Federal Housing Administration, Washington, DC

Audit of FHA's Fiscal Years 2020 and 2019 Financial Statements

Office of Audit, Financial Audits Division
Washington, DC

Audit Report Number: 2021-FO-0001
November 12, 2020

To: Dana Wade, Assistant Secretary for Housing – Federal Housing Commissioner, H

//signed//

From: Sarah D. Sequeira, Director, In-House Financial Audits, Financial Audits Division, GAF

Subject: Audit of Federal Housing Administration's Financial Statements for Fiscal Years 2020 and 2019

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our audit of the Federal Housing Administration's fiscal years 2020 and 2019 financial statements.

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 202-255-7430.

Audit Report Number: 2021-FO-0001
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Audit of the Federal Housing Administration's Fiscal Years 2020 and 2019 Financial Statements

Highlights

What We Audited and Why

The Chief Financial Officers Act of 1990 (Public Law 101-576), as amended, requires the Office of Inspector General to audit the financial statements of the Federal Housing Administration (FHA) annually. We audited the accompanying FHA financial statements and notes as of and for the fiscal years ending September 30, 2020 and 2019, which are comprised of the balance sheets, related statements of net cost, changes in net position, and combined statements of budgetary resources for the fiscal years then ended. We conducted these audits in accordance with U.S. generally accepted government auditing standards.

What We Found

In our opinion, FHA's fiscal years 2020 and 2019 financial statements were presented fairly, in all material respects, in accordance with the U.S. generally accepted accounting principles for the Federal Government. FHA reports our opinion in its Fiscal Year 2020 Annual Management Report. The results of our audit of FHA's principal financial statements and notes for the fiscal years ending September 30, 2020 and 2019, including our report on FHA's internal control and test of compliance with selected provisions of laws, regulations, and contracts applicable to FHA, are presented in this report. Our audit did not disclose any deficiencies in internal control that we consider to be material weaknesses or significant deficiencies and no instances of noncompliance with applicable laws, regulations, and contracts.

What We Recommend

We have no new recommendations in this report; however, the Followup on Prior Audits section contains recommendations from prior-year audits that are still outstanding. While these recommendations relate to prior-year material weaknesses or significant deficiencies that have now been substantially resolved, FHA should continue to track and resolve these recommendations in accordance with departmental procedures.

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Independent Auditor's Report

Assistant Secretary for Housing – Federal Housing Commissioner
Federal Housing Administration

In our audits of the fiscal years 2020 and 2019 financial statements of the Federal Housing Administration (FHA), a component of the U.S. Department of Housing and Urban Development (HUD), we found

- That FHA's financial statements as of and for the fiscal years ending September 30, 2020 and 2019, were presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles.
- No material weaknesses or significant deficiencies in internal control over financial reporting based on the limited procedures performed.
- No reportable noncompliance with provisions of applicable laws, regulations, and contracts tested for fiscal year 2020.

The following sections and appendixes discuss in more detail (1) our report on the financial statements, which includes emphasis-of-matter paragraphs related to the loan guarantee liability, required supplementary information (RSI), and other information included with the financial statements; (2) our report on internal control over financial reporting; (3) our report on compliance with laws, regulations, and contracts; (4) followup on prior audits; and (5) agency comments and Office of Inspector General (OIG) evaluation.

Report on the Financial Statements

In accordance with the Chief Financial Officers Act of 1990, we audited FHA's financial statements. FHA's financial statements comprise the balance sheets as of September 30, 2020 and 2019, the related statements of net cost, changes in net position, and the combined statements of budgetary resources for the fiscal years then ended and the related notes to the financial statements.

We conducted our audits in accordance with U.S. generally accepted auditing standards. We believe that the audit evidence we have obtained was sufficient and appropriate to provide a basis for our audit opinion.

Management's Responsibility

FHA 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 these financial statements based on our audits. U.S. generally accepted government auditing standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement. We also conducted our audits in accordance with Office of Management and Budget Bulletin 19-03, Audit Requirements for Federal Financial Statements. We are further 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 audit 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 FHA's preparation and fair presentation of the financial statements 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 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 other procedures we considered necessary in the circumstances.

Opinion on Financial Statements

In our opinion, FHA's financial statements referred to above presented fairly, in all material respects, the financial position of FHA as of September 30, 2020 and 2019, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in notes 1 and 7 to the financial statements, the loan guarantee liability line item is an estimate of the net present value of future claims, net of future premiums, and future recoveries from loans insured as of the end of the fiscal year. The estimate is developed using econometric models that integrate historical loan-level program and economic data with regional house price appreciation forecasts to develop assumptions about future portfolio performance. Actual results may differ from the estimate. Our opinion was not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the RSI be presented to supplement the financial statements. The RSI consists of "Management's Discussion and Analysis" and the "Combining Statement of Budgetary Resources," which are included with 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 appropriate operational, economic, or historical context.

We 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 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

FHA's other information contains a wide range of information other than the RSI and the auditor's report, some of which is not directly related to the financial statements and consists of information included with the financial statements. This information, including the message from the FHA Commissioner, 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 to identify material inconsistencies, if any, with the audited financial statements. Our audit was conducted for the purpose of forming an opinion on FHA's financial statements. We did not audit and do not express an opinion or provide any assurance on the other information.

Report on Internal Control Over Financial Reporting

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

Management's Responsibility

FHA 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 FHA's financial statements as of and for the year ending September 30, 2020, in accordance with U.S. generally accepted government auditing standards, we considered FHA'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 FHA's internal control over financial reporting. Accordingly, we do not express an opinion on FHA's internal control over financial reporting. We are required to report all deficiencies that we consider to be material weaknesses or significant deficiencies. We did not consider all internal controls relevant to operating objectives, such as those controls relevant to preparing performance information and ensuring efficient operations.

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

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, and contracts, 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 or significant deficiencies or to express an opinion on the effectiveness of FHA's internal control over financial reporting. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses or significant deficiencies. However, material weaknesses or significant deficiencies may exist that have not been identified.

During our 2020 audit, we identified deficiencies in FHA's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. However, these deficiencies warrant FHA management's attention. We have communicated these matters to FHA management and, as appropriate, will report on them separately in a management letter.

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 FHA's internal control over financial reporting and the results of our procedures and not to provide an opinion on the effectiveness of FHA'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.

Report on Compliance With Laws, Regulations, and Contracts

In connection with our audits of FHA's financial statements, we tested compliance with selected provisions of applicable laws, regulations, and contracts 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

FHA management is responsible for complying with laws, regulations, and contracts applicable to FHA.

Auditor's Responsibility

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

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

Our tests for compliance with selected provisions of applicable laws, regulations, and contracts did not disclose any instances of noncompliance for fiscal year 2020 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, and contracts applicable to FHA. Accordingly, we do not express such an opinion.

During our 2020 audit, we identified instances of noncompliance and issues with FHA's operations that warrant FHA management's attention. We have communicated these matters to FHA management and, as appropriate, will report on them separately in a management letter.

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

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, and contracts 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, and contracts is not suitable for any other purpose.

Agency Comments and Our Evaluation

In commenting on a draft of this report, FHA concurred with the audit results presented in our draft report. FHA also asserted its commitment to sustain its efforts to strengthen controls over financial reporting and to continue to prioritize resolution of recommendations from prior years. The complete text of FHA's response is presented in appendix A.

Kim Randall

Kimberly Randall
Deputy Assistant Inspector General for Audit
Washington, DC

November 12, 2020

Followup on Prior Audits

The current fiscal yearend status of open recommendations from prior-year reports on FHA's financial statements is provided below. Specifically, we identified three unimplemented recommendations from prior-year reports. We originally made these recommendations to management to correct material weaknesses or significant deficiencies included in the Report on Internal Control Over Financial Reporting; however, the deficiencies in internal control no longer meet the definition of a material weakness or significant deficiency individually or in combination. Regardless, FHA should continue to track and resolve these recommendations under the prior-year report numbers in accordance with departmental procedures. Each of these open recommendations and its status is shown below.

Federal Housing Administration Fiscal Years 2018 and 2017 Financial Statements Audit, 2019-FO-0002

With respect to FHA's not having effective monitoring and processes in place for its unliquidated obligation balances and to ensure the accuracy of data reported in the financial statements, we recommended that the Deputy Assistant Secretary for Finance and Budget

1.a. Ensure that $399.1 million identified as invalid obligations in fiscal year 2018 is deobligated as appropriate. (Final action target date was October 31, 2019; reported in ARCATS[1] as 2019-FO-0002-002-I.)

With respect to FHA's weaknesses in processing recorded HECM [home equity conversion mortgage] assignments, we recommended that the Director of the Office of Single Family Asset Management

1.b. In conjunction with the loan-servicing contractor, determine what actions can be taken to ensure that recorded assignments are reviewed in a timely manner after receipt. (Final action target date was December 31, 2019; reported in ARCATS as 2019-FO-0002-002-M.)

Federal Housing Administration Fiscal Years 2017 and 2016 Financial Statements Audit, 2018-FO-0003

With respect to FHA's not having effective monitoring and processing controls over its unliquidated obligation balances and using inaccurate data to report on its loan guarantees, we recommended that the Deputy Assistant Secretary for Finance and Budget

2.a. Ensure that the $270.7 million identified as invalid obligations in fiscal year 2018 is deobligated as appropriate. (Final action target date was August 31, 2018; reported in ARCATS as 2018-FO-0003-002-A.)

[1] Audit Resolution and Corrective Action Tracking System

Appendixes

Appendix A

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation	Auditee Comments

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

OFFICE OF HOUSING

November 6, 2020

MEMORANDUM FOR: Sarah D. Sequeira, Director of In-House Financial Audits, Financial Audits Division, GAF

FROM: Susan Betts
Susan A. Betts, Deputy Assistant Secretary for Finance and Budget, HW

SUBJECT: Response to Fiscal Years 2020 and 2019 Financial Statements Audit Report

Thank you for the opportunity to respond to FHA's FY 2020 Independent Auditor's Report. The Federal Housing Administration (FHA) is pleased to receive an unmodified "clean" audit opinion on its financial statements, with no material weaknesses or significant deficiencies in internal control over financial reporting.

Comment 1

We believe our commitment to sound financial management is reflected in the overall results of this year's audit. Equally, we appreciate the Office of Inspector General's (OIG) recognition of the hard work of our staff in resolving prior year findings, to include the one remaining significant deficiency, as well as the work done to address current year auditor concerns.

As always, we thank you for and appreciate the collaborative efforts of the OIG staff. FHA's management and staff are committed to sustained efforts to strengthen controls around financial reporting and will continue to prioritize the resolution of prior year unresolved audit recommendations.

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OIG Evaluation of Auditee Comments

Comment 1 OIG appreciates FHA's cooperation and collaboration with our office as we conducted the audit. FHA's continued efforts in strengthening its internal controls over financial reporting will improve and maintain the reliability of the financial statements. We look forward to working with FHA to close out the recommendations from prior years.

Appendix B

FHA's Fiscal Years 2020 and 2019 Financial Statements and Notes

FEDERAL HOUSING ADMINISTRATION
(AN AGENCY OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT)
CONSOLIDATED BALANCE SHEETS
As of September 30, 2020, and 2019
(Dollars in Millions)

	FY 2020	FY 2019
ASSETS		
Intragovernmental		
Fund Balance with U.S. Treasury (Note 3)	$ 18,234	$ 14,257
Investments (Note 5)	69,246	50,336
Total Intragovernmental	$ 87,480	$ 64,593
Cash and Other Monetary Assets (Note 4)	$ 32	$ 87
Investments (Note 5)	-	6
Accounts Receivable, Net (Note 6)	891	137
Loans Receivable and Related Foreclosed Property, Net (Note 7)	43,329	35,902
TOTAL ASSETS	**$ 131,732**	**$ 100,725**
LIABILITIES		
Intragovernmental		
Accounts Payable (Note 8)	$ 2	$ 1
Debt (Note 9)	54,192	32,360
Other Liabilities (Note 10)	1,544	3,219
Total Intragovernmental	$ 55,738	$ 35,580
Accounts Payable (Note 8)	$ 779	$ 446
Loan Guarantee Liability (Note 7)	(6,184)	2,568
Other Liabilities (Note 10)	465	766
TOTAL LIABILITIES	**$ 50,798**	**$ 39,360**
NET POSITION		
Unexpended Appropriations (Note 16)	$ 524	$ 499
Cumulative Results of Operations	80,410	60,866
TOTAL NET POSITION	**$ 80,934**	**$ 61,365**
TOTAL LIABILITIES AND NET POSITION	**$ 131,732**	**$ 100,725**

The accompanying notes are an integral part of these statements.

FEDERAL HOUSING ADMINISTRATION
(AN AGENCY OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT)
CONSOLIDATED STATEMENTS OF NET COST
For the Periods Ended September 30, 2020, and 2019
(Dollars in Millions)

	FY 2020	FY 2019
Single Family Forward		
Intragovernmental Gross Costs	$ 668	$ 549
Less: Intragovernmental Earned Revenue	919	990
Intragovernmental Net Costs	$ (251)	$ (441)
Gross Costs With the Public	$ (11,987)	$ (19,702)
Less: Earned Revenues	4	4
Net Costs With the Public	$ (11,991)	$ (19,706)
Single Family Forward Net Cost (Surplus)	$ (12,242)	$ (20,147)
HECM		
Intragovernmental Gross Costs	$ 1,128	$ 461
Less: Intragovernmental Earned Revenue	680	486
Intragovernmental Net Costs	$ 448	$ (25)
Gross Costs With the Public	$ (9,685)	$ (5,025)
Less: Earned Revenues	-	1
Net Costs With the Public	$ (9,685)	$ (5,026)
HECM Net Cost (Surplus)	$ (9,237)	$ (5,051)
Multifamily		
Intragovernmental Gross Costs	$ 216	$ 165
Less: Intragovernmental Earned Revenue	60	26
Intragovernmental Net Costs	$ 156	$ 139
Gross Costs With the Public	$ 477	$ (591)
Less: Earned Revenues	407	113
Net Costs With the Public	$ 70	$ (704)
Multifamily Net Cost (Surplus)	$ 226	$ (565)
Healthcare		
Intragovernmental Gross Costs	$ 45	$ 45
Less: Intragovernmental Earned Revenue	33	16
Intragovernmental Net Costs	$ 12	$ 29
Gross Costs With the Public	$ (31)	$ 130
Less: Earned Revenues	$ 4	-
Net Costs With the Public	$ (35)	$ 130
Healthcare Net Cost (Surplus)	$ (23)	$ 159
Salaries and Administrative Expenses		
Intragovernmental Gross Costs	$ 232	$ 190
Intragovernmental Net Costs	$ 232	$ 190
Gross Costs With the Public	$ 609	$ 578
Net Costs With the Public	$ 609	$ 578
Adminstrative and Contracts Net Cost (Surplus)	$ 841	$ 768
Net Cost of Operations	**$ (20,435)**	**$ (24,836)**

The accompanying notes are an integral part of these statements.

FEDERAL HOUSING ADMINISTRATION
(AN AGENCY OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT)
CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION
For the Periods Ended September 30, 2020, and 2019
(Dollars in Millions)

	2020	2019
Unexpended Appropriations		
Beginning Balance	499	463
Budgetary Financing Sources:		
Appropriations Received	947	1,439
Other Adjustments (Recissions, etc)	(17)	(13)
Appropriations Used	(905)	(1,390)
Total Budgetary Financing Sources	25	36
Total Unexpended Appropriations	524	499
Cumulative Results of Operations		
Beginning Balance	**$ 60,866**	**$ 36,750**
Adjustments		
Changes in Accounting Principles	320	
Beginning Balance, As Adjusted	**$ 61,186**	**$ 36,750**
Budgetary Financing Sources:		
Appropriations Used	905	1,390
NonExchange Revenue	-	2
Other Financing Sources (Nonexchange):		
Transfers In/Out Without Reimbursement	714	643
Imputed Financing From Costs	14	19
Other	(2,844)	(2,773)
Total Financing Sources	(1,211)	(719)
Net Cost of Operations	20,435	24,836
Net Change	19,224	24,116
Cumulative Results of Operation	80,410	60,866
Net Position	**$ 80,934**	**$ 61,365**

The accompanying notes are an integral part of these statements.

