FHA

FEDERAL HOUSING ADMINISTRATION

Annual Management Report

Fiscal Year 2021

This Annual Management Report (AMR) for the fiscal year ending September 30, 2021, provides the Federal Housing Administration's (FHA) financial and summary performance information in accordance with OMB Circular A-136, Financial Reporting Requirements.

This report is divided into four sections:

- **A Message from the Principal Deputy Assistant Secretary for Housing and Federal Housing Administration** highlights the Office of Housing's achievements for the current fiscal year, and challenges and opportunities in the coming year.
- **Management's Discussion and Analysis (MD&A)** defines the organization's mission, program activities, performance goals and objectives, and includes management's assurances regarding compliance with relevant federal financial management and accounting standards, regulations, circulars, bulletins, financial management manuals, and other applicable laws, regulations and legislation.
- **Principal Financial Statements** include the following: Balance Sheet; Statement of Net Cost; Statement of Net Position; and Statement of Budgetary Resources; as well as the Notes to the principal financial statements.
- **Auditor's Report** on FHA's fiscal year 2021 financial statements, internal controls, and compliance with laws and regulations.

FHA's AMR is available on the following website:

https://www.hud.gov/sites/dfiles/Housing/documents/FHAFY2021ANNUALMGMNTRPT.pdf

FHA welcomes feedback on the form and content of this report.

A MESSAGE FROM THE PRINCIPAL DEPUTY ASSISTANT SECRETARY FOR HOUSING AND THE FEDERAL HOUSING ADMINISTRATION

DECEMBER 6, 2021

I am pleased to present to you the Fiscal Year 2021 Annual Management Report for the Federal Housing Administration (FHA). Throughout the past fiscal year, FHA has made significant progress in its foundational focus areas under the Biden-Harris Administration's new vision for addressing the nation's critical housing challenges.

In concert with the historic amount of relief made available through President Biden's American Rescue Plan, FHA's highest priority in fiscal year 2021 was to assist those with FHA-insured mortgages impacted financially by the pandemic. Throughout this report we highlight our work to address the challenges of the pandemic across our programs and for those we serve: homebuyers, homeowners, renters in FHA-insured multifamily properties, and the communities who rely on FHA-insured residential care facilities and hospitals for access to critical healthcare services.

While pandemic recovery efforts have rightly taken center stage, FHA also fulfilled its core mission in significant ways in fiscal year 2021. As of September 30, 2021, FHA insurance helped 716,000 first-time homebuyers achieve the wealth-building potential of homeownership. FHA also remained the nation's largest facilitator of affordable single family mortgage financing for underserved communities, serving more than 457,000 individuals and families of color. FHA insurance on more than 1,500 multifamily mortgages this past fiscal year resulted in the creation or rehabilitation of more than 250,000 new rental units, surpassing last year's record breaking volume. More than 400 new insurance commitments issued in FY 2021 will continue to help residential care facilities and hospitals to maintain and enhance their available services. With these results and a combined mortgage insurance portfolio of $1.4 trillion, FHA remained a vital source of liquidity for the nation's housing market, and an important means of access to credit for underserved populations.

In this report we have also highlighted HUD Office of Housing programs that work in tandem with FHA to support the nation's housing needs. Our Office of Housing Counseling and the Office of Manufactured Housing Programs both play an important role in FHA's insurance programs and the nation's housing market. In addition, we highlight the achievements of the Office of Housing's Risk Management and

Regulatory Affairs, Finance and Budget, and Operations offices. These offices have a substantial role in ensuring that FHA's program meets the needs of program participants.

As detailed in the Principal Financial Statements contained in this report, FHA's financial performance remained solid as of fiscal year end 2021. As of September 30, 2021, the overall capital ratio of FHA's Mutual Mortgage Insurance Fund was 8.03 percent, and the General Risk/Special Risk Insurance Funds returned $3.4 billion to the U.S. Treasury.

Solid performance throughout its programs will serve FHA well as it explores new ways to serve those who need FHA the most. We recognize that far too many individuals and families of color continue to lack access to quality, affordable homes in neighborhoods of opportunity. We also recognize that the dual challenges of housing supply and housing affordability are inter-related with achieving racial equity in homeownership. Finally, natural disasters throughout 2021, including Hurricane Ida, continue to reinforce the urgency of addressing climate change and the resiliency of the nation's housing stock. As one of the world's largest mortgage insurers, FHA programs will continue to play a key role in addressing the housing challenges facing the nation.

Sincerely,

Lopa P. Kolluri
Principal Deputy Assistant Secretary
Office of Housing and the Federal Housing Administration

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MANAGEMENT'S DISCUSSION AND ANALYSIS

FEDERAL HOUSING ADMINISTRATION AT A GLANCE

The Federal Housing Administration (FHA) was established under the National Housing Act of 1934. Headquartered in Washington, D.C. with field offices throughout the United States, FHA was integrated into the United States Department of Housing and Urban Development (HUD) in 1965.

FHA is one of the largest providers of mortgage insurance in the world. Since its inception, FHA has insured over 52.3 million single Family and 69,992 multifamily and healthcare facility mortgages.

