]	5	12	9	12	11
TOTAL	**$205**	**$203**	**$216**	**$150**	**$129**

[28] Each CDBG grantee is responsible for selecting the activities (and level of funding) that it wishes to use CDBG funds for. Some year-to-year variation in cumulative national expenditure levels for specific categories of eligible activities is normal.

[29] In FY 2019, the methodology for reporting CDBG-DR investment in Human Capital was amended to accurately reflect the grantees' investments. In prior years, CDBG-DR reported on Technical Assistance (TA) contractors that are already reported in the RSSI under Community Compass. CDBG-DR has limited the data set to only public service activities which include services such as job training, childcare, fair housing counseling, education programs, and others. Prior reporting years included tourism funding and economic development activities which generally are not investments in Human Capital. Therefore, CDBG-DR updated its methodology to exclude these activity types which explains the significant decrease in the data reported in this report.

[30] Expenditures in FY 2015 through FY 2018 are not material to be included in the AFR.

[31] Except for grants awarded before 2001, all HOPE VI funds have been expended or have been canceled and returned to Treasury. Future expenditures will decrease until all grants have expended all funds. Expenditures in FY 2019 were not material to be included in the AFR.

[32] The decline in FY 2019 was due to the 2010/2011 cohort closing out and no longer expending human capital funds, the 2012 cohort winding down and spending less, plus the lag in new grantees getting up and running and starting to expend human capital funds.

Results of Human Capital Investments: The following table presents the results (number of people trained) of human capital investments made by HUD's CPD, PIH, and OLHCHH programs for fiscal years 2015 through 2019.

Results of Investments in Human Capital Number of People Trained Fiscal Year 2015 – 2019					
Program	**2015**	**2016**	**2017**	**2018**	**2019**
CPD					
CDBG [33]	51,808	47,805	73,922	70,253	61,444
CoC - Homeless [34]	N/A	19%	19%	18%	17%
HOPWA	1,064	502	956	669	599
NSP TA [35]	25	6	5	0	0
RIF [36]	397	0	0	0	0
Community Compass [37]	31,631	32,823	27,195	26,268	29,304
PIH					
NHHBG [38]	0	113	5	5	15
IHBG	1,756	1,752	1,812	1,403	1,470
HOPE VI (see table on pages 142 and 143)					
Choice Neighborhoods (see table on page 143)					
OLHCHH					
Lead Technical Assistance [39]	512	2,120	475	1,950	654
TOTAL	**87,193**	**85,121**	**104,370**	**100,548**	**93,486**

[33] Each CDBG grantee is responsible for selecting the activities that it wishes to use CDBG funds for, some year-to-year variation in cumulative national expenditure and accomplishments levels for specific categories of eligible activities is normal.

[34] CoC – Homeless results are expressed in terms of percentage of persons exiting the programs having employment income. This measure has a 1-year time lag. In FY 2016 through FY 2018, goals were changing, and percentages for these years have been updated, to reflect data having become available to compare each year to the prior year.

[35] All training portions of NSP were ended in FY 2017. Expenditures under investments for human capital, in FY 2015 through FY 2017, are not material to be included in the AFR.

[36] The final reporting period for the RIF program was 09/30/2015. Expenditures under investments for human capital in FY 2015 are not material to be included in the AFR.

[37] The increase in total individuals trained comes primarily in the form of persons completing online trainings; both self-paced and recorded trainings. The trainings with the highest utilization are those launched prior to FY 2019, which speaks to the quality and applicability of existing technical assistance tools, as well as efforts to better account for and catalogue existing resources before investing in new ones.

[38] A lack of S&E funding prevented ONAP from offering training in FY 2015. Grantee received training from HUD staff and, in FY 2016, from two contracted training providers. In FY 2017 through FY 2019, ONAP focused on providing technical assistance directly to the grantee. Expenditures under investments for human capital, in FY 2016 through FY 2019, are not material to be included in the AFR.

[39] In FY 2019, OLHCHH did not host a National Healthy Homes Conference. There was only a New Grantee Orientation and a Grantee Program Mgrs. School. OLHCHH did host a National Health Homes Conference in FY 2016 and FY 2018. Expenditures under investments in human capital in FY 2015 through FY 2019 were not material to be included in the AFR.

HOPE VI/Choice Neighborhoods Results of Investments in Human Capital:
Since the inception of the HOPE VI program in FY 1993, the program has made significant investments in Human Capital related initiatives (i.e., education and training). The following table, and continuation on the next page, presents HOPE VI's key performance information for fiscal years 2015 through 2019, reported as cumulative since the program's inception.