FEDERAL HOUSING ADMINISTRATION
(AN AGENCY OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT)
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the Period Ended September 30, 2020
(Dollars in Millions)

	FY 2020 Budgetary	FY 2020 Non-Budgetary Credit Reform Financing Account	FY 2020 Total
Budgetary Resources:			
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	50,965	10,834	61,799
Appropriations (discretionary and mandatory)	947	-	947
Borrowing authority (discretionary and mandatory)	-	23,436	23,436
Spending authority from offsetting collections (discretionary and mandatory)	19,439	20,801	40,240
Total budgetary resources	**$ 71,351**	**$ 55,071**	**$ 126,422**
Status of Budgetary Resources:			
New Obligations and upward adjustment (total)	2,169	40,410	$ 42,579
Unobligated balance, end of year			
Apportioned, unexpired accounts	96	2,575	2,671
Unapportioned, unexpired accounts	69,021	12,085	81,106
Unexpired unobligated balance, end of year	69,117	14,661	83,778
Expired unobligated balance, end of year	65	-	65
Total unobligated balance, end of year	69,182	14,661	83,843
Total budgetary resources	**$ 71,351**	**$ 55,071**	**$ 126,422**
Outlays, Net:			
Outlays, net (discretionary and mandatory)	(17,040)	-	(17,040)
Less Distributed offsetting receipts (-)	(4,416)	-	(4,416)
Agency outlays, net (discretionary and mandatory)	**$ (21,456)**	**$ -**	**$ (21,456)**
Disbursements, Net (Total) (mandatory)	**$ -**	**$ 17,763**	**$ 17,763**

The accompanying notes are an integral part of these statements

FEDERAL HOUSING ADMINISTRATION
(AN AGENCY OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT)
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the Period Ended September 30, 2019
(Dollars in Millions)

	FY 2019 Budgetary	FY 2019 Non-Budgetary Credit Reform Financing Account	FY 2019 Total
Budgetary Resources:			
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	27,103	30,123	57,226
Appropriations (discretionary and mandatory)	1,439	-	1,439
Borrowing authority (discretionary and mandatory)	-	11,479	11,479
Spending authority from offsetting collections (discretionary and mandatory)	25,232	16,501	41,733
Total budgetary resources	**$ 53,774**	**$ 58,103**	**$ 111,877**
Status of Budgetary Resources:			
New Obligations and upward adjustment (total)	$ 2,698	$ 47,883	$ 50,581
Unobligated balance, end of year			
Apportioned, unexpired accounts	84	9,023	9,107
Unapportioned, unexpired accounts	50,926	1,197	52,123
Unexpired unobligated balance, end of year	51,010	10,220	61,230
Expired unobligated balance, end of year	66	-	66
Total unobligated balance, end of year	51,076	10,220	61,296
Total budgetary resources	**$ 53,774**	**$ 58,103**	**$ 111,877**
Outlays, Net:			
Outlays, net (discretionary and mandatory)	(22,464)	-	(22,464)
Less Distributed offsetting receipts (-)	(2,180)	-	(2,180)
Agency outlays, net (discretionary and mandatory)	**$ (24,644)**	**$ -**	**$ (24,644)**
Disbursements, Net (Total) (mandatory)	**$ -**	**$ 25,610**	**$ 25,610**

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2020

Note 1. Significant Accounting Policies

Entity and Mission

The Federal Housing Administration (FHA) was established under the National Housing Act of 1934 and became a wholly owned government corporation in 1948 subject to the Government Corporation Control Act (31 U.S.C. § 9101 et seq.), as amended. While FHA was established as a separate federal entity, it was subsequently merged into the Department of Housing and Urban Development (HUD), when that department was created in 1965. FHA does not maintain a separate staff or facilities; its operations are conducted, along with other Housing activities, by HUD organizations. FHA is headed by HUD's Assistant Secretary for Housing and Federal Housing Commissioner, who reports to the Secretary of HUD.

FHA administers a wide range of activities to make mortgage financing more accessible to the home-buying public and to increase the availability of affordable housing to families and individuals, particularly to the nation's poor and disadvantaged. FHA insures private lenders against loss on mortgages, which finance single family homes, multifamily projects, healthcare facilities, property improvements, manufactured homes, and reverse mortgages, also referred to as Home Equity Conversion Mortgages (HECM). The objectives of activities carried out by FHA relate directly to the development of affordable housing.

FHA categorizes its insurance programs as Single Family (including Title 1), Multifamily, Healthcare, and HECM. Single Family activities support initial or continued home ownership; Title I activities support manufactured housing and property improvement. Multifamily and Healthcare activities support high-density housing and medical facilities. HECM activities support reverse mortgages, which allow homeowners 62 years of age or older to convert the equity in their homes into lump sum or monthly cash payments without having to repay the loan until the loan terminates.

FHA supports its insurance operations through five funds. The Mutual Mortgage Insurance fund (MMI), FHA's largest fund, provides basic Single Family mortgage insurance and is a mutual insurance fund, whereby mortgagors, upon non-claim termination of their mortgages, share surplus premiums paid into the MMI fund that are not required for operating expenses and losses or to build equity. The Cooperative Management Housing Insurance fund (CMHI), another mutual fund, provides mortgage insurance for management-type cooperatives. The General Insurance fund (GI), provides a large number of specialized mortgage insurance activities, including insurance of loans for property improvements, cooperatives, condominiums, housing for the elderly, land development, group practice medical facilities, nonprofit hospitals, and reverse mortgages. The Special Risk Insurance fund (SRI) provides mortgage insurance on behalf of mortgagors eligible for interest reduction payments who otherwise would not be eligible for mortgage insurance. To comply with the FHA Modernization Act of 2008, activities related to most Single

Family programs, including HECM, endorsed in Fiscal Year 2009 and going forward, are in the MMI fund. The Single Family activities in the GI fund from Fiscal Year 2008 and prior remain in the GI fund. The Hope for Homeowners (H4H) program began on October 1, 2008 for Fiscal Year 2009 as a result of *The Housing and Economic Recovery Act of 2008*. This legislation required FHA to modify existing programs and initiated the H4H program and fund, which guaranteed loans for three years. No new H4H loans have been guaranteed since fiscal year 2011.

For the Loan Guarantee Program at FHA, there are Single Family and Multifamily activities in both the MMI/CMHI and GI/SRI funds. The H4H fund only contains Single Family activity.

The following table illustrates how the primary Single Family program activities for FHA are now distributed between MMI/CMHI and GI/SRI funds based on the year of endorsement:

Fund	Loans Endorsed in Fiscal Years 2008 and Prior	Loans Endorsed in Fiscal Years 2009 and Onward
GI/SRI	234(c), HECM	N/A
MMI	203(b)	203(b), 234(c), HECM

In fiscal year 2010, FHA received appropriations for the Energy Innovation and Transformation Initiative programs. The Energy Innovation program is intended to catalyze innovations in the residential energy efficiency sector that have the ability to be replicated and to help create a standardized home energy efficient retrofit market. The appropriation for the Transformation Initiative was for combating mortgage fraud.

Basis of Accounting

The principal financial statements are presented in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to federal agencies, as promulgated by the Federal Accounting Standards Advisory Board (FASAB). **Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.** The recognition and measurement of budgetary resources and their status for purposes of preparing the Combined Statement of Budgetary Resources (SBR), is based on concepts and guidance provided by the Office of Management and Budget (OMB) Circular A-11, *Preparation, Submission, and Execution of the Budget* and the Federal Credit Reform Act of 1990. The format of the SBR is based on the SF 133, ***Report on Budget Execution and Budgetary Resources*.**

Basis of Consolidation

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

Fund Balance with U.S. Treasury

Fund balance with U.S. Treasury consists of amounts collected from premiums, interest earned from Treasury, recoveries and appropriations. The balance is available to fund payments for claims, property and operating expenses and of amounts collected but unavailable until authorizing legislation is enacted (see Notes 2 and 3).

Investments

FHA investments include investments in U.S. Treasury securities and Multifamily Risk Sharing debentures. Under current legislation, FHA invests available MMI/CMHI capital reserve fund resources, in excess of its current needs, in non-marketable market-based U.S. Treasury securities. These U.S. Treasury securities may not be sold on public securities exchanges but do reflect prices and interest rates of similar marketable U.S. Treasury securities. Investments are presented at acquisition cost net of the amortized premium or discount. Amortization of the premium or discount is recognized monthly on investments in U.S. Treasury securities using the interest method in accordance with the Statement of Federal Financial Accounting Standards (SFFAS) No. 1 *Accounting for Selected Assets and Liabilities*, paragraph 71.

Multifamily Risk Sharing Debentures [Section 542(c)] is a program available to lenders where the lender shares the risk in a property by issuing debentures for the claim amount paid by FHA on defaulted insured loans.

Credit Reform Accounting

The Federal Credit Reform Act (FCRA) established the use of program, financing, general fund receipt and capital reserve accounts to separately account for transactions that are not controlled by the Congressional budget process. It also established the liquidating account for activity relating to any loan guarantees committed and direct loans obligated before October 1, 1991 (pre-Credit Reform). Credit reform financing accounts are reported as non-budgetary on the Combined Statement of Budgetary Resources based on OMB Circular A-136 guidance. FHA's program, capital reserve, and liquidating accounts are reported as budgetary.

In accordance with the SFFAS No. 2, *Accounting for Direct Loans and Loan Guarantees,* the program account 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 is used to record all the cash flows resulting from Credit Reform direct loans, assigned loans, loan guarantees and related foreclosed property. It includes loan disbursements, loan repayments and fees, claim payments, recoveries on sold collateral, borrowing from the U.S. Treasury, interest, negative subsidy and the subsidy cost received from the program account. SFFAS No. 2 also requires the subsidy cost of direct loans and the liability for loan guarantees to be reestimated and updated.

FHA has four general fund receipt accounts: the GI/SRI Negative Subsidy, the GI/SRI Downward Reestimate, the Homeownership Preservation Entity Fund Downward Reestimate, and the Capital Transfer Receipt Accounts. Negative subsidy is disbursed from the GI/SRI financing accounts to the Negative Subsidy Receipt Account. Downward reestimates are disbursed from the GI/SRI and Homeownership Preservation Entity funds to the Downward Reestimate Receipt Accounts. The GI/SRI Liquidating Account transfers the prior-year's unobligated balance to the Capital Transfer Receipt Account. FHA's receipt accounts are general fund receipt accounts, and these amounts are not earmarked for FHA's credit programs. Any assets in these accounts are non-entity assets and are offset by intragovernmental liabilities. At the end of the fiscal year, the fund balances in the receipt accounts are swept to Treasury's general fund.

Negative subsidy and downward reestimates in the MMI/CMHI fund are transferred to the Capital Reserve account. Capital Reserve balances are accumulated for unanticipated losses.

The liquidating account is used to record all cash flows to and from FHA resulting from pre-Credit Reform direct loans or loan guarantees. Liquidating account collections in any year are available only for obligations incurred during that year or to repay debt. Unobligated balances remaining in the GI and SRI liquidating funds at year-end are transferred to the U.S. Treasury's general fund. Consequently, in the event that resources in the GI/SRI liquidating account are otherwise insufficient to cover the payments for obligations or commitments, the FCRA provides that the GI/SRI liquidating account can receive permanent indefinite authority to cover any resource shortages.

Loans Receivable and Related Foreclosed Property, Net

FHA's loan receivables include mortgage notes assigned (MNA), also described as Secretary-held notes, purchase money mortgages (PMM), notes related to partial claims, and direct loans relating to the Federal Financing Bank 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 HECM notes. HECM loans, while not in default, are assigned to HUD when they reach 98% of their maximum claim amount. In addition, Multifamily and Single Family performing notes insured pursuant to Section 221(g)(4) of the National Housing Act may be assigned automatically to FHA at a pre-determined point. Partial claims notes arise when FHA pays a loss mitigation amount to keep a borrower current on their loan. FHA, in turn, records a loan receivable which takes a second position to the primary mortgage.

In accordance with the FCRA and SFFAS No. 2, Credit Reform direct loans, defaulted guaranteed loans and related foreclosed property are reported 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 property 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).

Loan Guarantee Liability

The net potential future losses related to FHA's central business of providing mortgage insurance are reflected in the Loan Guarantee Liability in the consolidated balance sheet. As required by SFFAS No. 2, the Loan Guarantee Liability includes the Credit Reform-related Liabilities for Loan Guarantees (LLG) and the pre-Credit Reform Loan Loss Reserve (LLR) (see Note 7).

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.

FHA records loss estimates for its Single Family LLR (includes MMI and GI/SRI) to provide for anticipated losses incurred (e.g., claims on insured mortgages where defaults have taken place, but claims have not yet been filed). Using the net cash flows (cash inflows less cash outflows), FHA computes an estimate based on conditional claim rates and loss experience data and adjusts the estimate to incorporate management assumptions about current economic factors.

FHA records loss estimates for its Multifamily LLR (includes CMHI and GI/SRI) to provide for anticipated outflows less anticipated inflows. Using the net present value of claims less premiums, fees, and recoveries, FHA computes an estimate based on conditional claim rates, prepayment rates, and recovery assumptions based on historical experience.

FHA establishes cohorts for its direct loan and loan guarantee programs using the Federal fiscal year. FHA's original subsidy estimates for a cohort use the Budget discount rates estimated for the upcoming Federal fiscal year rather than the actual Treasury discount rates for the fiscal year. Starting in fiscal year 2019, FHA reported interest rate reestimates for Loans Receivable and the LLG in addition to technical/default reestimates. Interest rate reestimates account for the amount of interest that would have been earned or paid on the subsidy reestimate if the actual Treasury discount rates for the fiscal year had been used to calculate the original subsidy estimate.

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, the disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Amounts reported for net loans receivable and related foreclosed property and the Loan Guarantee Liability represent FHA's best estimates based on pertinent information available.

FHA bases its estimates of the Allowance for Subsidy associated with loan receivables and related foreclosed property and the Liability for Loan Guarantees (LLG) on cash flow models. As described in Note 7, FHA uses cash flow model assumptions associated with loan guarantee cases subject to the FCRA to estimate the cash flows associated with future loan performance. To make reasonable projections of future loan performance, FHA develops assumptions based on historical data, current and forecasted programs, and economic forecasts. More details are provided in Note 7.

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

General Property, Plant and Equipment

FHA does not maintain separate facilities. HUD purchases and maintains all property, plant and equipment used by FHA, along with other Office of Housing activities.

Current HUD policy concerning SFFAS No. 10, *Accounting for Internal Use Software,* states that HUD will either own the software or own the functionality provided by the software in the case of licensed or leased software. This includes "commercial off-the-shelf" (COTS) software, contractor-developed software, and internally developed software.

Appropriations

FHA receives appropriations for certain operating expenses for its program activities. FHA does not directly receive an appropriation for salaries and expense; instead, the FHA amounts are appropriated to HUD. To recognize these costs in FHA's Statement of Net Cost, a Transfer In from HUD is recorded based on amounts computed by HUD. Additionally, FHA receives appropriations for GI/SRI positive subsidy, upward reestimates, and permanent indefinite authority to cover any shortage of resources in the liquidating account.

Full Cost Reporting

To account for costs assumed by other Federal organizations on their behalf, SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards,* and SFFAS No. 55, *Amending Inter-Entity Cost Provisions,* require Federal agencies to report the full cost of program outputs in the financial statements. Full cost reporting includes all direct, indirect, and inter-entity costs. HUD allocates each responsibility segment's share of the program costs or resources provided by other federal agencies. As a responsibility segment of HUD, FHA's portion of these costs was $14 million for fiscal year 2020 and $19 million for fiscal year 2019, and it was included in FHA's financial statements as an imputed cost in the Consolidated Statement of Net Cost and as imputed financing in the Consolidated Statement of Changes in Net Position.

Distributive Shares

Excess revenues in the MMI/CMHI Fund may be distributed to mortgagors at the discretion of the Secretary of HUD. Such distributions are determined based on the funds' financial positions and their projected revenues and costs. No distributive share distributions have been declared from the MMI fund since the enactment of the National Affordable Housing Act (NAHA) in 1990.

Liabilities Covered by Budgetary Resources

Liabilities of Federal agencies are required to be classified as those covered and not covered by budgetary resources, as defined by OMB Circular A-136, and in accordance with SFFAS No. 1. In the event that available resources are insufficient to cover liabilities due at a point in time, FHA has authority to borrow monies from the U.S. Treasury (for post-1991 loan guarantees) or to draw on permanent indefinite appropriations (for pre-1992 loan guarantees) to satisfy the liabilities.

Liabilities Not Requiring Budgetary Resources

Liabilities that have not previously, nor will in the future, require the use of budgetary resources. These include clearing accounts, non-fiduciary deposit funds, custodial accounts and unearned revenue. FHA's General Fund receipt accounts also fall into this category.

Statement of Budgetary Resources

FHA's Statement of Budgetary Resources has been prepared as a combined statement and as such, intra-entity transactions have not been eliminated. FHA has budget authority provided by law to enter into obligations to carry out its guaranteed and direct loan programs and their associated administrative costs. This budget authority may result in immediate or future outlays of federal funds. FHA's budgetary resources include current budgetary authority (appropriations and borrowing authority), unobligated balances brought forward from multi-year and no-year budget authority received in prior years, and recoveries of prior year obligations. Budgetary resources also include spending authority from offsetting collections credited to an appropriation or fund account.

Unobligated balances associated with appropriations that expire at the end of the fiscal year remain available for adjustments to obligations, but not new obligations, until that account is canceled. When accounts are canceled, five years after they expire, amounts are not available for obligation or expenditure for any purpose.