FHA provides mortgage insurance for mortgages financed by FHA-approved lenders throughout the United States and its territories. These mortgages are backed by the full faith and credit of the U.S. Government. This guarantee of payment in the event of default enables lenders to provide financing to eligible borrowers who may not otherwise have access to mortgage credit through other means. FHA collects upfront mortgage insurance premiums at the time of loan origination, as well as monthly insurance premiums during the life of the loan. These premiums are used to pay mortgage insurance claims. FHA maintains a strong financial management strategy that balances risk to its insurance funds with its mission to serve homebuyers, renters, and communities.

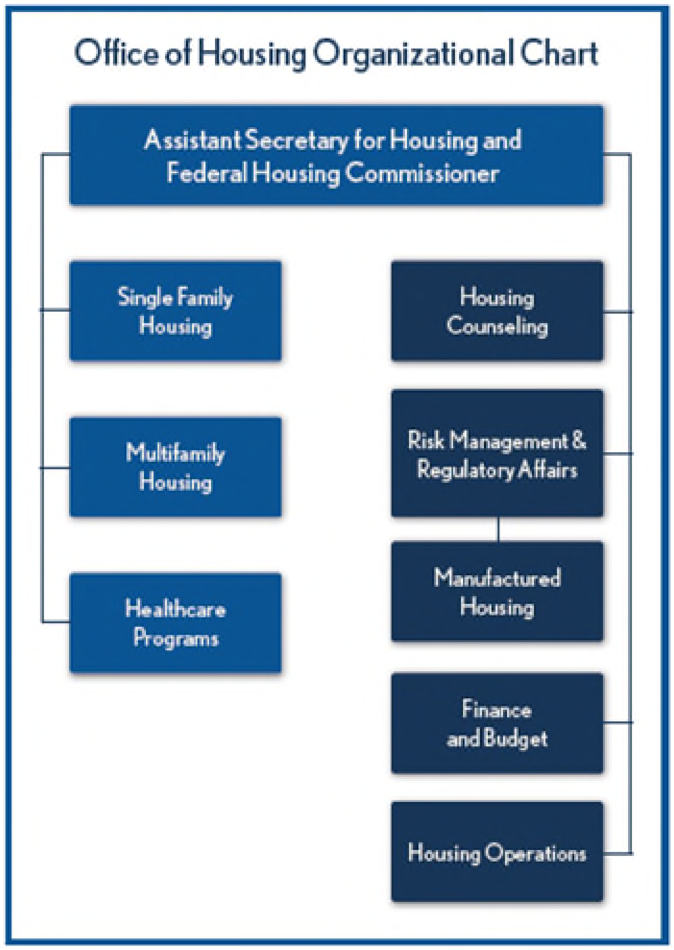
Over the course of its history, FHA has been an important participant in the U.S. housing market by serving millions of first-time, minority, and low-to-moderate income homebuyers; providing safe and affordable rental housing; supporting access to quality healthcare; stepping in as a countercyclical backstop during times of economic stress; and providing relief to individuals and families affected by disasters.

In fiscal year 2021, the COVID-19 pandemic continued to place unprecedented financial challenges to the nation's homeowners, renters and communities. Throughout this past fiscal year, FHA placed priority emphasis on helping homeowners and renters to stay in their homes and avoid foreclosure and eviction. The pandemic also impacted FHA-insured hospitals and residential care facilities, where caring for patients during the pandemic created new challenges for healthcare facility owners, staff, and patients. Throughout this report, FHA details the significant steps it has taken to facilitate relief and recovery, while also maintaining the availability of FHA-insured mortgage credit for those it serves.

ORGANIZATIONAL STRUCTURE

FHA is part of HUD's Office of Housing and is led by the Assistant Secretary for Housing and Federal Housing Commissioner who is responsible for ensuring effective execution of its programs and policies.

Within the Office, several core program and support offices, depicted below, play a key role in administering these programs and providing financial management and accountability.



FHA administers mortgage insurance programs through its Single Family, Multifamily and Healthcare Program Offices. The Office of Housing Counseling supports FHA in achieving its mission by sustaining a network of HUD-approved Housing Counseling Agencies.

Among the support offices, the Office of Risk Management and Regulatory Affairs measures, monitors, and manages operational and credit risk to ensure FHA is achieving its strategic objectives. The Office of Manufactured Housing Programs, part of the Office of Risk Management and Regulatory Affairs, oversees HUD's national manufactured housing program that establishes federal standards for the design and construction of manufactured homes, regulates installation standards, and administers a dispute resolution program established to protect the health and safety of manufactured homeowners and occupants. The Office of Finance and Budget (FAB) is responsible for the Office's financial activities, which include financial management; budget formulation and execution activities; and the overall integrity of FHA's financial systems and accounting records.

Additionally, FAB prepares consolidated annual financial statements and the Annual Management Report and oversees the competitive sale and disposition of mortgage notes. The Office of Housing Operations supports all office divisions with a variety of services, including contracting and procurement.

FHA'S INSURANCE FUNDS

FHA programs operate primarily through two insurance funds, the Mutual Mortgage Insurance Fund (MMIF) and the General and Special Risk Insurance (GI/SRI) Fund:

- The MMIF comprises FHA's Single Family forward mortgage business and its Home Equity Conversion Mortgage (reverse mortgage) portfolio for endorsements in fiscal year (FY) 2009 and later.
- The GI/SRI Fund comprises Multifamily insurance programs, Healthcare facility programs, pre-2009 Home Equity Conversion Mortgages, and Single Family Title I Manufactured Housing and Property Improvement programs.