Key Results of HOPE VI Program Activities Fiscal Years 2015 – 2019						
HOPE VI Service	**2015 Enrolled**	**2015 Completed**	**% Completed**	**2016 Enrolled**	**2016 Completed**	**% Completed**
Employment Preparation, Placement & Retention [40]	87,005	N/A	N/A	87,564	N/A	N/A
Job Skills Training Programs	35,364	18,685	53%	35,675	18,877	53%
High School Equivalent Education	18,533	5,334	29%	18,705	5,381	29%
Entrepreneurship Training	3,755	1,654	44%	3,795	1,682	44%
Homeownership Counseling	16,837	7,350	44%	17,399	7,804	45%
HOPE VI Service	**2017 Enrolled**	**2017 Completed**	**% Completed**	**2018 Enrolled**	**2018 Completed**	**% Completed**
Employment Preparation, Placement & Retention [41]	87,861	N/A	N/A	87,873	N/A	N/A
Job Skills Training Programs	35,748	18,917	53%	35,749	18,920	53%
High School Equivalent Education	18,792	5,390	29%	18,795	5,393	29%
Entrepreneurship Training	3,803	1,684	44%	3,803	1,684	44%
Homeownership Counseling	17,410	7,805	45%	17,413	7,805	45%

[40] Completion data for this service is not provided, as all who enroll are considered recipients of the training.
[41] *Ibid*.

Key Results of HOPE VI Program Activities Fiscal Years 2015 – 2019 Cont'd			
HOPE VI Service	**2019 Enrolled**	**2019 Completed**	**% Completed**
Employment Preparation, Placement & Retention [42]	87,873	N/A	N/A
Job Skills Training Programs	35,749	18,922	53%
High School Equivalent Education	18,795	5,393	29%
Entrepreneurship Training	3,803	1,684	44%
Homeownership Counseling	17,415	7,806	45%

The following table presents Choice Neighborhoods' cumulative performance information for fiscal years 2015 through 2019.

Key Results of Choice Neighborhoods Program Activities Fiscal Years 2015 – 2019					
Choice Neighborhoods Service	**2015**	**2016**	**2017**	**2018**	**2019** [43]
Current Total Original Assisted Residents	7,017	10,089	13,446	10,132	13,906
Current Total Original Assisted Residents in Case Management	3,063	4,882	7,596	6,750	9,827
High School Graduation Rate [44]	N/A	N/A	N/A	N/A	N/A
Number of Residents (in Case Management) Who Completed Job Training or Other Workforce Development Programs	867	343	119	90	99

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.

[42] *Ibid*.
[43] The increase in FY 2019 is due to more grantees being further into their grant cycle, having completed resident assessments, and have offered case management services to residents.
[44] Program level High School Graduation Rate data is currently not available for 2015 through 2019, due to metric only requiring individual grantees to enter rates and not numerator and denominator.

The following table summarizes HUD's research and development investments, for fiscal years 2015 through 2019.

Investments in Research and Development Fiscal Year 2015 – 2019 (Dollars in Millions)					
Program	**2015**	**2016**	**2017**	**2018**	**2019**
OLHCHH					
Lead Hazard Control	$4	$5	$6	$3	$5
TOTAL	**$4**	**$5**	**$6**	**$3**	**$5**

Results of Investments in Research and Development: In support of HUD's lead hazard control initiatives, the OLHCHH 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, increased supply and labor costs have contributed to increases in the per-housing unit cost. 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.

Results of Research and Development Investments Fiscal Year 2015 – 2019 (in Dollars)					
Program	**2015**	**2016**	**2017**	**2018**	**2019**
OLHCHH					
Lead Hazard Control					
Per-Housing Unit Cost	$8,909	$9,048	$8,437	$8,046	$11,442
TOTAL	**$8,909**	**$9,048**	**$8,437**	**$8,046**	**$11,442**

Required Supplementary Information (RSI)

As discussed in this document, HUD implemented several new processes to improve its internal financial controls and its financial statement close processes, which addressed several issues previously reported by the Office of Inspector General (OIG). In some instances, the extent of HUD's improvements required the OIG to conduct additional testing procedures, which required additional time for OIG to complete its audit process. Related to GNMA, GNMA fully implemented the subledger database, but the audit process and audit procedures could not be completed in a timely manner, resulting in a qualified opinion and delayed audit report.

Required Supplementary Information
U.S. Department of Housing and Urban Development
Combining Statement Of Budgetary Resources (Unaudited)
For The Year Ended 2019
(Dollars in Millions)