The OMB Circular A-136 changed the presentation of the Statement of Budgetary Resources in fiscal year 2020 to add a new line item: Disbursements, net. The Disbursements, net, line item allows agencies to report the net outlays for non-budgetary credit reform financing accounts on a separate line from budgetary net outlays. For fiscal year 2020, FHA changed its presentation of the Statement of Budgetary Resources to conform with the new requirement.

Change in Accounting Principle for Accounts Receivable and Accounts Payable

In fiscal year 2020, Treasury introduced guidance in the United States Standard General Ledger for reporting account receivables and account payables related to direct loans and loan guarantees subject to the FCRA. Prior to fiscal year 2020, FHA offset account receivables and account payables with contra-asset and contra-liability accounts, respectively, so that its net assets would not be overstated. The new transactions from Treasury for account receivables and account payables related to direct loans and loan guarantees enabled FHA to discontinue the use of the contra-asset and contra-liability accounts. Under the new accounting guidance, FHA may record accounts receivable as an increase, and accounts payable as a decrease, directly to the LLG. As a consequence of this change in accounting guidance from Treasury, FHA's accounts receivable and accounts payable balances increased significantly in fiscal year 2020 because they were no longer offset with contra-asset and contra-liability accounts. In addition to FHA's fiscal year 2020 Balance Sheet, this change in accounting principle directly impacted the fiscal year 2020 Statement of Changes in Net Position, and the following fiscal year 2020 notes: Note 2. Non-Entity Assets; Note 6. Accounts Receivable, Net; Note 7. Direct Loans and Loan Guarantees, Non-Federal Borrowers; Note 8. Accounts Payable; and Note 11. Liabilities Not Covered by Budgetary Resources. Other fiscal year 2020 notes indirectly affected by the change in accounting principle include Note 10. Other Liabilities and Note. 13 Gross Costs.

SFFAS No. 21, *Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources*, states that changes in accounting principles include those occasioned by the adoption of new federal financial accounting standards. Under SFFAS No. 21, if a change in accounting principle would have resulted in a change to prior period financial statements, the cumulative effect of the change on prior periods should be reported as a change in accounting principle and the adjustment should be made to the beginning balance of cumulative results of operations in the statement of changes in net position for the period that the change is made. Additionally, SFFAS No. 21 states that the nature of the changes in accounting principle and its effect on relevant balances should be disclosed in the current period.

Correction in Accounting and Reporting for Multifamily Notes Interest Revenue

During fiscal year 2020, an error was identified in the reporting of interest revenue for some pre-1992 Multifamily notes. These Multifamily notes contain provisions that allow a borrower to defer a portion of the interest payment on the notes if the borrower has no surplus cash available. Due to these provisions, FHA recorded the interest revenue on these notes as deferred revenue rather than earned revenue. In fiscal year 2020, FHA reviewed its accounting for the Multifamily notes in this portfolio and determined that it should be recording the full interest due as earned revenue rather than deferred revenue. According to *SFFAS 7, Accounting for Revenue and Other Financing Sources*, when services are rendered continuously over time, or the right to use an asset extends continuously over time, such as the use of borrowed money, revenue should be recognized. Thus, FHA should have recognized the interest accrued on the Multifamily notes in this portfolio as earned revenue rather than deferred revenue. FHA changed its accounting in fiscal year 2020 to record the interest revenue as earned revenue and to increase its allowance for loss on the interest receivable associated with the Multifamily notes in this portfolio.

To correct this error, FHA reclassified the deferred revenue accrued in fiscal year 2020, and prior fiscal years, to earned revenue in the current fiscal year. Because the amount of Multifamily notes deferred revenue was relatively immaterial, FHA will not restate its prior-year financial statements. Pursuant to SFFAS No. 21, *Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources*, prior period financial statements should only be restated for corrections of errors that would have caused any statements presented to be materially misstated. In previous fiscal years, FHA reported the deferred interest revenue as part of Other Liabilities With the Public. The changes in FHA's accounting for the interest revenue resulted in a decrease in other liabilities with the public and an increase in Multifamily earned revenue with the public. Loans receivable and related foreclosed property decreased, and bad debt expense increased due to an increase in the allowance for loss on interest receivable for the Multifamily notes in this portfolio. In summary, the following FHA fiscal year 2020 statements and notes were impacted: Balance Sheet; Statement of Net Cost; Note 7. Direct Loans and Loan Guarantees, Non-Federal Borrowers; Note 10. Other Liabilities; Note 11. Liabilities Not Covered by Budgetary Resources; Note. 13 Gross Costs; and Note 14. Earned Revenue.

Note 2. Non-Entity Assets

Non-entity assets consist of assets held by FHA that belong to other entities but are included in FHA's consolidated balance sheets. To reflect FHA's net position accurately, these non-entity assets are offset by various liabilities. FHA's non-entity assets as of September 30, 2020, and 2019, are as follows:

(Dollars in millions)

	FY 2020	FY 2019
Intragovernmental:		
Fund Balance with Treasury	$ 16	$ 19
Total Intragovernmental	16	19
Cash and Other Monetary Assets	21	22
Total Non-Entity Assets	37	41
Total Entity Assets	131,695	100,684
Total Assets	**$ 131,732**	**$ 100,725**

FHA's non-entity assets consist of escrow monies collected by FHA from the borrowers of its loans, and Fund Balance with Treasury from downward reestimates and negative subsidies captured in General Fund receipt accounts.

Cash and other monetary assets that are collected from FHA borrowers consist of escrow monies that are either deposited at the U.S. Treasury or minority-owned banks or invested in U.S. Treasury securities. Subsequently, FHA disburses these escrow monies to pay for maintenance expenses on behalf of the borrowers.

Due to a change in accounting principle implemented by FHA in fiscal year 2020 based on updated Treasury guidance, as discussed in Note 1, total assets increased. The increase was a result of the reclassification of the contra-asset account balances offsetting account receivables and loans receivable and related foreclosed property to the loan guarantee liability account. If the change in accounting principle had been implemented in fiscal year 2019, total assets would have increased by $800 million as of September 30, 2019.

Note 3. Fund Balance with U.S. Treasury

FHA's fund balance with U.S. Treasury was comprised of the following as of September 30, 2020, and 2019:

(Dollars in millions)	FY 2020	FY 2019
Fund Balances:		
Revolving Funds	$ 17,328	$ 13,253
Appropriated Funds	256	255
Other Funds	650	749
Total	**$ 18,234**	**$ 14,257**
Status of Fund Balance with U.S. Treasury:		
Unobligated Balance --		
Available	$ 2,102	$ 8,118
Unavailable	12,921	2,123
Obligated Balance Not Yet Disbursed	3,211	4,016
Non-Budgetary FBWT	-	-
Total	**$ 18,234**	**$ 14,257**

Revolving Funds

FHA's revolving funds include the liquidating and financing accounts as required by the FCRA. These funds are created to finance a continuing cycle of business-like operations in which the fund charges for the sale of products or services. These funds also use the proceeds to finance spending, usually without requirement of annual appropriations.

Appropriated Funds

FHA's appropriated funds consist of annual or multi-year program accounts that expire at the end of the time period specified in the authorizing legislation. For the five fiscal years after expiration, the resources are available only to liquidate valid obligations incurred during the unexpired period. Adjustments are allowed to increase or decrease valid obligations incurred during the unexpired period that were not previously reported. At the end of the fifth year, the annual and multi-year program accounts are canceled, and any remaining resources are returned to the U.S. Treasury.

Other Funds

FHA's other funds include the general fund receipt accounts established under the FCRA and the deposit funds for the receipt of bid deposits for asset sales. Additionally, the capital reserve account is included with these funds and is used to retain the MMI/CMHI negative subsidy and downward credit subsidy reestimates transferred from the financing account. If upward credit subsidy reestimates are calculated or there is shortage of budgetary resources in the liquidating account, the capital reserve account will return the retained negative subsidy to the financing account or transfer the needed funds to the liquidating account, respectively.

Status of Fund Balance with U.S. Treasury

Unobligated Fund Balance with U.S. Treasury represents Fund Balance with U.S. Treasury that has not been obligated to purchase goods or services either because FHA has not received apportionment authority from OMB to use the resources (unavailable unobligated balance) or because FHA has not obligated the apportioned resources (available unobligated balance). Fund Balance with U.S. Treasury that is obligated but not yet disbursed consists of resources that have been obligated for goods or services but not yet disbursed either because the ordered goods or services have not been delivered or because FHA has not yet paid for goods or services received by the end of the fiscal year.

Note 4. Cash and Other Monetary Assets

(Dollars in millions)	FY 2020	FY 2019
With the Public:		
Escrow Monies Deposited at Minority-Owned Banks	$ 21	$ 22
Deposits in Transit	11	65
Total	**$ 32**	**$ 87**

Escrow Monies Deposited at Minority-Owned Banks

FHA holds in trust escrow monies received from the borrowers of its Multifamily mortgage notes to cover property repairs and renovation expenses. These escrow monies are deposited at the U.S. Treasury (see Note 2) or deposited at minority-owned banks. Escrow monies are non-entity cash and are thus restricted.

Deposits in Transit

Deposits in Transit is cash that has not been confirmed as being received by the U.S. Treasury. Once the U.S. Treasury has confirmed that this cash has been received, the cash will be moved from Deposits in Transit to Fund Balance with U.S. Treasury.

Note 5. Investments

Investment in U.S. Treasury Securities

As discussed in Note 1, all FHA investments in Treasury securities are in non-marketable securities issued by the U.S. Treasury. These securities carry market-based interest rates. The market value of these securities is calculated using the bid amount of similar marketable U.S. Treasury securities as of September 30th.

FHA uses the straight-line amortization method for the interest accrual and amortization of discounts for its investments in short-term Treasury bills. In addition, FHA uses the effective interest rate method to account for bond discount accretion and bond premium amortization for its investments in long-term Treasury notes and bonds.

The cost, net amortized premium/discount, net investment, and market values of FHA's investments in U.S. Treasury securities as of September 30, 2020, were as follows:

(Dollars in millions)

FY 2020	Cost	Amortized (Premium) / Discount, Net	Investments, Net	Market Value
MMI/CMHI Investments	$ 69,314	$ (391)	$ 68,923	$ 69,123
MMI/CMHI Accrued Interest			323	
Total	**$ 69,314**	**$ (391)**	**$ 69,246**	**$ 69,123**

The cost, net amortized premium/discount, net investment, and market values as of September 30, 2019, were as follows:

FY 2019	Cost	Amortized (Premium) / Discount, Net	Investments, Net	Market Value
MMI/CMHI Investments	$ 50,003	$ 261	$ 50,264	$ 50,420
MMI/CMHI Accrued Interest			72	
Total	**$ 50,003**	**$ 261**	**$ 50,336**	**$ 50,420**

Investments in Private-Sector Entities

FHA's investments in private-sector entities include only Risk-sharing Debentures as of September 30, 2020. Multifamily Risk Sharing Debentures [Section 542(c)] is a program available to lenders under which the lender shares the risk in a property by issuing debentures for the claim amount paid by FHA on defaulted insured loans.

Investments in Private Sector Entities as of September 30, 2020, and 2019, were as follows:

(Dollars in millions)	Beginning Balance	Redeemed	Ending Balance
FY 2020			
Risk Sharing Debentures	6	(6)	$ -
Total	**$ 6**	**$ (6)**	**$ -**
FY 2019			
Risk Sharing Debentures	8	(2)	6
Total	**$ 8**	$ (2)	**$ 6**

Note 6. Accounts Receivable, Net

Accounts receivable, net, as of September 30, 2020, and 2019, are as follows:

	Gross		Allowance	Net	
(Dollars in millions)	FY 2020	FY 2019	FY 2019	FY 2020	FY 2019
With the Public:					
Receivables Related to Credit Program Assets	$ 10	$ 49	$ -	$ 10	$ 49
Premiums Receivables	647	-	-	647	-
Partial Claims Receivables	77	12	(4)	77	8
Generic Debt Receivables	68	73	(37)	68	36
Criminal Restitution Receivables	13	15	(8)	13	7
Settlements Receivables	48	21	-	48	21
Miscellaneous Receivables	28	16	-	28	16
Total	$ 891	$ 186	$ (49)	$ 891	$ 137

Receivables Related to Credit Program Assets

These receivables include asset sale proceeds receivables and rent receivables from FHA's foreclosed properties.

Premium Receivables

These amounts consist of the premiums due to FHA from the mortgagors at the end of the reporting period. The details of FHA's premium structure are discussed under Note 14 – Earned Revenue/Premium Revenue.

Partial Claim Receivables

Partial Claim receivables represents partial claims paid by FHA 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.

Generic Debt Receivables

These amounts are mainly comprised of receivables from various sources, the largest of which are Single Family partial claims that have gone to collection, Single Family Indemnifications, and Single Family Restitutions.

Criminal Restitution Receivables

Criminal restitutions are payments by an offender to a victim for harm caused by the offender's wrongful acts. FHA's criminal restitutions consist of criminal remedies for false claims and statements that resulted in individuals receiving Federal funds or benefits to which they were not entitled.

Settlement Receivables

Settlement receivables represent signed consent judgments that are approved by the courts but for which FHA has not received the funds.

Miscellaneous Receivables

Miscellaneous receivables include late charges and penalties receivables on delinquent premium receivables, refund receivables from overpayments of claims, distributive shares, and other immaterial receivables.

Allowance for Loss

The allowance for loss on these receivables is calculated based on FHA's historical loss experience and management's judgment concerning current economic factors. FHA reported no allowance for loss on accounts receivable in fiscal year 2020 because the allowances did not exceed $1 million.

Due to a change in accounting principle implemented by FHA in fiscal year 2020 based on updated Treasury guidance, as discussed in Note 1, gross accounts receivable with the public increased. The increase was a result of the reclassification of the contra-asset account balances offsetting these receivables to the loan guarantee liability account. If the change in accounting principle had been implemented in fiscal year 2019, accounts receivable with the public would have increased by $758 million as of September 30, 2019. Premium receivables would have increased by $750 million, generic debt receivables would have increased by $3 million, and miscellaneous receivables would have increased by $7 million, offset by a decrease of about $2 million in receivables related to credit program assets.

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

Direct Loan and Loan Guarantee Programs Administered by FHA include:

Single Family Forward Mortgages
Multifamily Mortgages
Healthcare Mortgages
Home Equity Conversion Mortgages (HECM)

FHA reports its insurance operations in four overall program areas: Single Family Forward mortgages, Multifamily mortgages, Healthcare mortgages, and Home Equity Conversion Mortgages (HECM). FHA operates these programs primarily through four insurance funds: Mutual Mortgage Insurance (MMI), General Insurance (GI), Special Risk Insurance (SRI), and Cooperative Management Housing Insurance (CMHI), with the MMI fund being the largest. There is a fifth fund, Hope for Homeowners (H4H), that became operational in fiscal year 2009 and only contains minimal activity. For financial reporting purposes, FHA combines the presentation of the GI/SRI and MMI/CMHI programs.

FHA encourages homeownership through its Single Family Forward programs (Section 203(b), which is the largest program, and Section 234). These programs insure mortgage lenders against losses from default, enabling those lenders to provide mortgage financing on favorable terms to homebuyers. Multifamily Housing Programs (Section 213, Section 221(d)(4), Section 207/223(f), and Section 223(a)(7)) provide FHA insurance to approved lenders to facilitate the construction, rehabilitation, repair, refinancing, and purchase of multifamily housing projects, such as apartment rentals and cooperatives. Healthcare programs (Section 232 and Section 242) enable low cost financing of healthcare facility projects and improve access to quality healthcare by reducing the cost of capital. The HECM program provides eligible homeowners who are 62 years of age and older access to the equity in their property with flexible terms.

Direct loan obligations and loan guarantee commitments made after fiscal year 1991, and the resulting direct loans or loan guarantees, are governed by the FCRA, as amended. SFFAS 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. FHA Direct Loan and Loan Guarantee Programs and the related loan receivables, foreclosed property, and Loan Guarantee Liability as of September 30, 2020, and 2019, are described below.

Direct Loan Programs:

Starting in fiscal year 2015, FHA began a Federal Financing Bank (FFB) Risk Share program, an inter-agency partnership between HUD, FFB and various Housing Finance Authorities (HFAs). The FFB Risk Share program provides funding for multifamily mortgage loans insured by FHA. Under this program, FHA records a direct loan with the public as an asset on its balance sheet, and conversely, borrowing from FFB as a liability. The program does not change the basic structure of Risk Sharing; it only substitutes FFB as the funding source. The HFAs originate and service the loans and share in any losses. This program ended in fiscal year 2019 for new loan obligations.

The cash flow model for the FFB direct loan program is developed by collecting and consolidating data from FHA's program and accounting systems. The model is based upon trends and assumptions of historical data and analysis and, where necessary, management's judgment. The model uses actual data through June of the current fiscal year and projections are used to estimate the direct loan cash flows for the 4th quarter. The model estimates total loan commitments and the percentage of commitments that will be disbursed prior to the end of the fiscal year.