THE MUTUAL MORTGAGE INSURANCE FUND CAPITAL RATIO

In the National Affordable Housing Act of 1990, Congress introduced a capital ratio requirement for gauging the financial status of FHA's MMIF (12 USC 1711(f)(4)). The MMIF's capital ratio compares the "MMI Capital"[1] of the MMIF to the dollar balance of active, insured loans, at a point in time. MMI Capital is defined as a net asset position, where the present value of expected future revenues and net claim expenses is added to current balance sheet positions. The capital ratio computation presented below combines the MMIF's actual capital resources as of September 30, 2021 with the net present value of future cash flows from outstanding books of business.

Capital resources of the MMIF are separated into two types of accounts: a financing account and a capital reserve account. Funds in the financing account cover expected losses over the life of each insurance cohort, while capital reserve balances are accumulated for unanticipated losses.

In FY 2021, the MMIF's MMI Capital increased from $78.95 billion for FY 2020 to $100.48 billion for FY 2021. Similarly, the capital ratio increased from 6.10 percent to 8.03 percent between the end of FY 2020 and the end of FY 2021. The MMIF's MMI Capital has increased by $73.73 billion since FY 2017. The MMIF's capital ratio similarly increased by 5.85 percent over that time, from 2.18 percent to 8.03[2] percent.

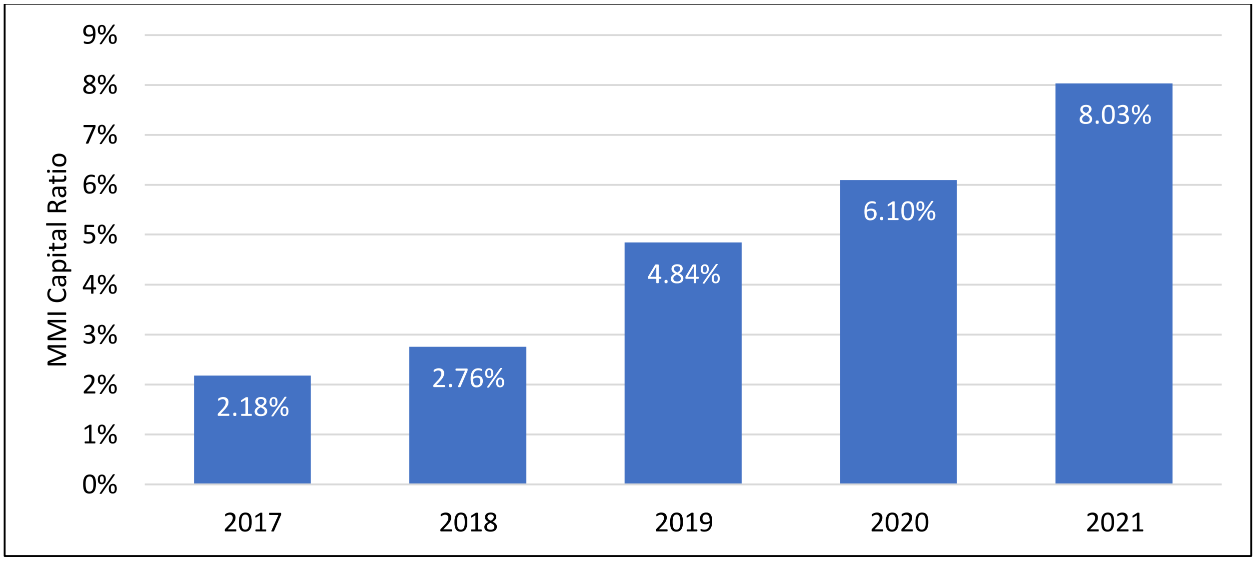
The portfolio valuation underlying the statutory capital ratio calculation is performed by independent consultants, using FHA data, and applying the economic assumptions from the FY 2021 President's Economic Assumptions. That valuation is subject to uncertainty both from future economic conditions and from borrower behavioral patterns that could vary from underlying assumptions built into forecasting equations. FHA performed its own internal risk evaluation with the assistance of independent contractors throughout FY 2021. As required by law, FHA also engaged an independent actuarial firm to produce an independent estimate of the net present value (NPV) of the future cash flows from the MMIF's current book of business. For FY 2021, the Independent Actuary concluded that FHA's Cash Flow NPV is reasonable and within a reasonable range of Actuarial Estimates. The Independent Actuary's Cash Flow Net Present Value (Cash Flow NPV) estimates for the Forward mortgage and Home Equity Conversion Mortgage

[1] ***The term "MMI Capital" means Economic Net Worth of the Mutual Mortgage Insurance Fund, as determined by the Secretary under the annual audit required under section 1735f-16 of this title. The new terminology is more consistent with industry standards, as the MMI Fund Capital Ratio can now be expressed as MMI Capital/IIF.***

[2] ***Includes $1.7 billion mandatory appropriation taken in FY 2013, which adds 0.13% to the MMI Fund Capital Ratio that is not attributed to either the forward or HECM portfolios. Exclusion of the appropriation would reduce the MMI Fund Capital Ratio at September 30, 2021 to 7.90%.***

(HECM) portfolio combined total $28.86 billion, versus the $16.87 billion FHA baseline estimate. The difference between the two estimates of $11.99 billion is 0.96 percent of Insurance in Force.