	Federal Housing Administration (FHA)	Government National Mortgage Association (GNMA)	Section 8 Rental Assistance	Public and Indian Housing Loans and Grants (PIH)	Homeless Assistance Grants	Housing for the Elderly and Disabled	Community Development Block Grants (CDBG)
Budgetary Resources:							
Unobligated Balance From Prior Year Budget Authority, Net	$ 27,103	$ 17,198	$ 1,341	$ 226	$ 3,202	$ 389	$ 29,246
Appropriations (discretionary and mandatory)	1,439	-	34,489	3,493	2,636	862	7,474
Borrowing Authority (discretionary and mandatory)	-	-	-	-	-	-	-
Spending Authority from Offsetting Collections	25,232	2,541	-	-	-	188	-
Total Budgetary Resources	**$ 53,774**	**$ 19,739**	**$ 35,830**	**$ 3,719**	**$ 5,838**	**$ 1,439**	**$ 36,720**
Status of Budgetary Resources:							
New Obligations and Upward Adjustments (Total) (Note 21)	$ 2,698	$ 3,424	$ 34,720	$ 3,387	$ 2,597	$ 806	$ 5,023
Unobligated Balance, End of Year:							
Apportioned, Unexpired Accounts	84	302	1,058	307	2,519	193	29,235
Unapportioned, Unexpired Accounts	50,926	16,012	52	11	60	433	2,460
Unexpired Unobligated Balance, End of Year	**$ 51,010**	**$ 16,314**	**$ 1,110**	**$ 318**	**$ 2,579**	**$ 626**	**$ 31,695**
Expired Unobligated Balance, End of Year	$ 66	$ 1	$ -	$ 14	$ 662	$ 7	$ 2
Unobligated Balance, End of Year (Total)	**$ 51,076**	**$ 16,315**	**$ 1,110**	**$ 332**	**$ 3,241**	**$ 633**	**$ 31,697**
Total Budgetary Resources	**$ 53,774**	**$ 19,739**	**$ 35,830**	**$ 3,719**	**$ 5,838**	**$ 1,439**	**$ 36,720**
Outlays, Net:							
Outlays, Net (Total) (discretionary and mandatory)	$ (22,464)	$ 646	$ 34,546	$ 2,807	$ 2,168	$ 746	$ 5,178
Distributed Offsetting Receipts (-)	(2,180)	-	(1)	-	-	-	-
Agency Outlays, Net (discretionary and mandatory)	**$ (24,644)**	**$ 646**	**$ 34,545**	**$ 2,807**	**$ 2,168**	**$ 746**	**$ 5,178**

Required Supplementary Information
U.S. Department of Housing and Urban Development
Combining Statement Of Budgetary Resources (Unaudited)
For The Year Ended 2019
(Dollars in Millions)

	HOME	All Other	Budgetary Total	Federal Housing Administration Non-Budgetary	Government National Mortgage Association Non-Budgetary	Other Non-Budgetary Credit Reform Accounts	Total Non-Budgetary Credit Reform Accounts	Total
Budgetary Resources:								
Unobligated Balance From Prior Year Budget Authority, Net	$ 533	$ 2,305	$ 81,543	$ 30,123	$ 2,693	$ 263	$ 33,079	$ 114,622
Appropriations (discretionary and mandatory)	1,250	7,802	59,445	-	-	-	-	59,445
Borrowing Authority (discretionary and mandatory)	-	-	-	11,479	-	-	11,479	11,479
Spending Authority from Offsetting Collections	-	84	28,045	16,501	4,984	62	21,547	49,592
Total Budgetary Resources	**$ 1,783**	**$ 10,191**	**$ 169,033**	**$ 58,103**	**$ 7,677**	**$ 325**	**$ 66,105**	**$ 235,138**
Status of Budgetary Resources:								
New Obligations and Upward Adjustments (Total) (Note 21)	$ 1,516	$ 8,482	$ 62,653	$ 47,884	$ 2,777	$ 133	$ 50,794	$ 113,447
Unobligated Balance, End of Year:								
Apportioned, Unexpired Accounts	234	903	34,835	9,022	4,312	55	13,389	48,224
Unapportioned, Unexpired Accounts	6	687	70,647	1,197	588	137	1,922	72,569
Unexpired Unobligated Balance, End of Year	**$ 240**	**$ 1,590**	**$ 105,482**	**$ 10,219**	**$ 4,900**	**$ 192**	**$ 15,311**	**$ 120,793**
Expired Unobligated Balance, End of Year	$ 27	$ 119	$ 898	$ -	$ -	$ -	$ -	$ 898
Unobligated Balance, End of Year (Total)	**$ 267**	**$ 1,709**	**$ 106,380**	**$ 10,219**	**$ 4,900**	**$ 192**	**$ 15,311**	**$ 121,691**
Total Budgetary Resources	**$ 1,783**	**$ 10,191**	**$ 169,033**	**$ 58,103**	**$ 7,677**	**$ 325**	**$ 66,105**	**$ 235,138**
Outlays, Net:								
Outlays, Net (Total) (discretionary and mandatory)	$ 938	$ 7,188	$ 31,753	$ 25,610	$ (2,712)	$ 65	$ 22,963	$ 54,716
Distributed Offsetting Receipts (-)	-	(384)	(2,565)	-	-	-	-	(2,565)
Agency Outlays, Net (discretionary and mandatory)	**$ 938**	**$ 6,804**	**$ 29,188**	**$ 25,610**	**$ (2,712)**	**$ 65**	**$ 22,963**	**$ 52,151**