Pre-1992 Direct Loans are reported under the allowance-for-loss method. Under the allowance-for-loss method, the nominal amount of the direct loans is reduced by an allowance for uncollectible amounts. Post-1991 direct loans are reported net of an allowance for subsidy at present value. The net loans receivable or the value of assets related to direct loans is not the same as expected proceeds from selling the loans.

Direct Loans Obligated (Pre-1992):
(Dollars in Millions)

		GI/SRI - Multifamily		Total
September 30, 2020				
Loan Receivables	$	8	$	8
Interest Receivables		13		13
Allowance		(8)		(8)
Total Value of Assets	$	13	$	13

September 30, 2019		GI/SRI - Multifamily		Total
Loan Receivables	$	8	$	8
Interest Receivables		14		14
Allowance		(4)		(4)
Total Value of Assets	$	18	$	18

Direct Loans Obligated (Post-1991):
(Dollars in Millions)

		GI/SRI - Multifamily		Total
September 30, 2020				
Loan Receivables	$	2,364	$	2,364
Interest Receivables		6		6
Allowance		317		317
Total Value of Assets	$	2,687	$	2,687

September 30, 2019		GI/SRI - Multifamily		Total
Loan Receivables	$	1,969	$	1,969
Interest Receivables		5		5
Allowance		306		306
Total Value of Assets	$	2,280	$	2,280

Total Amount of Direct Loans Disbursed (Post- 1991):
(Dollars in Millions)

Direct Loan Programs	FY 2020	FY 2019
GI/SRI		
Multifamily/Healthcare	421	324
GI/SRI Subtotal	$ 421	$ 324

Subsidy Expense for Direct Loans:

September 30, 2020

	GI/SRI	Total
Multifamily/Healthcare		
FFB		
Financing	$ (54)	$ (54)
Defaults	1	1
Fees and Other Collections	(1)	(1)
Other	15	15
Subtotal	$ (39)	$ (39)

September 30, 2019

	GI/SRI	Total
Multifamily/Healthcare		
FFB		
Financing	$ (66)	$ (66)
Fees and Other Collections	(1)	(1)
Other	18	18
Subtotal	(49)	(49)

Subsidy Expense for Reestimates:

(Dollars in millions)

FY 2020	Interest Rate Reestimate	Technical Reestimate	Total Reestimate
GI/SRI	$ (42)	$ 77	$ 35
Total	$ (42)	$ 77	$ 35
FY 2019			
GI/SRI	$ -	$ (48)	$ (48)
Total	$ -	$ (48)	$ (48)

Total Direct Loan Subsidy Expense:

Direct Loan Programs	FY 2020	FY 2019
GI/SRI	(3)	(98)
Total	$ (3)	$ (98)

Subsidy Rates for Direct Loans by Program and Component

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

There are no fiscal year 2020 current year rates because fiscal year 2019 was the last year in which new FFB loans were issued. There will be no new FFB loans issued in fiscal year 2020 and going forward unless the program receives new authorization.

September 30, 2020	Finance	Default	Fees and Other Collections	Other	Total
GI/SRI					
Multifamily					
FFB	N/A	N/A	N/A	N/A	N/A

September 30, 2019	Finance	Default	Fees and Other Collections	Other	Total
GI/SRI					
Multifamily					
FFB	-17%	0%	-2%	5%	-14%

Schedule for Reconciling Subsidy Cost Allowance Balances:

(Dollars in Millions)

Beginning Balance, Changes, and Ending Balance	FY 2020	FY 2019
Beginning balance of the subsidy cost allowance	$ (306)	$ (203)
Add: subsidy expense for direct loans disbursed during the reporting years by component		
-Financing	(54)	(66)
- Default costs (net recoveries)	1	-
- Fees and other collections	(1)	(1)
- Other subsidy costs	16	18
Total of the above subsidy expense components	$ (38)	$ (49)
Adjustments:		
- Fees received	1	1
- Subsidy allowance amortization	(1)	(3)
- Other	(8)	(3)
Ending balance of the subsidy cost allowance before reestimates	$ (353)	$ (258)
Add or subtract subsidy reestimates by component:		
Technical/Default Reestimate	(232)	(193)
Interest Rate Reestimate	(42)	-
Adjustment of prior years' credit subsidy reestimates	308	145
Total Technical/Default Reestimate	$ 34	$ (48)
Ending balance of the subsidy cost allowance	**$ (319)**	**$ (306)**

Loan Guarantee Programs:
Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method):

(Dollars in Millions) FY 2020	MMI/CMHI	GI/SRI	Total
Guaranteed Loans			
Single Family Forward			
Loan Receivables	$ 15	1	$ 16
Foreclosed Property	3	9	12
Allowance for Loan Losses	(3)	(4)	(7)
Subtotal	**$ 15**	**$ 6**	**$ 21**
Multifamily/Healthcare			
Loan Receivables	$ -	$ 1,359	$ 1,359
Interest Receivables	-	250	250
Foreclosed Property	-	(5)	(5)
Allowance for Loan Losses	-	(673)	(673)
Subtotal	**$ -**	**$ 931**	**$ 931**
HECM			
Loan Receivables	$ -	$ 3	$ 3
Interest Receivables	-	1	1
Foreclosed Property	-	(2)	(2)
Allowance for Loan Losses	-	(1)	(1)
Subtotal	**$ -**	**$ 1**	**$ 1**
Total Guaranteed Loans	**$ 15**	**$ 938**	**$ 953**

(Dollars in Millions) FY 2019	MMI/CMHI	GI/SRI	Total
Guaranteed Loans			
Single Family Forward			
Loan Receivables	$ 17	$ 1	$ 18
Interest Receivables	-	-	-
Foreclosed Property	4	9	13
Allowance for Loan Losses	(3)	(4)	(7)
Subtotal	**$ 18**	**$ 6**	**$ 24**
Multifamily/Healthcare			
Loan Receivables	$ -	$ 1,421	$ 1,421
Interest Receivables	-	243	243
Foreclosed Property	-	(5)	(5)
Allowance for Loan Losses	-	(587)	(587)
Subtotal	**$ -**	**$ 1,072**	**$ 1,072**
HECM			
Loan Receivables	$ -	$ 3	$ 3
Interest Receivables	-	1	1
Foreclosed Property	-	(2)	(2)
Allowance for Loan Losses	-	(1)	(1)
Subtotal	**$ -**	**$ 1**	**$ 1**
Total Guaranteed Loans	**$ 18**	**$ 1,079**	**$ 1,097**

*HECM loans, while not defaulted, have reached 98% of the maximum claim amount and have been assigned to FHA.

As discussed in Note 1, pre-1992 Multifamily/Healthcare GI/SRI allowance for loan losses increased in fiscal year 2020 due to the correction of an error in FHA's reporting of interest revenue on some

Multifamily notes. FHA reclassified interest revenue previously recorded as deferred revenue to earned revenue and reviewed its allowance for loss on the interest receivable associated with the Multifamily notes. Based on its review, FHA determined that the allowance for loss on the interest receivable accumulated prior to fiscal year 2020 should increase by $92 million. That increase was recognized in the current year.

Defaulted Guaranteed Loans from Post-1991 Guarantees:

(Dollars in Millions)

FY 2020	MMI/CMHI	GI/SRI	H4H	Total
Guaranteed Loans				
Single Family Forward				
Loan Receivables	$ 13,780	$ 394	$ 6	$ 14,180
Interest Receivables	-	1	-	1
Foreclosed Property	589	11	-	600
Allowance	(4,562)	(133)	(3)	(4,698)
Subtotal	**$ 9,807**	**$ 273**	**$ 3**	**$ 10,083**
Multifamily/Healthcare				
Loan Receivables	$ -	$ 476	$ -	$ 476
Interest Receivables	-	49	-	49
Foreclosed Property	-	19	-	19
Allowance	-	(226)	-	(226)
Subtotal	**$ -**	**$ 318**	**$ -**	**$ 318**
HECM				
Loan Receivables	$ 17,828	$ 5,620	$ -	$ 23,448
Interest Receivables	13,943	3,514	-	17,457
Foreclosed Property	107	88	-	195
Allowance	(8,533)	(3,292)	-	(11,825)
Subtotal	**$ 23,345**	**$ 5,930**	**$ -**	**$ 29,275**
Total Guaranteed Loans	**$ 33,152**	**$ 6,521**	**$ 3**	**$ 39,676**

Defaulted Guaranteed Loans from Post-1991 Guarantees:

(Dollars in Millions)

FY 2019	MMI/CMHI	GI/SRI	H4H	Total
Guaranteed Loans				
Single Family Forward				
Loan Receivables	$ 12,705	$ 410	$ 6	$ 13,121
Foreclosed Property	1,005	13	-	1,018
Allowance	(4,584)	(147)	(3)	(4,734)
Subtotal	**$ 9,126**	**$ 276**	**$ 3**	**$ 9,405**
Multifamily/Healthcare				
Loan Receivables	$ -	$ 735	$ -	$ 735
Foreclosed Property	-	19	-	19
Allowance	-	(344)	-	(344)
Subtotal	**$ -**	**$ 410**	**$ -**	**$ 410**
HECM				
Loan Receivables	$ 15,010	$ 4,685	$ -	$ 19,695
Interest Receivables	10,799	2,860	-	13,659
Foreclosed Property	142	151	-	293
Allowance	(7,925)	(3,030)	-	(10,955)
Subtotal	**$ 18,026**	**$ 4,666**	**$ -**	**$ 22,692**
Total Guaranteed Loans	**$ 27,152**	**$ 5,352**	**$ 3**	**$ 32,507**

*HECM loans, while not defaulted, have reached 98% of the maximum claim amount and have been assigned to FHA.

Due to a change in accounting principle implemented by FHA in fiscal year 2020 based on updated Treasury guidance, as discussed in Note 1, interest receivable and the allowance for subsidy increased on GI/SRI defaulted guaranteed loans from post-1991 guarantees. Multifamily notes were most impacted by the change. The increase was a result of the reclassification of the contra-asset account balances offsetting the interest receivable to the loan guarantee liability account. The change in the interest receivable balance caused the allowance for subsidy to also increase. If the change in accounting principle had been implemented in fiscal year 2019, GI/SRI Multifamily/Healthcare interest receivable would have increased by $84 million, partially offset by an increase in the allowance for subsidy of $42 million, as of September 30, 2019.

Guaranteed Loans Outstanding:

(Dollars in Millions)

Loan Guarantee Programs		Outstanding Principal of Guaranteed Loans, Face Value		Amount of Outstanding Principal Guaranteed
Guaranteed Loans Outstanding (FY 2020):				
MMI/CMHI				
Single Family Forward	$	1,380,282	$	1,232,093
Multifamily/Healthcare		853		792
MMI/CMHI Subtotal	**$**	**1,381,135**	**$**	**1,232,885**
GI/SRI				
Single Family Forward	$	5,395	$	3,229
Multifamily/Healthcare		157,849		143,501
GI/SRI Subtotal	**$**	**163,244**	**$**	**146,730**
H4H				
Single Family - 257	$	63	$	54
H4H Subtotal	**$**	**63**	**$**	**54**
Total	**$**	**1,544,442**	**$**	**1,379,669**
Guaranteed Loans Outstanding (FY 2019):				
MMI/CMHI				
Single Family Forward	$	1,367,003	$	1,224,225
Multifamily/Healthcare		827		773
MMI/CMHI Subtotal	**$**	**1,367,830**	**$**	**1,224,998**
GI/SRI				
Single Family Forward	$	5,980	$	3,786
Multifamily/Healthcare		150,722		137,399
GI/SRI Subtotal	**$**	**156,702**	**$**	**141,185**
H4H				
Single Family - 257	$	69	$	60
H4H Subtotal	**$**	**69**	**$**	**60**
Total	**$**	**1,524,601**	**$**	**1,366,243**

New Guaranteed Loans Disbursed (FY 2020):

(Dollars in Millions)

	Outstanding Principal of Guaranteed	Amount of Outstanding Principal
MMI/CMHI		
Single Family Forward	$ 310,244	$ 307,147
Multifamily/Healthcare	65	65
MMI/CMHI Subtotal	**$ 310,309**	**$ 307,212**
GI/SRI		
Single Family Forward	$ 32	$ 31
Multifamily/Healthcare	21,079	20,982
GI/SRI Subtotal	**$ 21,111**	**$ 21,013**
Total	**$ 331,420**	**$ 328,225**

New Guaranteed Loans Disbursed (FY 2019):

	Outstanding Principal of Guaranteed	Amount of Outstanding Principal
MMI/CMHI		
Single Family Forward	$ 214,570	$ 212,917
Multifamily/Healthcare	65	65
MMI/CMHI Subtotal	**$ 214,635**	**$ 212,982**
GI/SRI		
Single Family Forward	$ 61	$ 60
Multifamily/Healthcare	15,159	15,106
GI/SRI Subtotal	**$ 15,220**	**$ 15,166**
Total	**$ 229,855**	**$ 228,148**

Home Equity Conversion Mortgage (HECM):

HECM (reverse mortgages) are not included in the previous tables due to the unique nature of the program. Since the inception of the program, FHA has insured 1,173,750 HECM loans with a maximum claim amount of $296 billion. Of these 1,173,750 HECM loans insured by FHA, 434,912 loans with a maximum claim amount of $123 billion are still insured. As of September 30, 2020, the insurance-in-force (the outstanding balance of active loans that have not been assigned) was $83 billion. The insurance-in-force includes balances drawn by the mortgagor, interest accrued on the balances drawn, service charges, and mortgage insurance premiums. The maximum claim amount is the dollar ceiling to which the outstanding loan balance can grow before being assigned to FHA.

Home Equity Conversion Mortgage Loans Outstanding (not included in the balances in the previous table)

(Dollars in Millions)

				Cumulative	
Loan Guarantee Programs			**Current Year Endorsements**	**Current Outstanding Balance**	**Maximum Potential Liability**
FY 2020	MMI/CMHI		$ 16,282	$ 62,638	$ 101,118
	GI/SRI		-	20,049	22,259
		Total	**$ 16,282**	**$ 82,687**	**$ 123,377**
FY 2019	MMI/CMHI		$ 10,856	$ 64,211	$ 101,691
	GI/SRI		-	23,697	26,892
		Total	**$ 10,856**	**$ 87,908**	**$ 128,583**

The support for the HECM insurance-in-force amounts are derived from FHA's Home Equity Reverse Mortgage Information Technology (HERMIT) system.

Loan Guarantee Liability, Net:

(Dollars in Millions)

FY 2020	MMI/CMHI	GI/SRI	H4H	Total
LLG				
Single Family Forward	$ (11,680)	$ 111	$ 2	$ (11,567)
Multifamily/Healthcare	(35)	(2,814)	-	(2,849)
HECM	2,236	5,996	-	8,232
Subtotal	**$ (9,479)**	**$ 3,293**	**$ 2**	**$ (6,184)**
Loan Guarantee Liability Total	**$ (9,479)**	**$ 3,293**	**$ 2**	**$ (6,184)**

FY 2019	MMI/CMHI	GI/SRI	H4H	Total
LLG				
Single Family Forward	$ (10,902)	$ 175	$ 2	$ (10,725)
Multifamily/Healthcare	(35)	(3,854)	-	(3,889)
HECM	8,598	8,584	-	17,182
Subtotal	**$ (2,339)**	**$ 4,905**	**$ 2**	**$ 2,568**
Loan Guarantee Liability Total	**$ (2,339)**	**$ 4,905**	**$ 2**	**$ 2,568**

Subsidy Expense for Loan Guarantees by Program and Component:

(Dollars in millions)

FY 2020		MMI/CMHI		GI/SRI		Total
Single Family Forward						
Defaults	$	10,550	$	2	$	10,552
Fees and Other Collections		(19,984)		(2)		(19,986)
Other		2,391		-		2,391
Subtotal	**$**	**(7,043)**	**$**	**-**	**$**	**(7,043)**
Multifamily/Healthcare						
Defaults	$	2	$	152	$	154
Fees and Other Collections		(4)		(852)		(856)
Subtotal	**$**	**(2)**	**$**	**(700)**	**$**	**(702)**
HECM						
Defaults	$	639	$	-	$	639
Fees and Other Collections		(652)		-		(652)
Subtotal	**$**	**(13)**	**$**	**-**	**$**	**(13)**
Total	**$**	**(7,058)**	**$**	**(700)**	**$**	**(7,758)**

FY 2019		MMI/CMHI		GI/SRI		Total
Single Family Forward						
Defaults	$	5,264	$	3	$	5,267
Fees and Other Collections		(14,148)		(4)		(14,152)
Other		2,016		-		2,016
Subtotal	**$**	**(6,868)**	**$**	**(1)**	**$**	**(6,869)**
Multifamily/Healthcare						
Defaults	$	2	$	117	$	119
Fees and Other Collections		(5)		(563)		(568)
Other		1		-		1
Subtotal	**$**	**(2)**	**$**	**(446)**	**$**	**(448)**
HECM						
Defaults	$	425	$	-	$	425
Fees and Other Collections		(442)		-		(442)
Subtotal	**$**	**(17)**	**$**	**-**	**$**	**(17)**
Total	**$**	**(6,887)**	**$**	**(447)**	**$**	**(7,334)**

Subsidy Expense for Modification and Reestimates:

(Dollars in millions)

FY 2020	Interest Rate Reestimate	Technical Reestimate	Total Reestimate
MMI/CMHI	$ (79)	$ (11,767)	$ (11,846)
GI/SRI	(3)	(951)	(954)
H4H	-	(1)	(1)
Total	$ (82)	$ (12,719)	$ (12,801)
FY 2019			
MMI/CMHI	$ (129)	$ (17,051)	$ (17,180)
GI/SRI	(34)	(108)	(142)
H4H	-	(19)	(19)
Total	$ (163)	$ (17,178)	$ (17,341)

Due to a change in accounting principle based on updated Treasury guidance, as discussed in Note 1, FHA's technical reestimate in fiscal year 2020 was affected. The change in accounting principle to reclassify the contra-asset and contra-liability accounts offsetting accounts receivable, loans receivable and related foreclosed property, and accounts payable, discussed in Note 1, impacted FHA's calculation of the technical reestimate in fiscal year 2020 because it increased FHA's net assets at the cohort level. If FHA had implemented this change in accounting principle in fiscal year 2019, the total fiscal year 2019 technical reestimate would have decreased by ($343) million overall. Single Family Forward reestimate expense would have decreased by approximately ($326) million, HECM reestimate expense would have decreased by approximately ($56) million, Multifamily reestimate expense would have increased by $81 million, and the Healthcare reestimate expense would have decreased by ($43) million in fiscal year 2019.