MMI FUND CAPITAL RATIO FY 2017-2021



SOURCE: U.S. Department HUD/FHA, October 2021

In the midst of the ongoing COVID-19 pandemic and an extremely competitive real estate market, the Federal Housing Administration (FHA) remained a critical player in the American housing finance system, providing stability for homeowners in crisis, while also ensuring continued access to credit to expand first-time homeownership. Through a number of policy actions, including forbearance extensions and streamlined loss mitigation options, FHA provided meaningful relief to homeowners with FHA-insured mortgages who faced financial challenges.

MMI Fund valuations for FY 2021 benefit from the continued strength of the housing market and resulting increases in House Price Appreciation (HPA), the effects of which have thus far eclipsed other negative economic developments resulting from the COVID-19 pandemic. Despite the significant growth in HPA, the unprecedented size of FHA's serious delinquent portfolio, which includes more than 660,000 homeowners, increases the likelihood that MMI Fund valuation projections could be modified downward in the future based on macroeconomic conditions and deviation from expected outcomes for borrowers exiting forbearance. Because COVID-19 foreclosure moratoria have influenced many market activities for the last 18 months, the coming year will provide better indicators for projecting the extent of future impacts on the MMI Fund.

For more information about the Mutual Mortgage Insurance Fund, risk characteristics and drivers of financial results, access *FHA's Annual Report to Congress Regarding the Financial Status of the Mutual Mortgage Fund for Fiscal Year 2021* at:

https://www.hud.gov/fhammifrpt

PERFORMANCE GOALS AND OBJECTIVES

HUD STRATEGIC PLAN

The Government Performance and Results Modernization Act (GPRAMA) requires that Federal agencies develop multi-¬year strategic plans that include program goals and performance measures, the results of which are reported to the public. HUD's FY 2022-2026 Strategic Plan framework lays out the Administration's strategy to refocus HUD on its core mission and pursue housing policy and programs focused on equity, and further advancing housing justice to ensure everyone has an affordable, healthy place to live. In addition to the four-year strategic plan, GPRAMA requires agencies to complete annual performance plans, which detail how agencies will meet and measure their strategic goals. The FY 2022 HUD Annual Performance Plan focuses on five major priorities, which are defined below. [3]

I. **Strengthen and broaden the Federal housing safety net for people in need.**
Increase access to safe, stable, and affordable housing for those at high risk of homelessness or housing instability.

II. **Advance housing equity as a means of improving housing choices and greater economic opportunity.**
Support safe and sustainable homeownership opportunity and equitable access to credit for purchase and improvements while promoting wealth-building in underrepresented communities.

III. **Increase the production of and access to affordable housing.**
Address the housing crisis by increasing investments in opportunities that promote production and access to affordable housing and neighborhood choice and strengthening Fair Housing policies and practices to build safe and resilient communities.

IV. **Promote climate resiliency, environmental justice, and energy efficiency across the housing sector.**
Integrate climate considerations, promote innovation, and collaborate with stakeholders to continue building healthy, resilient, and energy-efficient communities.

V. **Strengthen HUD's internal institutional capacity to deliver on mission.**
Improve HUD's internal operations so that the Department can more effectively meet communities' housing needs.

PERFORMANCE REPORTING

Performance reporting of targets and actual achievements as of September 30, 2021, will be reported in HUD's Annual Performance Report (APR) to be published in February 2022, and will be available on the following website:

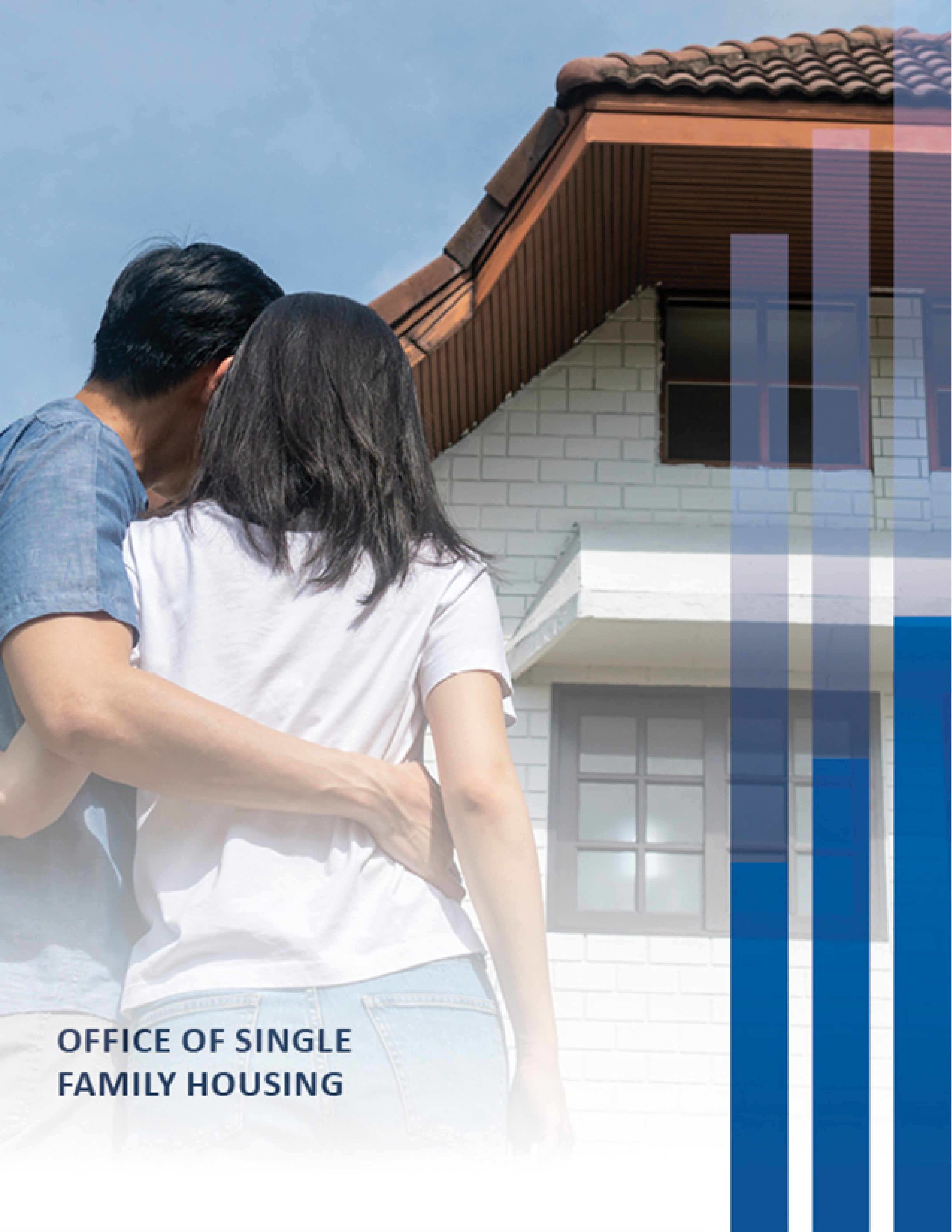
https://www.hud.gov/program_offices/spm/pmd