Total Loan Guarantee Subsidy Expense:

(Dollars in millions)

	FY 2020	FY 2019
MMI/CMHI	$ (18,903)	$ (24,067)
GI/SRI	(1,654)	(589)
H4H	(1)	(19)
Total	$ (20,558)	$ (24,675)

Subsidy Rates for Loan Guarantee Endorsements by Program and Component:

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

(Percentage)	Defaults	Fees and Other Collections	Total
Budget Subsidy Rates for FY 2020 Loans Guarantees:			
MMI/CMHI			
Single Family			
SF - Forward	3.40	(5.67)	(2.27)
SF - HECM	3.89	(3.97)	(0.08)
Multifamily			
MF - Default CMHI- (Cooperatives)	3.40	(5.67)	(2.27)
GI/SRI			
Single Family			
Title I - Manufactured Housing	4.81	(9.60)	(4.79)
Title I - Property Improvements	4.00	(5.41)	(1.41)
Multifamily			
Apartments - NC/SC	1.90	(3.22)	(1.32)
Tax Credit Projects	0.64	(2.98)	(2.34)
Apartments- Refinance 10/01/19-03/01/2020	0.22	(3.50)	(3.28)
Apartments- Refinance Current	0.25	(3.49)	(3.24)
HFA Risk Share	0.91	(2.74)	(1.83)
Other Rental	1.19	(2.99)	(1.80)
Healthcare			
MF - FHA Full Insurance - Health Care	1.54	(6.84)	(5.30)
MF - Health Care Refinance	0.91	(5.86)	(4.95)
MF - Hospitals (includes refi., and Suppl. Loan)	1.11	(6.76)	(5.65)

(Percentage)	Defaults	Fees and Other Collections	Total
Budget Subsidy Rates for Loans Guarantees for 2019 Cohort:			
MMI/CMHI			
Single Family			
SF - Forward	3.58	(6.79)	(3.21)
SF - HECM	4.45	(4.60)	(0.15)
Multifamily			
MF - Default CMHI- (Cooperatives)	3.58	(6.79)	(3.21)
GI/SRI			
Single Family			
Title I - Manufactured Housing	6.09	(9.96)	(3.87)
Title I - Property Improvements	4.43	(5.43)	(1.00)
Multifamily			
Apartments - NC/SC 10/01/2018 - 05/13/2019	1.34	(1.54)	(0.20)
Apartments - NC/SC 05/14/2019 - Current	1.34	(1.53)	(0.19)
Tax Credit Projects 10/01/2018 - 05/13/2019	0.26	(2.75)	(2.49)
Tax Credit Projects 05/14/2019 - Current	0.26	(2.73)	(2.47)
Apartments- Refinance	0.09	(3.36)	(3.27)
HFA Risk Share	0.01	(0.23)	(0.22)
Other Rental 10/01/2018 - 05/13/ 2019	0.65	(1.54)	(0.89)
Other Rental 05/14/2019 - Current	0.65	(1.52)	(0.87)
Healthcare			
MF - FHA Full Insurance - Health Care	1.47	(7.28)	(5.81)
MF - Health Care Refinance	0.94	(6.17)	(5.23)
MF - Hospitals (includes refi., and Suppl. Loan)	1.46	(7.05)	(5.59)

Schedule for Reconciling Loan Guarantee Liability Balances:

	FY 2020	FY 2019	
(Dollars in Millions)	LLG	LLR	LLG
Beginning Balance of the Loan Guarantee Liability	$ 2,568	$ 1	$ 19,106
Add: Subsidy Expense for guaranteed loans disbursed during the reporting fiscal years by component:			
Default Costs (Net of Recoveries)	11,345	-	5,811
Fees and Other Collections	(21,494)	-	(15,162)
Other Subsidy Costs	2,391	-	2,017
Total of the above subsidy expense components	**(7,758)**	**-**	**(7,334)**
Adjustments:			
Fees Received	$ 15,471	$ -	$ 14,146
Foreclosed Property and Loans Acquired	13,950	-	$ 15,951
Claim Payments to Lenders	(16,891)	-	$ (21,618)
Interest Accumulation on the Liability Balance	(1,143)	-	$ (434)
Other	419	$ (1)	$ 91
Ending Balance before Reestimates	**$ 6,616**	**$ (0)**	**$ 19,908**
Add or Subtract Subsidy Reestimates by Component:			
Technical/Default Reestimate	$ (10,340)		$ (11,775)
Interest Rate Reestimate	(82)		(162)
Adjustment of prior years' credit subsidy reestimates	(2,378)	-	(5,403)
Total Technical/Default Reestimate	(12,800)	-	(17,340)
Ending Balance of the Loan Guarantee Liability	**$ (6,184)**	**$ (0)**	**$ 2,568**

Due to a change in accounting principle based on updated Treasury guidance, as discussed in Note 1, FHA's loan guarantee liability in fiscal year 2020 was affected. The change in accounting principle to reclassify the contra-asset and contra-liability accounts offsetting accounts receivable, loans receivable and related foreclosed property, and accounts payable, discussed in Note 1, impacted FHA's LLG balance in fiscal year 2020 by increasing foreclosed property and loans acquired and other adjustments to the LLG. Foreclosed property and loans acquired increased due to the reclass of the contra-asset accounts offsetting loans receivable and related foreclosed property to the LGL. Other adjustments increased due to the reclass of the contra-asset and contra-liability accounts offsetting accounts receivable and accounts payable to the LGL. If FHA had implemented this change in accounting principle in fiscal year 2019, the fiscal year 2019 foreclosed property and loans acquired would have increased by $42 million. As a result, the GI/SRI Multifamily/Healthcare interest receivable would have increased by $84 million, partially offset by an increase in the allowance for subsidy of $42 million, as of September 30, 2019. Similarly, if the change in accounting principle had been implemented in fiscal year 2019, Other adjustments would have increased by $302 million. As a result of the reclassification of the contra-asset account balances offsetting these receivables to the loan guarantee liability , accounts receivable with the public would have increased by $758 million offset by the reclassification of the contra-liability account balances offsetting these payables to the loan guarantee liability account, which increased accounts payable with the public by $456 million, as of September 30, 2019. If FHA had implemented the change in accounting principle to reclassify the contra-asset and contra-liability accounts offsetting accounts receivable, loans receivable and related foreclosed property, and accounts payable to the loan guarantee liability account in fiscal year 2019, the Technical/Default Reestimate would have decreased by ($343) million.

FHA is not reporting any LLR for fiscal year 2020 because the LLR balance dropped below $1 million.

Administrative Expense:

(Dollars in Millions)	FY 2020	FY 2019
MMI/CMHI	$ 826	$ 748
Total	$ 826	$ 748

Other Information on Foreclosed Property:

Additional information on FHA foreclosed property as of September 30, 2020, and 2019, is as follows:

	FY 2020	FY 2019
Average number of days in inventory for Sold Cases	145	138
End of Fiscal Year active inventory	4,359	7,606

This chart reports the average holding period for FHA foreclosed property and the total number of foreclosed properties on-hand as of September 30, 2020. Foreclosed properties are primarily Single Family properties, and the amounts reported above include both Single Family Forward and HECM foreclosed properties.

Restrictions on the use/disposal of foreclosed property

The balance relating to foreclosures as of September 30, 2020, 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 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)).

Credit Reform Valuation Methodology

FHA values its Credit Reform Loan Liability Guaranty (LLG) and related receivables from notes and property inventories at the net present value of their estimated future cash flows.

Risk Categories – To apply the present value computations, FHA divides loans into cohorts and "risk" categories. Multifamily and Health care cohorts are defined based on the fiscal year in which loan guarantee commitments are made. Single Family mortgages are grouped into cohorts based on loan endorsement dates for the GI/SRI and MMI funds. Within each cohort year, loans are subdivided into product groupings, which are referred to as risk categories in federal budget accounting. Each risk category has characteristics that distinguish it from others, including loan performance patterns, premium structure, and the type and quality of collateral underlying the loan. The MMI Fund has one risk category for activity related to fiscal years 1992-2008. For activity related to fiscal years 2009 and onward, the MMI Fund has two risk categories. That second category is for HECM loans, which joined the MMI Fund group of programs in 2009. The single-family GI/SRI loans are grouped into four risk categories. There are nine different multifamily risk categories and three healthcare categories in the GI/SRI fund.

The significant assumptions detailed below determine the cash flow estimates that underlie the present value calculations.

Significant Assumptions – FHA developed economic and financial models in order to estimate the present value of future program cash flows. The models incorporate information on the expected magnitude and timing of each cash flow. The models rely heavily on the following loan performance assumptions:

- Conditional Termination Rates: The estimated probability of an insurance policy claim or non-claim termination in each year of the loan guarantee's term, given that a loan survives until the start of that year.
- Claim Amount: The estimated amount of the claim payment relative to the unpaid principal balance at the time the claim occurs.
- Recovery Rates: The estimated percentage of a claim payment or defaulted loan balance that is recovered through disposition of a mortgage note or underlying property.

Additional information about loan performance assumptions is provided below:

Sources of data: FHA developed assumptions for claim rates, prepayment rates, claim amounts, and recoveries based on historical data obtained from its internal business systems.

Economic assumptions: OMB provides other economic assumptions used, such as interest rates and the discount rates used against the cash flows.

Reliance on historical performance: FHA relies on the historical performance of its insured portfolio to generate behavioral response functions that are applied to economic forecasts to generate future performance patterns for the outstanding portfolio. Changes in legislation, program requirements, tax treatment, and economic factors all influence loan performance.

Current legislation and regulatory structure: FHA considered its future plans as allowed under current legislative authority in the formulation of assumptions when relevant. In contrast, future changes in legislative authority may affect the cash flows associated with FHA insurance programs. FHA does not reflect such potential changes in LLG calculations.

Discount rates: The disbursement-timing-weighted interest rates on U.S. Treasury securities of maturities comparable to the terms of the guaranteed loans create the discount factors used in the present value calculations for cohorts 1992 to 2000. For the 2001 and future cohorts, the rates on U.S. Treasury securities of maturities comparable to the cash flow timing for the loan guarantees are used in the present value calculations. This latter methodology is referred to as the basket-of-zeros discounting methodology. OMB provides these rates to all Federal agencies for use in preparing credit subsidy estimates and requires their use under OMB Circular A-11, Part 4, and "Instructions on Budget Execution." The basket-of-zeros discount factors are also disbursement weighted.

Analysis of Change in the Liability for Loan Guarantees

FHA has estimated and reported on LLG calculations since fiscal year 1992. Over this time, FHA's reported LLG values have shown measurable year-to-year variance. That variance is caused by five factors: (1) adding a new year of insurance commitments each year, (2) an additional year of actual loan performance data used to calibrate forecasting models, (3) revisions to the methodologies employed to predict future loan performance, (4) changes in economic assumptions, and (5) programmatic/policy changes that affect the characteristics of insured loans or potential credit losses.

The majority of FHA's loan guarantee business comprises the programs described below. These descriptions highlight the factors that contributed to changing LLG estimates for fiscal year 2020. Overall, FHA's liability decreased from the fiscal year 2020 estimates.

Mutual Mortgage Insurance (MMI) – On net, the MMI Fund LLG decreased from ($2,339) million to ($9,479) million at the end of fiscal year 2020. The decrease in liability can be attributed to model methodology changes, changes in economic forecasts and actual loan performance.

MMI Single Family Forward (SFF) - The 2020 SFF LLG forecast calculation is like the methodology used in 2019. The models use historical data to generate claim and prepayment probabilities based on various borrower and loan-specific factors. These projections feed a Cash Flow Model (CFM). The CFM discounts all cohort years using the latest Single Effective Rate (SER) specific to each cohort; in accordance with Federal Credit Reform Modeling guidelines. As with the 2019 LLG, the 2020 LLG estimate uses a single path (President's Economic Assumption) to compute the expected net present value of the future cash flows.

MMI Home Equity Conversion Mortgage (HECM) - Like the SF Forward program, in 2020, the HECM LLG was modeled first by using actuarial and econometric models to estimate the termination probability for each loan. A HECM termination event was grouped into three (3) categories: borrower death, borrower move out of subject property, or borrower refinance of subject property. These projections are used in calculating the LLG in the CFM. The CFM discounts all cohort years using the latest Single Effective Rate (SER) specific to each cohort, in accordance with Federal Credit Reform Modeling guidelines. As with the

2019 LLG, the 2020 LLG estimate uses a single path (President's Economic Assumption) to compute the expected net present value of the future cash flows.

GI/SRI (HECM) - HECM endorsements from fiscal years 1990-2008 remain in the GI/SRI Fund. Estimation of the GI/SRI HECM LLG is consistent with that of the MMI HECM LLG estimation. The liability for these loans decreased to $5,997 million at the end of 2020, reflecting the wind-down of the pre-2009 HECM cohorts. This liability is greatly influenced by long term house price appreciation forecasts. Most of the remaining GI/SRI HECM loans have adjustable interest rates which impacts the LLG through their influence on unpaid balances, claim and recovery rates.

GI/SRI Section 223(f) - Section 223(f) of the National Housing Act permits FHA mortgage insurance for the refinance or acquisition of existing multifamily rental properties consisting of five or more units. Under this program, FHA may insure up to 85 percent of the lesser of the project's appraised value or its replacement cost. Projects insured under the program must be at least three years old. The Section 223(f) program is the largest multifamily program in the GI/SRI fund with an insurance-in-force of $44.8 billion. The Section 223(f) liability is negative, meaning that the present value of expected future premium revenues is greater than the present value of expected future (net) claim expenses. The 223(f) liability increased this year by $415 million, from ($1,538) million to ($1,123) million, due to higher claim and prepayment expectations.

GI/SRI Section 223(a)(7) - Section 223(a)(7) gives FHA authority to refinance FHA-insured loans. Under this program, the refinanced principal amount of the mortgage may be the lesser of the original amount of the existing mortgage or the remaining unpaid principal balance of the loan. Loans insured under any sections of the National Housing Act may be refinanced under 223(a)(7), including those already under 223(a)(7). The Section 223(a)(7) program has an insurance-in-force of $19.2 billion. The Section 223(a)(7) liability is negative, meaning that the present value of expected future premium revenues is greater than the present value of expected future (net) claim expenses. The 223(a)(7) liability increased this year by $100 million, from ($466) million to ($366) million due to higher claim and prepayment expectations. The GI/SRI liability amount of ($476) million reported in FY 2019 for Section 223 (a)(7), inadvertently included ($10) million in liability associated with the multifamily loans in the CMHI Fund that are reported in the MMI Fund. The FY 2019 amount has been updated to ($466) million to correctly represent only the GI/SRI fund liability.

GI/SRI Section 221(d)(4) - Section 221(d)(4) of the National Housing Act authorizes FHA mortgage insurance for the construction or substantial rehabilitation of multifamily rental properties with five or more units. Under this program, FHA may insure up to 90 percent of the total project cost. This is second largest multifamily program in the GI/SRI fund with an insurance-in-force of $24.8 billion. The Section 221(d)(4) liability increased by $218 million this year, from ($310) million to ($92) million, due to higher claim and prepayment projections and an improved methodology for estimating premiums.

GI/SRI Section 232 Healthcare New Construction (NC) - The Section 232 NC program provides mortgage insurance for construction or substantial rehabilitation of nursing homes and assisted-living facilities. FHA insures a maximum of 90 percent of the estimated value of the physical improvements and major movable equipment. The Section 232 NC program has an insurance-in-force of $3.0 billion. The Section 232 NC liability increased by $19 million this year, from ($124) million to ($105) million, due to higher claim projections.

GI/SRI Section 232 Healthcare Purchasing or Refinancing - The Section 232 Refinance program provides mortgage insurance for two purposes: purchasing or refinancing of projects that do not need substantial rehabilitation, and installation of fire safety equipment for either private, for-profit businesses or non-profit associations. For existing projects, FHA insures a maximum of 85 percent of the estimated value of the physical improvements and major movable equipment. The Section 232 Refinance program has an insurance-in-force of $32 billion. The Section 232 Refinance liability increased by $121 million this year, from ($665) million to ($544) million, due to lower premium revenue resulting from an increase in prepayment projections.

GI/SRI Section 242 Hospitals - The Section 242 Hospitals program provides mortgage insurance for the construction, substantial rehabilitation, or refinance of hospitals and/or the purchase of major hospital equipment to either private, for-profit businesses or non-profit associations. FHA insures a maximum of 90 percent of the estimated replacement cost of the hospital, including the installed equipment. The Section 242 program has an insurance-in-force of $6.5 billion. The Section 242 liability increased by $8 million this year from ($194) million to ($186) million due to slightly higher claim and prepayment expectations.

Risks to LLG Calculations

LLG calculations for some programs now use Monte Carlo simulations and stochastic economic forecasts. What is booked as an LLG value is the average or arithmetic “mean” value from a series of projections that view loan portfolio performance under a large variety of possible economic circumstances. The individual economic scenario forecasts are designed to mimic the types of movements in factors such as home prices, interest rates, and apartment vacancy rates that have occurred in the historical record. By creating many of these scenarios, each independent of the others, one creates a universe of potential outcomes that define the possible set of LLG values in an uncertain world. Using the mean value across all forecast scenarios is valuable for providing some consideration of “tail risk.” Tail risk occurs in most loan guarantee portfolios because potential losses under the worst scenarios are multiples of potential gains under the best scenarios. The inclusion of tail events in the mean-value calculation creates an addition to LLG, which is the difference between the mean value from the simulations and the median value. The median is the point at which half of the outcomes are worse and half are better. By booking a mean value rather than a median, FHA is essentially providing some additional protection in its loss reserves against adverse outcomes. At the same time, booking an LLG based on a mean value results in a better than even chance that future revisions will be in the downward direction.

The uncertainty built into Monte Carlo forecasts is only for economic risk, and not for model risk. All LLG values are fundamentally dependent upon forecasts of insured-loan performance. Those forecasts are developed through models that apply statistical, economic, financial, or mathematical theories, techniques, and assumptions to create behavioral-response functions from historical data. All such models involve risk that actual behavior of borrowers and lenders in the future will differ from the historical patterns embedded in the forecasting models. Model risk also arises from the possibility that the computer code used to create the forecasts has errors or omissions which compromise the integrity and reliability of projections.

Each year, HUD works with its contractors to evaluate on several dimensions the forecasting models for reasonable assurance that the primary contractor's performance results are within tolerable range. Model risk is also addressed through a continuous cycle of improvement, whereby lessons learned from the previous round of annual portfolio valuations—in the independent actuarial studies, LLG valuations, and President's Budget—are used as a basis for new research and model development in the current year.

For Multifamily programs, LLG risk comes from claims, recoveries, and premiums. Claims and recoveries are dependent on continued rental-income trends and rental-price growth. Premiums are driven by FHA policy and industry demand for FHA products. Generally, risk comes from market, economic, and demographic influences such as changes in local employment conditions, the supply of rental housing in each market where FHA has a presence, population growth, and household formation. FHA's policy of insuring loans pre-construction in its 221(d)(4) program subject LLG calculations to risk from their capability to operate post-construction.

For Healthcare programs (Sections 232 and 242), LLG risk comes principally from healthcare reimbursement rates from Medicare and Medicaid. In addition, the financial health of State and Municipal government entities also is a source of LLG risk, as many of the FHA-insured projects benefit, in part, from periodic cash infusions from those entities. Risk also varies based on the quality of business management at each facility, the supply of medical care in each community relative to demand, and the abilities of facility management to adapt to changing technologies and the competitive landscape. These are factors for which it is difficult to predict future trends.

For the SF Forward mortgage programs, LLG risk comes from claims, recoveries, and premiums. Claims and recoveries are largely dependent on house price appreciation and local market conditions such as the demand-to-supply ratio and the share of homes in foreclosure status. FHA recoveries are also dependent on the type of claim disposition. Disposition types such as pre-foreclosure sale, claim without conveyance of title, and note sales typically recover more funds for FHA than foreclosed properties. Premiums are driven by FHA policy, industry demand for FHA products, and interest rate outlook. The interest rate outlook, in particular, determines the incentive to refinance. Generally, risk comes from portfolio characteristics, the market, and prevailing economic conditions.

For both HECM funds (GI/SRI and MMI cohorts), LLG risk comes from claims, recoveries, and premiums. Claims and recoveries are largely dependent on house price appreciation and borrower behavior, such as home maintenance and ability to meet property tax and insurance obligations. Premiums are driven by FHA policy and interest rates which determine the growth of HECM unpaid principal balances (UPB). Generally, risk comes from portfolio characteristics, the market, and prevailing economic conditions.

Pre-Credit Reform Valuation Methodology

FHA values its Pre-Credit Reform related notes and properties in inventory at net realizable value, determined based on net cash flows. To value these items, FHA uses historical claim data, revenues from premiums and recoveries, and expenses of selling and maintaining property.

MMI Single Family LLR - For the single-family portfolio, the aggregate liability for the remaining pre-credit reform loans in fiscal year 2020 is $45 thousand.

GI/SRI Multifamily & Healthcare LLR - For the multifamily and healthcare portfolio, the remaining insurance-in-force for pre-credit reform loans is $106.3 million. The aggregate liability for the remaining pre-credit reform loans in fiscal year 2020 is ($257) thousand, which is a $275 thousand increase from the ($532) thousand estimate in fiscal year 2019. The year-over-year increase in aggregate liability is due to a $19 million decline in insurance-in-force as both measures move closer to zero.

Note 8. Accounts Payable

Accounts Payable as of September 30, 2020, and 2019, are as follows:

	FY 2020	FY 2019
Intragovernmental:		
Claims Payable to Ginnie Mae	$ 1	$ -
Miscellaneous Payables to Other Federal Agencies	1	1
Total	**$ 2**	**$ 1**

	FY 2020	FY 2019
With the Public:		
Claims Payable	$ 246	$ 192
Premium Refunds Payable	435	141
Single Family Property Disposition Payable	22	33
Miscellaneous Payables	76	80
Total	**$ 779**	**$ 446**

Claims Payable to Ginnie Mae

Payables to the Government National Mortgage Association (Ginnie Mae) consist of claim payments to Ginnie Mae for FHA-insured mortgages in Ginnie Mae mortgage-backed pools.

Miscellaneous Payables to Other Federal Agencies

Miscellaneous payables to other Federal agencies consist of the net of custodial collections made and expenses incurred by FHA for the sale of Public and Indian Housing (PIH) property. The net of the two components are returned to PIH.

Claims Payables

Claims payables represent the amount of claims that have been processed by FHA, but for which the disbursement of payment to lenders has not taken place at the end of the reporting period.

Premium Refunds Payables

Premium refund payables are refunds of previously collected Single Family premiums that will be returned to borrowers based on their prepayment of insured mortgages.

Single Family Property Disposition Payables

Single family property disposition payables include management and marketing contracts and other property disposition expenses related to foreclosed property.

Miscellaneous Payables

Miscellaneous payables include interest enhancement payables, interest penalty payables for late payment of claims, generic debt payables and other payables related to various operating areas within FHA.

Due to a change in accounting principle implemented by FHA in fiscal year 2020, based on updated Treasury guidance, as discussed in Note 1, accounts payable with the public increased. The increase was a result of the reclassification of the contra-liability account balances offsetting these payables to the loan guarantee liability account. If the change in accounting principle had been implemented in fiscal year 2019, accounts payable with the public would have increased by $456 million as of September 30, 2019. Claims payable would have increased by $156 million, and premium refunds payable would have increased by about $300 million.

Note 9. Debt

The following tables describe the composition of Debt held by FHA as of September 30, 2019, and 2020:

(Dollars in millions)

	2019 Beginning Balance	2019 Net Borrowings	2019 Ending Balance	2020 Beginning Balance	2020 Net Borrowings	2020 Ending Balance
Other Debt:						
Debt to the FFB	1,671	304	1,974	1,974	395	2,370
Debt to the U.S. Treasury	24,708	5,677	30,386	30,386	21,436	51,822
Total	**$ 26,379**	**$ 5,981**	**$ 32,360**	**$ 32,360**	**$ 21,831**	**$ 54,192**

	FY 2019	FY 2020
Classification of Debt:		
Intragovernmental Debt	$ 32,360	$ 54,192
Total	**$ 32,360**	**$ 54,192**

Debt to the Treasury

In accordance with Credit Reform accounting, FHA borrows from the U.S. Treasury when cash is needed in its financing accounts. Usually, the need for cash arises when FHA has to transfer the negative credit subsidy amounts related to new loan disbursements and existing loan modifications from the financing accounts to the general fund receipt account (for cases in GI/SRI funds) or to the capital reserve account (for cases in MMI/CMHI funds). In some instances, borrowings are also needed to transfer the credit subsidy related to downward reestimates from the GI/SRI financing account to the GI/SRI receipt account or when available cash is less than claim payments due.

During fiscal year 2020, FHA's U.S. Treasury debt carried interest rates ranging from 1.02 percent to 7.59 percent, and the maturity dates for these debts range from September 2022 to September 2041. Loans may be repaid in whole or in part without penalty at any time prior to maturity.

Debt to the Federal Financing Bank

Starting in fiscal year 2015, FHA began a Federal Financing Bank (FFB) Risk Share program, an inter-agency partnership between HUD, FFB and the Housing Finance Authorities (HFAs). The FFB Risk Share program provides funding for multifamily mortgage loans insured by FHA. Under this program, FHA borrowed from the FFB to disburse direct loans.

During fiscal year 2020, FHA's FFB debt carried interest rates ranging from 2.60 percent to 3.40 percent, and the maturity dates for the FFB debt range from April 2043 to October 2060.

Note 10. Other Liabilities

The following table describes the composition of Other Liabilities as of September 30, 2020, and 2019:

(Dollars in millions)

FY 2020	Current
Intragovernmental:	
Receipt Account Liability	$ 1,544
Total	**$ 1,544**
With the Public:	
Trust and Deposit Liabilities	$ 36
Premiums collected on unendorsed cases	312
Miscellaneous Liabilities	117
Total	**$ 465**

FY 2019	Current
Intragovernmental:	
Receipt Account Liability	3,219
Total	**$ 3,219**
With the Public:	
Trust and Deposit Liabilities	$ 42
Multifamily Notes Unearned Revenue	262
Premiums collected on unendorsed cases	380
Miscellaneous Liabilities	82
Total	**$ 766**

Receipt Account Liability

The receipt account liability is created from downward credit subsidy reestimates and negative subsidy accrued at the end of the fiscal year in the GI/SRI receipt account. The change in accounting principle to reclassify the contra-asset and contra-liability accounts offsetting accounts receivable, loans receivable and related foreclosed property, and accounts payable, discussed in Note 1, impacted FHA's calculation of the GI/SRI downward credit subsidy reestimate in fiscal year 2020 because it increased FHA's net assets at the cohort level. If FHA had implemented this change in accounting principle in fiscal year 2019, the receipt account liability would have increased by $23 million due to the change in the GI/SRI downward credit subsidy reestimate as of September 30, 2019. The $23 million adjustment was made in fiscal year 2020. However, the receipt account liability as of September 30, 2020, does not include the $23 million additional liability because the liability was discharged before the end of the fiscal year.

Trust and Deposit Liabilities

Trust and deposit liabilities include mainly escrow monies received by FHA for the borrowers of its mortgage notes and earnest money received from potential purchasers of the FHA foreclosed properties.

The escrow monies are eventually disbursed to pay for maintenance expenses on behalf of the borrowers. The earnest money becomes part of the sale proceeds or is returned to any unsuccessful bidders.

Multifamily Notes Unearned Revenue

Multifamily Notes unearned revenue primarily includes the deferred interest revenue on Multifamily notes that are based on work-out agreements with the owners. The work-out agreements defer payments from the owners for a specified time, but the interest due on the notes continues to accrue. As discussed in Note 1, FHA discontinued its reporting of Multifamily Notes unearned revenue in fiscal year 2020 to correct an accounting error. During fiscal year 2020, FHA determined that it should be recording and reporting the Multifamily notes unearned revenue as earned revenue. FHA corrected its accounting in fiscal year 2020 so that it is no longer reporting Multifamily notes unearned revenue. If this error had been corrected in fiscal year 2019, other liabilities with the public would have decreased by $262 million as of September 30, 2019.

Premiums Collected on Unendorsed Cases

Premiums collected on unendorsed cases are mortgage insurance premium amounts collected by FHA for cases that have yet to be endorsed.

Miscellaneous Liabilities

Miscellaneous liabilities mainly include disbursements in transit (cash disbursements pending Treasury confirmation), unearned premium revenue, and any loss contingencies that are recognized by FHA for past events that warrant a probable, or likely, future outflow of measurable economic resources.

Note 11. Liabilities Not Covered by Budgetary Resources

(Dollars in Millions)

Description

		2020		2019
Total Liabilities Covered by Budgetary Resources	$	49,234	$	36,119
Total Liabilities Not Requiring Budgetary Resources		1,565		3,241
Total Liabilities	**$**	**50,799**	**$**	**39,360**

Total Liabilities Not Covered by Budgetary Resources – FHA has no liabilities not covered by budgetary resources.

Total Liabilities Covered by Budgetary Resources includes liabilities incurred that are covered by realized budgetary resources as of the Balance Sheet date. Most of FHA's liabilities require budgetary resources.

Total Liabilities Not Requiring Budgetary Resources includes FHA liabilities that have not in the past required and will not in the future require the use of budgetary resources. FHA's liabilities in its non-fiduciary deposit funds, which are immaterial, and general fund receipt accounts, which are material, for fiscal year 2020 are reported as liabilities not requiring budgetary resources. Liabilities in FHA's general fund receipt accounts are liquidated in the following fiscal year through transfers from the financing funds.

As discussed in Note 1, FHA made a change in accounting principle and corrected an immaterial error in its accounting in fiscal year 2020 that affected liabilities. If FHA had implemented the change in accounting principle to reclassify the contra-asset and contra-liability accounts offsetting accounts receivable, loans receivable and related foreclosed property, and accounts payable to the loan guarantee liability account in fiscal year 2019, total liabilities covered by budgetary resources would have increased by $456 million, and total liabilities not requiring budgetary resources would have increased by $23 million as of September 30, 2019. In addition, if FHA had corrected the error in its accounting and reporting of Multifamily notes interest revenue in fiscal year 2019, total liabilities covered by budgetary resources would have decreased by $262 million as of September 30, 2019.

Note 12. Commitments and Contingencies

Litigation

FHA is party in various legal actions and claims brought by or against it. In the opinion of management and General Counsel, the ultimate resolution of these legal actions will not have an effect on FHA's consolidated financial statements as of September 30, 2020. There are pending or threatened legal actions where judgment against FHA is reasonably possible with an estimated potential loss of $21.1 million or more.

Activity with Ginnie Mae

As of September 30, 2020, the Government National Mortgage Association ("Ginnie Mae") held defaulted FHA-insured mortgage loans. These loans, acquired from defaulted mortgage-backed securities issuers, had the following balances:

	FY 2020 (in Millions)	FY 2019 (in Millions)
Mortgages Held for Investment &Foreclosed Property (Pre-claim)	2,082	2,366
Short Sale Claims Receivable	1	2

"Ginnie Mae" may submit requests for claim payments to FHA for some or all of these loans. Subject to all existing claim verification controls, FHA would pay such claims to Ginnie Mae, another component of HUD, upon conveyance of the foreclosed property to FHA. Any liability for such claims, and offsetting recoveries, has been reflected in the Liability for Loan Guarantees on the accompanying financial statements based on the default status of the insured loans.