[3] ***The FY2022 HUD Annual Performance Plan and FY2022 HUD Budget Themes define priorities that the Department plans to build upon in the FY2022-2026 HUD Strategic Plan. The FY2022-2026 HUD Strategic Plan will be published in 2022.***

NOTE ON FORWARD-LOOKING INFORMATION

Information contained in this document is considered "forward-looking" as defined by the Federal Accounting Standards Advisory Board's (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No. 15, "Management's Discussion and Analysis," and Statement of Federal Financial Accounting Concepts (SFFAC) No. 3, "Management's Discussion and Analysis Concepts." While the agency does have reasonably reliable processes, procedures, and systems to collect performance data and their supporting attributes, there are inherent limitations to the completeness and reliability of performance information. Such forward-looking information includes estimates and is subject to risks and uncertainties that could cause actual results to differ materially from the estimates used in the document. Additionally, economic and legislative factors outside of FHA's control may affect its ability to influence key performance goals.

FHA PROGRAMS AND PERFORMANCE SECTIONS



OFFICE OF SINGLE FAMILY HOUSING

OFFICE OF SINGLE FAMILY HOUSING PROGRAMS

In fiscal year 2021, amid the continuing global pandemic, FHA remained on the forefront of providing access to mortgage credit for its core constituency of low-to-moderate income individuals and families, including those in communities of color and other underserved communities. Additionally, we developed a myriad of innovative loss mitigation options to keep those homeowners who were financially impacted by the COVID-19 National Emergency in their homes, when possible. FHA also remains committed to making it easier for its approved lenders, servicers, and other stakeholders to do business with us.

Julienne Y. Joseph **Deputy Assistant Secretary | Office of Single Family Housing**

OVERVIEW

The Office of Single Family Housing (SFH) supports affordable homeownership and refinancing opportunities for qualified borrowers through its Single Family mortgage insurance programs. The FHA's Single Family programs insure mortgage lenders against losses from default, encouraging lenders to provide mortgage financing to eligible homebuyers, including, first-time, and low-to-moderate income homebuyers, and individuals and families of color. Historically, more than 80 percent of the purchase mortgages FHA insures annually are for first-time homebuyers.

FHA's Single Family insurance endorsement program is managed through the Mutual Mortgage Insurance Fund (MMIF). The MMIF is funded through the collection of two types of mortgage insurance premiums: up-front mortgage insurance premiums charged to borrowers for each FHA-insured mortgage at endorsement and monthly insurance premiums that lenders collect from borrowers and remit to FHA.

The National Housing Act (the Act) requires FHA to set Single Family forward mortgage limits at 115 percent of median house prices, subject to a floor and a ceiling on the limits. In accordance with the Act, FHA's forward mortgage limits are set by Metropolitan Statistical Area and county. In calendar year 2021, the loan limit floor for a forward mortgage on an FHA-insured, one-unit, property in a low-cost area was $356,362, and the loan limit ceiling in a high-cost area was $822,375. There is a higher loan limit ceiling in Alaska, Hawaii, Guam, and the U.S. Virgin Islands.

FISCAL YEAR 2021 PORTFOLIO AND PERFORMANCE HIGHLIGHTS

Insured 1,432,877 Single Family forward mortgages with a Mortgage Amount of $342.8 billion

716,028 First-time Homebuyers served, representing over 84.6% of total forward purchase mortgage endorsements

Insured 49,163 Home Equity Conversion Mortgages (HECM) with a Maximum Claim amount totaling $21.3 billion

SINGLE FAMILY HOUSING PROGRAMS DIVISION STRUCTURE

Headquartered in Washington, D.C., SFH is comprised of the Office of the Deputy Assistant Secretary and three headquarters-based Program Offices as follows:

- ***Office of Single Family Program Development*** is responsible for the development and implementation of all SFH origination through endorsement policies, program guidelines, standards, and operating procedures for FHA's Single Family Title II mortgage insurance programs as well as all polices, standards and procedures for Title I mortgage insurance programs under the National Housing Act. It also is responsible for the development and oversight of SFH employee and external stakeholder communications, marketing, outreach, and training that supports these efforts.
- ***Office of Single Family Asset Management*** is responsible for the development and implementation of policies for mortgage servicing, claims, and property disposition that helps FHA assist homeowners avoid foreclosure whenever possible while mitigating losses to the MMIF. The Office is also responsible for oversight and servicing of the Single Family Secretary-held portfolio. The Office includes the FHA National Servicing Center with locations in Oklahoma City and Tulsa, Oklahoma.
- ***Office of Lender Activities and Program Compliance*** is responsible for administering various risk management activities. The Office evaluates and approves lenders to participate in FHA's Single Family, Multifamily, and Title I programs; assesses lenders' performance, internal controls and compliance with underwriting and servicing requirements in SFH mortgage programs; and initiates enforcement actions when appropriate.

SFH also has four regional Homeownership Centers (HOCs) that are located in: Atlanta, GA; Denver, CO; Philadelphia, PA; and Santa Ana, CA. The HOCs are responsible for all Single Family mortgage insurance operations, disposition of HUD's Real Estate Owned inventory, oversight and compliance, and training and outreach in their designated geographic area.

INSURANCE PROGRAMS

FHA insures mortgages for one-to-four unit Single Family residential properties through its Title II forward and reverse mortgage programs. Under the Title I program, FHA insures loans for both manufactured homes titled as personal property and property improvement loans.

TITLE II FORWARD MORTGAGE PROGRAMS:

Single Family Title II mortgage insurance programs include:

- ***Section 203(b): Mortgage Insurance for One-to-Four Family Homes:*** This is FHA's core program, which insures loans made by lending institutions with loan terms up to 30 years for new or existing one-to-four unit Single Family residences, including manufactured homes classified as real property, and individual condominium units.

- ***Section 203(k) Rehabilitation Mortgage Insurance Program:*** Section 203(k) insurance enables homebuyers and homeowners to finance both the purchase or refinancing of a home and the cost of its rehabilitation through a single mortgage, or to finance the rehabilitation of an existing home.

FHA offers additional Title II forward mortgage insurance programs. A complete list of programs can be found on HUD's Single Family Housing website at:

https://www.hud.gov/program_offices/housing/sfh

TITLE II REVERSE MORTGAGE PROGRAM:

- ***Section 255: Home Equity Conversion Mortgage (HECM):*** FHA's HECM (or reverse mortgage) program enables senior homeowners, aged 62 or older, to withdraw a portion of the equity from their home without any corresponding periodic requirement to repay amounts borrowed, provided they meet various occupancy, property ownership, and financial requirements. The principal borrowed, along with interest, mortgage insurance premiums, and servicing fees are added to the mortgage balance over time. HECM borrowers remain responsible for the payment of taxes, insurance, and property taxes and other assessments.

TITLE I INSURANCE ENDORSEMENT PROGRAMS:

- ***Manufactured Home Loan Program:*** The Title I Manufactured Home Loan Program primarily provides insurance on loans made by lenders to borrowers for the purchase of manufactured homes titled as personal property.

- ***Home Improvement Loan Program:*** The Title I Home Improvement Loan Program provides insurance on property improvement loans made by lenders which may be used to finance alterations, repairs, and improvements to a home, including a manufactured home, or to finance a nonresidential structure located on the property.

FISCAL YEAR (FY) 2021 PORTFOLIO AND PERFORMANCE ACCOMPLISHMENTS

In FY 2021, FHA insured 1,432,877 Single Family forward mortgages for a total mortgage amount of $342.8 billion. FHA insured 49,163 HECM, with a Maximum Claim Amount of $21.3 billion. Table 1 below reflects FHA's Single Family insurance portfolio profile in FY 2019 through FY 2021.

TABLE 1 - FHA'S SINGLE FAMILY INSURANCE PORTFOLIO PROFILE

Single Family FHA Portfolio	FY2019*	FY2020*	FY2021*
Total Forward Endorsements	**$ 990,425**	**$ 1,333,159**	**$ 1,432,877**
Total 203(b)	***980,814***	***1,325,501***	***1,427,181***
Purchase	734,395	810,909	841,194
Refinance	246,419	514,592	585,987
Total 203(k)	***9,611***	***7,658***	***5,696***
Purchase	8,883	6,930	5,054
Refinance	728	728	642
Total Reverse Endorsements (HECM)	**31,272**	**41,825**	**49,163**
HECM Adjustable Rate	29,381	41,025	45,563
HECM Fixed Rate	1,891	800	3,600
Total Single Family Title II Endorsements at Year-End	**1,021,697**	**1,374,984**	**1,482,040**
Total Active Loans at Year-End (Forward and Reverse)	**8,594,838**	**8,431,785**	**7,907,458**
Total Title I Loans	**3,093**	**1,722**	**1,185**
Manufactured Homes	214	52	5
Property Improvement	2,879	1,670	1,180

The prior years' data have been updated to reflect small changes.