Note 13. Gross Costs

Gross costs incurred by FHA for the period ended September 30, 2020, and 2019, are as follows:

(Dollars in millions)

FY 2020	Single Family Forward	HECM	Multifamily	Healthcare	Administrative Expenses	Total
Intragovernmental:						
Interest Expense	$ 668	$ 1,128	$ 216	$ 45	$ -	$ 2,058
Imputed Cost	-	-	-	-	14	14
Other Expenses	-	-	-	-	218	218
Total	**$ 668**	**$ 1,128**	**$ 216**	**$ 45**	**$ 232**	**$ 2,290**
With the Public:						
Salary and Administrative Expense	$ -	$ -	$ -	$ -	$ 609	$ 609
Subsidy Expense	(7,043)	(13)	(507)	(233)	-	(7,796)
Re-estimate Expense	(4,450)	(9,124)	938	213	-	(12,423)
Interest Accumulation Expense	(502)	(548)	(81)	(12)	-	(1,143)
Bad Debt Expense	1	-	100	1	-	102
Other Expenses	7	-	27	-	-	34
Total	**$ (11,987)**	**$ (9,685)**	**$ 477**	**$ (31)**	**$ 609**	**$ (20,617)**
Total Gross Costs	**$ (11,319)**	**$ (8,557)**	**$ 693**	**$ 14**	**$ 841**	**$ (18,327)**

FY 2019	Single Family Forward	HECM	Multifamily	Healthcare	Administrative Expenses	Total
Intragovernmental:						
Interest Expense	$ 549	$ 461	$ 165	$ 45	$ -	$ 1,220
Imputed Cost	-	-	-	-	19	19
Other Expenses	-	-	-	-	171	171
Total	**$ 549**	**$ 461**	**$ 165**	**$ 45**	**$ 190**	**$ 1,410**
With the Public:						
Salary and Administrative Expense	$ -	$ -	$ -	$ -	$ 576	$ 576
Subsidy Expense	(6,870)	(16)	(290)	(209)	-	(7,385)
Re-estimate Expense	(12,521)	(5,000)	(235)	368	-	(17,388)
Interest Accumulation Expense	(318)	(9)	(80)	(29)	-	(436)
Bad Debt Expense	1	-	-	-	-	1
Loan Loss Reserve	(2)	-	1	-	-	(1)
Other Expenses	8	-	13	-	2	23
Total	**$ (19,702)**	**$ (5,025)**	**$ (591)**	**$ 130**	**$ 578**	**$ (24,610)**
Total Gross Costs	**$ (19,153)**	**$ (4,564)**	**$ (426)**	**$ 175**	**$ 768**	**$ (23,200)**

Interest Expense

Intragovernmental interest expense includes interest expense on borrowings from the U.S. Treasury and the Federal Financing Bank (FFB) in the financing account.

Imputed Costs/Imputed Financing

Imputed costs represent FHA's share of the departmental imputed cost calculated and allocated to FHA by the HUD CFO office. Federal agencies are required to report imputed costs under SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards,* and SFFAS No. 55, *Amending Inter-Entity Cost Provisions* to account for costs assumed by other Federal organizations on their behalf. The HUD CFO receives its imputed cost data from the Office of Personnel Management (OPM) for pension costs, federal employee health benefits (FEHB) and life insurance costs. It also receives Federal Employees'

Compensation Act (FECA) costs from the Department of Labor (DOL). Subsequently, using its internally developed allocation basis, HUD CFO allocates the imputed cost data to each of its reporting offices. The imputed costs reported by FHA in its Statements of Net Cost are equal to the amounts of imputed financing in its Statement of Changes in Net Position.

Salary and Administrative Expenses

Salary and administrative expense include FHA's reimbursement to HUD for FHA personnel costs and FHA's payments to third party contractors for administrative contract expenses. Since fiscal year 2010, FHA has only been using the MMI program fund to record salaries and related expenses.

Subsidy Expense

Subsidy expense, positive and negative, consists of credit subsidy expense from new endorsements, and modifications. Credit subsidy expense is the estimated long-term cost to the U.S. Government of a direct loan or loan guarantee, calculated on a net present value basis of the estimated future cash flows associated with the direct loan or loan guarantee.

Reestimate Expense

Reestimate expense captures the cost associated with the annual requirement to reestimate the liability for loan guarantee. Due to a change in accounting principle based on updated Treasury guidance, as discussed in Note 1, FHA's reestimate expense in fiscal year 2020 was affected because of the increase in the LLG. If FHA had implemented the change in accounting principle, discussed in Note 1, to reclassify the contra-asset and contra-liability accounts offsetting accounts receivable, loans receivable and related foreclosed property, and accounts payable to the loan guarantee liability account in fiscal year 2019, reestimate expense would have decreased by ($343) million overall. Single Family Forward reestimate expense would have decreased by about ($326) million, HECM reestimate expense would have decreased by about ($56) million, Multifamily reestimate expense would have increased by $81 million, and Healthcare reestimate expense would have decreased by ($43) million. The effect on the fiscal year 2019 reestimate expense was reported by FHA as an adjustment to the fiscal year 2020 beginning balance of Cumulative Results of Operations.

Interest Accumulation Expense

Interest accumulation expense is calculated as the difference between interest revenue and interest expense. For guaranteed loans, the liability for loan guarantees is adjusted with an offset to interest accumulation expense. SFFAS 2 requires that interest be accrued and compounded on the liability for loan guarantees and the accrued interest recognized as interest expense.

Bad Debt Expense

Bad debt expense represents the provision for loss recorded for uncollectible amounts related to FHA's pre-1992 accounts receivable and credit program assets. FHA calculates its bad debt expense based on the estimated change in these assets' historical loss experience and FHA management's judgment concerning current economic factors. As discussed in Note 1, due to the correction of an error in FHA's accounting for some pre-1992 Multifamily notes, FHA's Multifamily bad debt expense on interest receivable accrued in previous fiscal years increased by $92 million in fiscal year 2020.

Loan Loss Reserve Expense

Loan loss reserve expense is recorded to account for the change in the balance of the loan loss reserve liabilities associated with FHA's pre-1992 loan guarantees. The loan loss reserve is provided for the estimated losses incurred by FHA to pay claims on its pre-1992 insured mortgages when defaults have taken place, but the claims have not yet been filed with FHA.

Other Expenses

Other expenses with the public include only those associated with the FHA pre-1992 loan guarantees. They consist of net losses or gains on sales of FHA credit program assets, insurance claim expenses, fee expenses, and other miscellaneous expenses incurred to carry out FHA operations. Other intragovernmental expenses include expenses from intra-agency agreements.

Note 14. Earned Revenue

Earned revenues generated by FHA for the period ended September 30, 2020, and 2019, are as follows:

(Dollars in millions)

FY 2020	Single Family Forward	HECM	Multifamily	Healthcare	Total
Intragovernmental:					
Interest Revenue from Deposits at U.S. Treasury	$ 166	$ 580	$ 60	$ 33	$ 839
Interest Revenue from MMI/CMHI Investments	753	99	-	-	852
Total Intragovernmental	**$ 919**	**$ 679**	**$ 60**	**$ 33**	**$ 1,691**
With the Public:					
Insurance Premium Revenue	$ -	$ -	$ 1	$ -	$ 1
Income from Notes and Properties	3	-	331	4	338
Other Revenue	1	-	75	-	76
Total With the Public	**$ 4**	**$ -**	**$ 407**	**$ 4**	**$ 415**
Total Earned Revenue	**$ 923**	**$ 679**	**$ 467**	**$ 37**	**$ 2,106**

FY 2019	Single Family Forward	HECM	Multifamily	Healthcare	Total
Intragovernmental:					
Interest Revenue from Deposits at U.S. Treasury	$ 231	$ 451	$ 26	$ 16	$ 724
Interest Revenue from MMI/CMHI Investments	759	35	-	-	794
Total Intragovernmental	**$ 990**	**$ 486**	**$ 26**	**$ 16**	**$ 1,518**
With the Public:					
Insurance Premium Revenue	$ 1	$ -	$ 1	$ -	$ 2
Income from Notes and Properties	2	1	53	-	56
Other Revenue	1	-	59	-	60
Total With the Public	**$ 4**	**$ 1**	**$ 113**	**$ -**	**$ 118**
Total Earned Revenue	**$ 994**	**$ 487**	**$ 139**	**$ 16**	**$ 1,636**

Interest Revenue

Intragovernmental interest revenue includes interest revenue from deposits at the U.S. Treasury and investments in U.S. Treasury securities. FHA's U.S. Treasury deposits are generated from post-1991 loan guarantees and direct loans in the financing accounts. FHA's investments in U.S. Treasury securities consist of investments of surplus resources in the MMI/CMHI Capital Reserve account.

Insurance Premium Revenue

Under FCRA accounting, FHA's premium revenue should include only premiums associated with the pre-1992 loan guarantee business. Premiums for post-1991 guaranteed loans are included in the balance of the LLG. The FHA premium structure includes both up-front premiums and annual periodic premiums. The up-front premium and annual periodic premium rates for fiscal year 2020 are reported below. However, the premiums received for post-1991 guaranteed loans are not reported under this note. Those premiums are included in the premiums reported under Note 18. Budgetary Resources – Collections.

Up-front Premiums

The up-front premium rates vary according to the mortgage type and the year of origination. Based on the Housing and Economic Recovery Act of 2008, Single Family up-front premium rates may be no more than 3 percent. The FHA up-front premium rates for loans committed in fiscal year 2020 were:

Upfront Premium Rates	
10/01/2019 - 9/30/2020	
Single Family	1.75%
Multifamily	0.25%, 0.50%, 0.65%, 0.80% or 1.00%
HECM	2.00% (Based on Maximum Claim Amount)

Annual Periodic Premiums

The periodic premium rate is used to calculate monthly or annual premiums. These rates also vary by mortgage type and program. The FHA annual periodic premium rates for loans committed in fiscal year 2020 were:

Annual Periodic Premium Rates	
10/01/2019 - 9/30/2020	
Single Family - Term > 15 years	0.80%, 0.85%, 1.00% or 1.05%
Single Family - Term ≤ 15 years	0.45%, 0.70% or 0.95%
Multifamily	0.45%, 0.57%, 0.65% or 0.70%
HECM	0.50%

For Title I, the maximum insurance premium paid for guaranteed cases endorsed in years 1992 through 2001 is equal to 0.50 percent of the loan amount multiplied by the number of years of the loan term. The annual insurance premium for a Title I Property Improvement loan is 0.50 percent of the loan amount until the maximum insurance charge is paid. The annual insurance premium of a Title I Manufactured Housing loan is calculated in tiers by loan term until the maximum insurance charge is paid.

Income from Notes and Property

Income from Notes and Property includes revenue associated with FHA pre-1992 loan guarantees. This income includes revenue from Notes and Properties held and sold, and gains associated with the sale. As discussed in Note 1, in fiscal year 2020, FHA corrected an error in its accounting for interest revenue on some pre-1992 Multifamily notes that resulted in an increase in Multifamily income from notes and property. The interest revenue had previously been reported as deferred revenue, but during fiscal year 2020 FHA reclassified $262 million in deferred revenue accrued from previous fiscal years to earned revenue.

Other Revenue

FHA's other revenue includes late charges, penalty revenue, and fee income associated with pre-1992 loan guarantees; miscellaneous income generated from FHA operations; and FFB interest revenue.

Note 15. Gross Cost and Earned Revenue by Budget Functional Classification

FHA cost and earned revenue reported on the Statements of Net Cost is categorized under the budget functional classification (BFC) for Mortgage Credit (371). All FHA U.S. Treasury account symbols found under the department code “86” for Department of Housing and Urban Development appear with the Mortgage Credit BFC.

Note 16. Unexpended Appropriations

Unexpended appropriation balances as of September 30, 2020, and 2019, are as follows:

(Dollars in millions)

FY 2020	Beginning Balance	Appropriations Received	Other Adjustments	Appropriations Used	Ending Balance
Positive Subsidy	$ 2	$ -	$ -	$ -	$ 2
Authority for Contract Expenses	244	130	(17)	(113)	244
Reestimates	-	792	-	(792)	-
GI/SRI Liquidating	253	25	-	-	278
Total	**$ 499**	**$ 947**	**$ (17)**	**$ (905)**	**$ 524**

FY 2019	Beginning Balance	Appropriations Received	Other Adjustments	Appropriations Used	Ending Balance
Positive Subsidy	$ 2	$ -	$ -	$ -	2
Authority for Contract Expenses	232	130	(13)	(105)	244
Reestimates	-	1,284	-	(1,284)	-
GI/SRI Liquidating	229	25	-	(1)	253
Total	**$ 463**	**$ 1,439**	**$ (13)**	**$ (1,390)**	**$ 499**

As required under FCRA, FHA receives appropriations to cover expenses or fund shortages related to its loan guarantee and direct loan operations.

FHA receives appropriations in the MMI program account for administrative and contract expenses. The GI/SRI no-year program account also receives appropriations for positive credit subsidy and upward reestimates. Additionally, FHA may obtain permanent indefinite appropriations to cover any shortfalls for its GI/SRI pre-1992 loan guarantee operations.

When appropriations are first received, they are reported as unexpended appropriations. As these appropriations are expended, appropriations used are increased and unexpended appropriations are decreased. Additionally, unexpended appropriations are decreased when administrative expenses and working capital funds are transferred out to HUD, appropriations are rescinded, or other miscellaneous adjustments are required.

Note 17. Budgetary Resources

Undelivered Orders by fund as of September 30, 2020, and 2019, are as follows:

A. Undelivered Orders - Unpaid

(Dollars in Millions)	Federal	Non-Federal	FY 2020 Total
MMI/CMHI	$ 12	$ 1,417	$ 1,429
GI/SRI	-	929	929
H4H	-	2	2
Undelivered Orders Subtotal	**$ 12**	**$ 2,348**	**$ 2,360**

(Dollars in Millions)	Federal	Non-Federal	FY 2019 Total
MMI/CMHI	$ 9	$ 1,754	$ 1,764
GI/SRI	(5)	1,342	1,337
H4H	-	2	2
Undelivered Orders Subtotal	**$ 4**	**$ 3,098**	**$ 3,103**

Note 18. Budgetary Resources - Collections

The following table presents FHA's collections for the period ended September 30, 2020, and 2019:

(Dollars in Millions)

FY 2020	MMI/CMHI	GI/SRI	H4H	Total
Collections:				
Premiums	$ 14,571	$ 880	$ -	$ 15,451
Notes	1,790	757	1	2,548
Property	1,696	203	-	1,899
Interest Earned from U.S. Treasury	380	337	-	717
Subsidy	7,059	-	-	7,059
Reestimates	13,350	792	-	14,142
Collections from settlements	5	-	-	5
Other	149	98	-	247
Total	**$ 39,000**	**$ 3,067**	**$ 1**	**$ 42,068**

FY 2019	MMI/CMHI	GI/SRI	H4H	Total
Collections:				
Premiums	$ 13,436	$ 865	$ -	$ 14,301
Notes	1,593	806	1	2,400
Property	1,513	185	-	1,698
Interest Earned from U.S. Treasury	986	424	1	1,411
Subsidy	6,887	-	-	6,887
Reestimates	18,732	1,284	-	20,016
Collections from settlements	11	-	-	11
Other	216	3	-	219
Total	**$ 43,374**	**$ 3,567**	**$ 2**	**$ 46,943**

Note 19. Budgetary Resources – Obligations

The following table presents FHA's obligations incurred for the period ended September 30, 2020, and 2019:

(Dollars in Millions)

September 30, 2020	MMI/CMHI	GI/SRI	H4H	Total
Obligations				
Claims	$ 11,550	$ 2,623	$ 1	$ 14,174
Property Expenses	252	39	-	291
Interest on Borrowings - BFS	1,607	376	-	1,983
Interest on Borrowings - FFB	-	75	-	75
Subsidy	7,060	794	-	7,854
Downward Reestimates	12,131	3,719	19	15,869
Upward Reestimates	1,219	792	-	2,011
Administrative Contracts	131	-	-	131
Other	92	99	-	191
Total	**$ 34,042**	**$ 8,517**	**$ 20**	**$ 42,579**

September 30, 2019	MMI/CMHI	GI/SRI	H4H	Total
Obligations				
Claims	$ 16,189	$ 2,800	$ 1	$ 18,990
Property Expenses	243	36	1	280
Interest on Borrowings - BFS	924	238	-	1,162
Interest on Borrowings - FFB	-	59	-	59
Subsidy	6,886	578	-	7,464
Downward Reestimates	17,465	1,676	-	19,141
Upward Reestimates	1,267	1,284	-	2,551
Admin, Contract and Working Capital	114	-	-	114
FFB Direct Loans	-	623	-	623
Other	78	119	-	197
Total	**$ 43,166**	**$ 7,413**	**$ 2**	**$ 50,581**

Note 20. Net Adjustments to Unobligated Balance, Brought Forward, October 1

During the years ended September 30, 2020 and 2019, certain adjustments were made to the balance of unobligated budgetary resources available as of October 1, 2019 and 2018. FHA's net adjustments to the unobligated balance, brought forward, on the Statement of Budgetary Resources consisted mostly of downward adjustments to prior-year paid and unpaid obligations. Other adjustments included borrowing authority withdrawn, capital transfers to the General Fund of the U.S. Government of prior-year balances, and canceled authority.