Single Family mortgage insurance programs continue to be critically important sources of home financing for many individuals and families. In FY 2021, 84.6 percent of home purchasers under the forward mortgage insurance program were first-time homebuyers, and 32.8 percent of all purchase and refinance borrowers were minority borrowers. Table 2 below provides additional detail on the demographics of borrowers served through the Single Family mortgage insurance programs.

TABLE 2 – FHA'S SINGLE FAMILY BORROWERS DEMOGRAPHIC

Borrowers Served - Single Family Mortgage Loans	FY2019*	FY2020*	FY2021*
Forward Mortgage Insurance Endorsements			
Average Loan Amount	$ 216,695	$ 232,773	$ 239,256
Average Credit Score of Borrowers**	666	672	672
First-Time Homebuyers	615,708	679,623	716,028
Percent of SF FHA Forward Purchase Transaction Endorsements	82.80%	83.10%	84.60%
Minority Borrowers	313,643	347,574	339,433
Percent of all SF FHA Forward Mortgage Borrowers**	33.60%	34.20%	32.80%
Low and Moderate Income Borrowers	468,098	519,226	544,948
Percent of all Forward Mortgage Borrowers**	50.10%	51.00%	52.60%
Reverse Mortgage Insurance Endorsements			
Average Initial Principal Limit (amount available)	180,579	224,121	254,310
Average Maximum Claim Amount	347,239	389,378	433,870
Minority Borrowers	4,145	5,826	6,675
Percent of all SF FHA Reverse Mortgage Borrowers	13.30%	13.90%	13.60%
Average Age of Borrowers	74	74	74

The prior years' data have been updated to reflect small changes.
*****The calculation excludes streamline refinances.***

TECHNOLOGY MODERNIZATION

FHA continues to advance its multi-year technology modernization effort by implementing digital solutions through the FHA Catalyst platform. The goal of this effort is to transition every aspect of the single family loan cycle to a single, integrated platform. Since implementation in 2020, FHA Catalyst has enabled stakeholders to continue to conduct business electronically with FHA, ensured continuity of operations for loan endorsements amid the COVID-19 National Emergency, and modernized antiquated FHA technology.

In FY 2021, FHA launched or enhanced the following FHA Catalyst modules:

- ***Single Family Origination Module:*** implemented on October 21, 2020, the module is the first origination capability available on the FHA Catalyst platform.
- ***Servicing Module:*** Released on January 19, 2021, the module enables mortgagees to view unified case records in a singular platform to perform servicing queries.
- ***Case Binder and Claims Module:*** These modules, originally launched in August, 2020, and December, 2019, respectively, were updated in FY 2021 to facilitate more options and flexibilities for electronic case binder and claim submissions.

The reporting of delinquent FHA Title II single family forward mortgages will transition in FY 2022 to the FHA Catalyst: Single Family Default Monitoring System Reporting Module. Additionally, all appraisal submissions will transition to the FHA Catalyst: Electronic Appraisal Delivery Module.

Further improvements and functionality are currently in development to support the operational efficiency of single family's technology systems and business functions.

RISK MANAGEMENT

FHA published Mortgagee Letter (ML) 2021-17, Revisions to Property and Appraisal Quality Control Review Requirements, on June 30, 2021. The ML updates FHA Single Family Quality Control (QC) requirements for appraisal field reviews and the evaluation of property and appraisal documentation for all FHA Title II Single Family programs.

Mortgagee Review Board: Administrative Actions Published in Federal Register: On February 12, 2021, FHA published in the Federal Register (FR) (Docket No. FR-426-N-01) its annual notice of all completed administrative actions taken by HUD's Mortgagee Review Board during FY 2020. The FR Notice provided a description of, and the cause for, the Mortgagee Review Board's administrative actions against HUD-approved mortgagees in 58 fact-based cases and 17 annual recertification violations.

COVID-19 NATIONAL EMERGENCY RESPONSE

As the worldwide COVID-19 pandemic continued into fiscal year 2021, FHA redoubled its efforts to ensure that those individuals and families who wanted to purchase a home using an FHA-insured mortgage product were able to do so. FHA accomplished this goal by continuing to make as-needed adjustments to its programs, policies, and procedures to make it easier for FHA-approved mortgagees and other stakeholders to do business with us in what had become a rapidly evolving housing market due to COVID-19 and its variants.

As an example, in March 2020 at the beginning of the COVID-19 National Emergency, FHA published ML 2020-05, which instituted temporary underwriting flexibilities that addressed the need for social distancing. This ML provided mortgagees with alternatives to re-verify a borrower's employment prior to settlement and permitted FHA appraisers to use exterior-only or desktop-only appraisal inspections as a substitute for interior home inspections. The policies in the original ML were updated with the publication of ML 2020-37 on October 2020. The reverification of employment guidance and the updated appraisal scope of work inspections for exterior-only appraisals were last extended through June 30, 2021, in ML 2021-06.

Additionally, on June 29, 2021, FHA further extended the temporary policy guidance initially announced in July 2020, in ML 2020-24, and last extended in February 2021, which included:

- Guidance to industry partners regarding the verification of business operations for self-employed borrowers;
- Verification of rental income policy guidance; and
- Guidance for the administration of the 203(k) rehabilitation escrow for borrowers in forbearance.

All three temporary policy modifications sunset on September 30, 2021.

COVID-19 FORECLOSURE PREVENTION MEASURES

Over the course of the pandemic, FHA has instituted many programmatic changes to prevent homeowners with FHA-insured mortgages who were negatively impacted by the effects of COVID-19 from foreclosure and eviction.