September 30, 2020

	2020	2019
Net Adjustments to Unobligated Balance, Brought Forward October 1		
Prior Year Ending Unobligated Balance	$61,295	$57,049
Adjustments to Budgetary Resources Made During Current Year		
Downward Adjustments of Prior year Undelivered Orders	592	308
Downward Adjustments of Prior Year Delivered Orders	56	82
Other Adjustments	(144)	(213)
Net Adjustments to Unobligated Balance Brought Forward, October 1	504	177
Unobligated Balance from Prior Year (Discretionary and Mandatory)	**$61,799**	**$57,226**

Note 21. Reconciliation of Net Cost to Net Outlays (formerly known as "Budget and Accrual Reconciliation or "BAR")

The Reconciliation of Net Cost to Net Outlays reconciles an agency's financial net cost to its budgetary net outlays, by adjusting for accruals and transfers in and out. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash, as well as for 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.

Federal Housing Administration
For the Period Ended September 30, 2020
(Dollars in Millions)

	Intragovernmental	With the Public	Total
NET COST	$ (620)	$ (19,814)	$ (20,434)
Components of Net Cost That Are Not Part of Net Outlays:			
Year-end credit reform subsidy re-estimates	$ 10,696	-	$ 10,696
Increase/(decrease) in assets:			
Accounts receivable	$ 893	$ 1	$ 894
Loans receivable	-	(148)	(148)
Investments	974	-	974
Other assets	-	(2)	(2)
(Increase)/decrease in liabilities:			
Accounts payable	$ (1,925)	$ 1	$ (1,924)
Other liabilities (Unfunded leave, Unfunded FECA, Actuarial FECA)	1,674	258	1,932
Other financing sources:			
Federal employee retirement benefit costs paid by OPM and imputed ot the agency	$ (14)	-	$ (14)
Transfers out (in) without reimbursement	(14,383)	-	(14,383)
Total Components of Net Cost That Are Not Part of Net Outlays	$ (2,085)	$ 110	$ (1,975)
Components of Net Outlays That Are Not Part of Net Cost:			
Effect of prior year agencies credit reform subsidy re-estimates	$ 2,069	-	$ 2,069
Other	2,844	-	2,844
Total Components of Net Outlays That Are Not Part of Net Cost	$ 4,914	$ -	$ 4,914
Other Temporary Timing Differences	(4,542)	584	(3,958)
NET OUTLAYS	$ (2,334)	$ (19,121)	$ (21,455)
Related Amounts on the Statement of Budgetary Resources			
Outlays, net (total) (discretionary and mandatory) 4190			$ (17,040)
Distributed offsetting receipts (-) 4200			$ (4,416)
Net Outlays from SBR			$ (21,455)

Federal Housing Administration
For the Period Ended September 30, 2019

	Intragovernmental	With the Public	Total
NET COST	$ (604)	$ (24,233)	$ (24,837)
Components of Net Cost That Are Not Part of Net Outlays:			
Property, plant, and equipment depreciation			
Property, plant, and equipment disposal & revaluation			
Year-end credit reform subsidy re-estimates	$ 12,131	$ -	12,131
Increase/(decrease) in assets:			
Accounts receivable	$ 1,538	$ -	$ 1,538
Loans receivable	-	(43)	(43)
Investments	107	-	107
(Increase)/decrease in liabilities:			
Accounts payable	$ (746)	$ 8	$ (738)
Insurance and guarantee program liabilities	-	1	1
Other liabilities (Unfunded leave, Unfunded FECA, Actuarial FECA)	(432)	(9)	(441)
Other financing sources:			
Federal employee retirement benefit costs paid by OPM and imputed ot the agency	$ (19)	$ -	$ (19)
Transfers out (in) without reimbursement	(18,032)	-	(18,032)
Other imputed financing	-	-	-
Total Components of Net Cost That Are Not Part of Net Outlays	$ (5,452)	$ (43)	$ (5,495)
Components of Net Outlays That Are Not Part of Net Cost:			
Effect of prior year agencies credit reform subsidy re-estimates	$ 5,257	$ -	
Other	2,774	(2)	2,772
Total Components of Net Outlays That Are Not Part of Net Cost	$ 8,031	$ (2)	$ 8,029
Other Temporary Timing Differences	(2,341)	-	(2,341)
NET OUTLAYS	$ (366)	$ (24,278)	$ (24,644)
Related Amounts on the Statement of Budgetary Resources			
Distributed offsetting receipts (-) 4200			$ (2,180)
Net Outlays from SBR			$ (24,644)

FHA follows the Treasury crosswalk for most of the line items in the Reconciliation of Net Cost to Net Outlays, but it does not follow the crosswalk for the following line items to conform with FHA's reporting in its financial statements and other notes: Loans Receivable, Investments, and Other Liabilities. FHA reports interest receivable for investments as part of the "Investments" line item rather than "Accounts Receivable." This is consistent with how FHA presents investments in the accompanying Balance Sheet and in Note 5. FHA also reports the subsidy payable to the financing account as part of "Accounts Payable" rather than as part of "Other Liabilities." This is consistent with how FHA presents accounts payable in the accompanying Balance Sheet and in Note 8. Under "Other Liabilities," FHA includes its liability for advances and prepayments to be consistent with how FHA presents other liabilities in the accompanying Balance Sheet and in Note 10. Since Treasury did not provide a crosswalk for Effect of prior year agencies credit reform subsidy reestimates, FHA developed its own crosswalk for that line item. The Other line item in FHA's reconciliation offsets the portion of activity under Other Liabilities that does not have an impact on budgetary resources. Other Temporary Timing Differences captures the amounts in FHA's general fund receipt accounts that are transferred to Treasury at fiscal year-end. In fiscal year 2020, Other Temporary Timing Differences also includes the prior-year adjustment to cumulative results of operations due to FHA's change in accounting principle.

New requirements in the OMB Circular A-136 changed the presentation and contents of the reconciliation for fiscal year 2020. In accordance with the new requirements, FHA excluded financing account activity from all line items in the reconciliation, except for Net Cost. Under its current accounting policy, FHA records the expense associated with downward reestimates and negative subsidy in its financing accounts rather than its program accounts. These expenses should be recorded in FHA's program accounts, based on the latest accounting guidance, and this discrepancy will be corrected in fiscal year 2021. In the current fiscal year, FHA is including these expenses in the financing accounts in this reconciliation. The downward reestimates and negative subsidy, whether in financing or program funds, flow to the same line on this reconciliation. Therefore, FHA's current accounting policy for recording downward reestimates and negative subsidy does not have any impact on the accuracy of this reconciliation. Additionally, the intragovernmental net cost and net cost with the public in the reconciliation would not have changed if FHA had recorded the expense associated with downward reestimates and negative subsidy in its program accounts. The downward reestimate expense and negative subsidy expense are properly classified as with the public in the financing accounts and that classification would not have changed if the expenses had been recorded in the program accounts.

FHA's intragovernmental net cost and net cost with the public reported on its Statement of Net Cost include expenses and revenue from both financing and non-financing accounts. The intragovernmental net cost and net cost with the public in the reconciliation do not agree with the total intragovernmental net cost and total net cost with the public on FHA's Statement of Net Cost because interest revenue on uninvested funds, interest revenue for subsidy amortization, interest expense on borrowings, and interest expense accrued on the liability for loan guarantees, which are properly recorded in the financing accounts, are not included in the reconciliation. Intragovernmental net cost on the reconciliation is $1,218 million less than the total intragovernmental net cost reported on FHA's Statement of Net Cost, and net cost with the public on the reconciliation is $1,218 million more than the total net cost with the public reported on FHA's Statement of Net Cost.

FHA previously based its Year-end credit reform subsidy re-estimates and Effect of prior year agencies credit reform subsidy re-estimates on activity in the financing accounts. Due to the change in OMB Circular A-136 that requires financing account activity to be excluded, FHA used activity in transfers out (in) without reimbursement related to the reestimates to populate the Year-end credit reform subsidy re-estimates and Effect of prior year agencies credit reform subsidy re-estimates line items. For that reason, FHA is classifying the Year-end credit reform subsidy re-estimates and Effect of prior year agencies credit reform subsidy re-estimates as intragovernmental rather than with the public. FHA's transfers out (in) without reimbursement are all intragovernmental in nature.

Because of the change in presentation effective for fiscal year 2020, most of the reconciling items reported in FHA's fiscal year 2019 reconciliation will not agree with the amounts reported in FHA's fiscal year 2019 Annual Management Report.

Required Supplementary Information (Unaudited)

Schedule A: Intragovernmental Assets FHA's Intra-governmental assets, by Federal entity, are as follows on September 30, 2020, and 2019:

(Dollars in Millions)

FY 2020	Fund Balance with U.S. Treasury	Investments in U.S. Treasury Securities	Total
U.S. Treasury	$ 18,234	$ 69,246	$ 87,480
	$ 18,234	$ 69,246	$ 87,480

FY 2019	Fund Balance with U.S. Treasury	Investments in U.S. Treasury Securities	Total
U.S. Treasury	$ 14,257	$ 50,336	$ 64,593
	$ 14,257	$ 50,336	$ 64,593

Schedule B: Intragovernmental Liabilities

FHA's Intra-governmental liabilities, by Federal entity, are as follows on September 30, 2020, and 2019:

(Dollars in Millions)

FY 2020	Accounts Payable	Borrowings	Other Liabilities	Total
Federal Financing Bank	$ -	$ 2,370	$ -	$ 2,370
U.S. Treasury	-	51,822	1,544	53,366
HUD	2	-	-	2
Total	**$ 2**	**$ 54,192**	**$ 1,544**	**$ 55,738**

FY 2019	Accounts Payable	Borrowings	Other Liabilities	Total
Federal Financing Bank	$ -	$ 1,974	$ -	$ 1,974
U.S. Treasury	-	30,386	3,219	33,605
HUD	1	-	-	1
Total	**$ 1**	**$ 32,360**	**$ 3,219**	**$ 35,580**

Required Supplementary Information (Unaudited)

Schedule C: Comparative Combining Statement of Budgetary Resources by FHA Program for Budgetary September 30, 2020:

Dollars in Millions	MMI/CMHI Capital Reserve	MMI/CMHI Program	GI/SRI Program	Other	Budgetary Total
Budgetary Resources:					
Unobligated balance from prior year budget authority, net	49,583	1,335	2	45	50,965
Appropriations (discretionary and mandatory)	-	130	792	25	947
Spending authority from offsetting collections (discretionary & mandatory)	19,320	-	-	119	19,439
Total budgetary resources	**$ 68,903**	**$ 1,465**	**$ 794**	**$ 189**	**$ 71,351**
Status of Budgetary Resources:					
Obligations incurred	-	1,350	792	27	2,169
Unobligated balance, end of year:					
Apportioned	-	49	2	45	96
Unapportioned	68,903	2	-	116	69,021
Unexpired unobligated balance, end of year	68,903	50	2	162	69,117
Expired unobligated balance, end of year	-	65	-	-	65
Total unobligated balance, end of year	68,903	115	2	162	69,182
Total budgetary resources	**$ 68,903**	**$ 1,465**	**$ 794**	**$ 189**	**$ 71,351**
Outlays, Net:					
Outlays, net (discretionary and mandatory)	(19,068)	1,331	792	(95)	(17,040)
Distributed offsetting receipts (-)	-	-	-	(4,416)	(4,416)
Agency outlays, net (discretionary and mandatory)	**$ (19,068)**	**$ 1,331**	**$ 792**	**$ (4,511)**	**$ (21,456)**

Required Supplementary Information (Unaudited)

Schedule C: Comparative Combining Statement of Budgetary Resources by FHA Program for Budgetary September 30, 2019:

Dollars in Millions	MMI/CMHI Capital Reserve	MMI/CMHI Program	GI/SRI Program	Other	Budgetary Total
Budgetary Resources:					
Unobligated balance from prior year budget authority, net	25,704	1,370	2	27	27,103
Appropriations (discretionary and mandatory)	-	130	1,284	25	1,439
Spending authority from offsetting collections (discretionary & mandatory)	25,110	-	-	122	25,232
Total budgetary resources	**$ 50,814**	**$ 1,500**	**$ 1,286**	**$ 174**	**$ 53,774**
Status of Budgetary Resources:					
Obligations incurred	-	1,381	1,284	33	2,698
Unobligated balance, end of year:					
Apportioned	-	53	2	29	84
Unapportioned	50,814	-	-	112	50,926
Unexpired unobligated balance, end of year	50,814	53	2	141	51,010
Expired unobligated balance, end of year	-	66	-	(0)	66
Total unobligated balance, end of year	50,814	119	2	141	51,076
Total budgetary resources	**$ 50,814**	**$ 1,500**	**$ 1,286**	**$ 174**	**$ 53,774**
Outlays, Net:					
Outlays, net (discretionary and mandatory)	(25,038)	1,379	1,284	(89)	(22,464)
Distributed offsetting receipts (-)	-	-	-	(2,180)	(2,180)
Agency outlays, net (discretionary and mandatory)	**$ (25,038)**	**$ 1,379**	**$ 1,284**	**$ (2,269)**	**$ (24,644)**

In the fiscal year 2019 AMR, the Total unobligated balance, end of year, was incorrectly presented for MMI/CHMI Program and Other. The MMI/CHMI Program total was understated by $66 million and Other was overstated by the same amount. There was no impact to the Total Budgetary Resources. For fiscal year 2020 comparative reporting, these totals have been updated to correct the fiscal year 2019 presentation.

Required Supplementary Information (Unaudited)

Schedule D: Comparative Combining Budgetary Resources by FHA Program for Non-Budgetary September 30, 2020:

(Dollars in Millions)

	MMI/CMHI Financing	GI/SRI Financing	Other	Non Budgetary Total
Budgetary Resources:				
Unobligated balance from prior year budget authority, net	2,654	8,163	17	10,834
Borrowing authority (discretionary and mandatory)	19,826	3,605	5	23,436
Spending authority from offsetting collections (discretionary and mandatory)	18,743	2,057	1	20,801
Total budgetary resources	**$ 41,223**	**$ 13,825**	**$ 23**	**$ 55,071**
Status of Budgetary Resources:				
Obligations incurred	32,685	7,705	20	40,410
Unobligated balance, end of year:				
Apportioned	2,270	304	1	2,575
Exempt from apportionment				
Unapportioned	6,268	5,816	1	12,085
Unexpired unobligated balance, end of year	8,537	6,121	3	14,661
Total unobligated balance, end of year	8,537	6,121	3	14,661
Total budgetary resources	**$ 41,223**	**$ 13,825**	**$ 23**	**$ 55,071**
Outlays, Net:				
Agency outlays, net (discretionary and mandatory)	**$ -**	**$ -**	**$ -**	**$ -**
Disbursements, net (Total) (mandatory)	**$ 12,703**	**$ 5,042**	**$ 18**	**$ 17,763**

In fiscal year 2020, OMB Circular A-136 requires agencies to include Disbursements, net (total) (mandatory), in the presentation of the Statement of Budgetary Resources (SBR). The line captures net outlays for non-budgetary credit financing accounts only.

Required Supplementary Information (Unaudited)

Schedule D: Comparative Combining Budgetary Resources by FHA Program for Non-Budgetary September 30, 2019:

(Dollars in Millions)

	MMI/CMHI Financing	GI/SRI Financing	Other	Non Budgetary Total
Budgetary Resources:				
Unobligated balance from prior year budget authority, net	21,014	9,093	16	30,123
Borrowing authority (discretionary and mandatory)	9,226	2,254	(1)	11,479
Spending authority from offsetting collections (discretionary and mandatory)	13,636	2,863	2	16,501
Total budgetary resources	**$ 43,876**	**$ 14,210**	**$ 17**	**$ 58,103**
Status of Budgetary Resources:				
Obligations incurred	41,773	6,109	1	47,883
Unobligated balance, end of year:				
Apportioned	2,093	6,926	4	9,023
Exempt from apportionment				
Unapportioned	9	1,175	13	1,197
Unexpired unobligated balance, end of year	2,103	8,101	16	10,220
Total unobligated balance, end of year	2,103	8,101	16	10,220
Total budgetary resources	**$ 43,876**	**$ 14,210**	**$ 17**	**$ 58,103**
Outlays, Net:				
Agency outlays, net (discretionary and mandatory)	**$ -**	**$ -**	**$ -**	**$ -**
Disbursements, net (Total) (mandatory)	**$ 23,333**	**$ 2,277**	**$ -**	**$ 25,610**

For comparative purposes, FHA updated the presentation of the fiscal year 2019 RSI Schedule D note to reflect the Disbursements, net (total) (mandatory) change, per the fiscal year 2020 OMB Circular A-136 requirement.