Beginning with ML 2020-04, Foreclosure and Eviction Moratorium in Connection with the Presidentially-Declared COVID-19 National Emergency, dated March 18, 2020, and extended multiple times with the last extension being issued in early July 2021, FHA has worked tirelessly to provide relief to homeowners at risk of foreclosure and eviction, including those in communities of color and other underserved communities who have been disproportionately affected by the pandemic.

In addition to the foreclosure and eviction moratoria, FHA issued guidance in ML 2021-05 that updated the COVID-19 forbearance start date, COVID-19 Home Equity Conversion Mortgage (HECM) extension period, and expanded FHA's COVID-19 loss mitigation options. Additionally, the agency expanded the loss mitigation options available to borrowers through servicers when it introduced the COVID-19 Advance Loan Modification (COVID-19 ALM), via ML 2021-15 on July 9, 2021.

The COVID-19 ALM provides borrowers significant payment reduction without the need for borrower contact. Servicers are required to mail loan modification documents to eligible borrowers for whom a rate and term loan modification reduced the principal and interest on their monthly payment by a minimum of 25 percent. To accept the offer, the borrower need only to sign and return the mortgage documents. This new option was designed to help borrowers with the greatest financial need — including homeowners of color — regain sustainable homeownership in the future.

To reinforce the Department of Housing and Urban Development's and FHA's commitment to help homeowners who have been financially impacted by the COVID-19 pandemic remain in their homes, FHA published ML 2021-18, COVID-19 Recovery Loss Mitigation Options, on July 23, 2021.

This ML amended FHA's previous COVID-19 Loss Mitigation policies for borrowers with FHA-insured forward mortgages impacted by the pandemic, by establishing a new FHA COVID-19 Recovery Loss Mitigation Options "waterfall." This new waterfall streamlines and revises FHA's previous options for struggling homeowners, reduces required documentation, and requires mortgage servicers to provide payment reduction for eligible homeowners with FHA-insured Single Family Title II forward mortgages.

MORTGAGEE LETTER 2021-18

Introduced the new COVID-19 Recovery Loss Mitigation Options "waterfall"

- revises FHA's previous options for struggling homeowners
- reduces required documentation
- requires mortgage servicers to provide payment reduction for eligible homeowners with FHA-insured Single Family Title II forward mortgages

For owner-occupied, primary residences, there is a streamlined, two-step waterfall process:

- ***COVID-19 Recovery Standalone Partial Claim***: for homeowners who can resume making their current mortgage payments; and
- ***COVID-19 Recovery Modification:*** for homeowners who cannot resume making their current monthly mortgage payments.

For non-owner occupied properties, mortgage servicers must offer eligible homeowners FHA's COVID-19 Recovery Non-Occupant Loan Modification.

OTHER POLICY AND PROCEDURAL UPDATES

STUDENT LOAN PAYMENT CALCULATION

On June 18, 2021, FHA published ML 2021-13, Student Loan Payment Calculation of Monthly Obligation, which updated the monthly mortgage payment calculation for borrowers with student loan debt. Through the issuance of this ML, FHA now requires its FHA-approved mortgagees to calculate the monthly payment for deferred student loans at two percent of the outstanding balance and include that payment amount in the borrower's debt-to-income (DTI) ratio for qualification purposes. This updated guidance, which became effective for all case numbers assigned on or after August 16, 2021, better aligned FHA policy with current industry standards. Additionally, it further reinforced FHA's commitment to breaking down longstanding barriers to affordable homeownership opportunities and, thus, providing greater access to credit for people of color and those in the 25 to 49 year old age group who are traditionally encumbered with student loan debt.

TRANSITION FROM LIBOR INDEX FOR HOME EQUITY CONVERSION MORTGAGES (HECMS)

On March 11, 2021, FHA published ML 2021-08 that addressed changes in the interest rate requirements including the removal of the London Interbank Offered Rate (LIBOR) Index for its new HECM books of business. The ML also introduced the Secured Overnight Financing Rate (SOFR) replacement option. All HECMs with adjustable interest rates will be transitioned to a replacement index when the LIBOR Index becomes unavailable in 2023.

REVISED NON-PERMANENT RESIDENT REQUIREMENTS

Effective January 19, 2021, individuals classified under the "Deferred Action for Childhood Arrivals" (DACA) program with the U.S. Citizenship Immigration Service (USCIS) and are legally permitted to work in the U.S. are now eligible to apply for mortgages backed by the FHA. This change to FHA policy in Handbook 4000.1 removed in its entirety the term "lawful residency," as it pre-dated DACA and, therefore, could not anticipate a situation in which a borrower might not have entered the country legally, but nonetheless be considered lawfully present.

The eligibility criteria for certain non-permanent resident borrowers including DACA recipients was further codified in ML 2021-12, dated May 28, 2021.

SF HANDBOOK 4000.1 UPDATE

FHA continued its practice of making updates to its Single Family Housing Policy Handbook 4000.1 (Handbook 4000.1) in FY 2021. Handbook 4000.1, which is organized in such a way that it follows the logical flow of a mortgagee or lender's process, includes most of the policy updates previously made through Mortgagee Letters, Federal Register Notices, Housing Notices, policy waivers, and other sources of SFH policy issued since the last update in July 2021. Having a consolidated source for Single Family housing policy makes it easier for lenders and other stakeholders to do business with FHA.

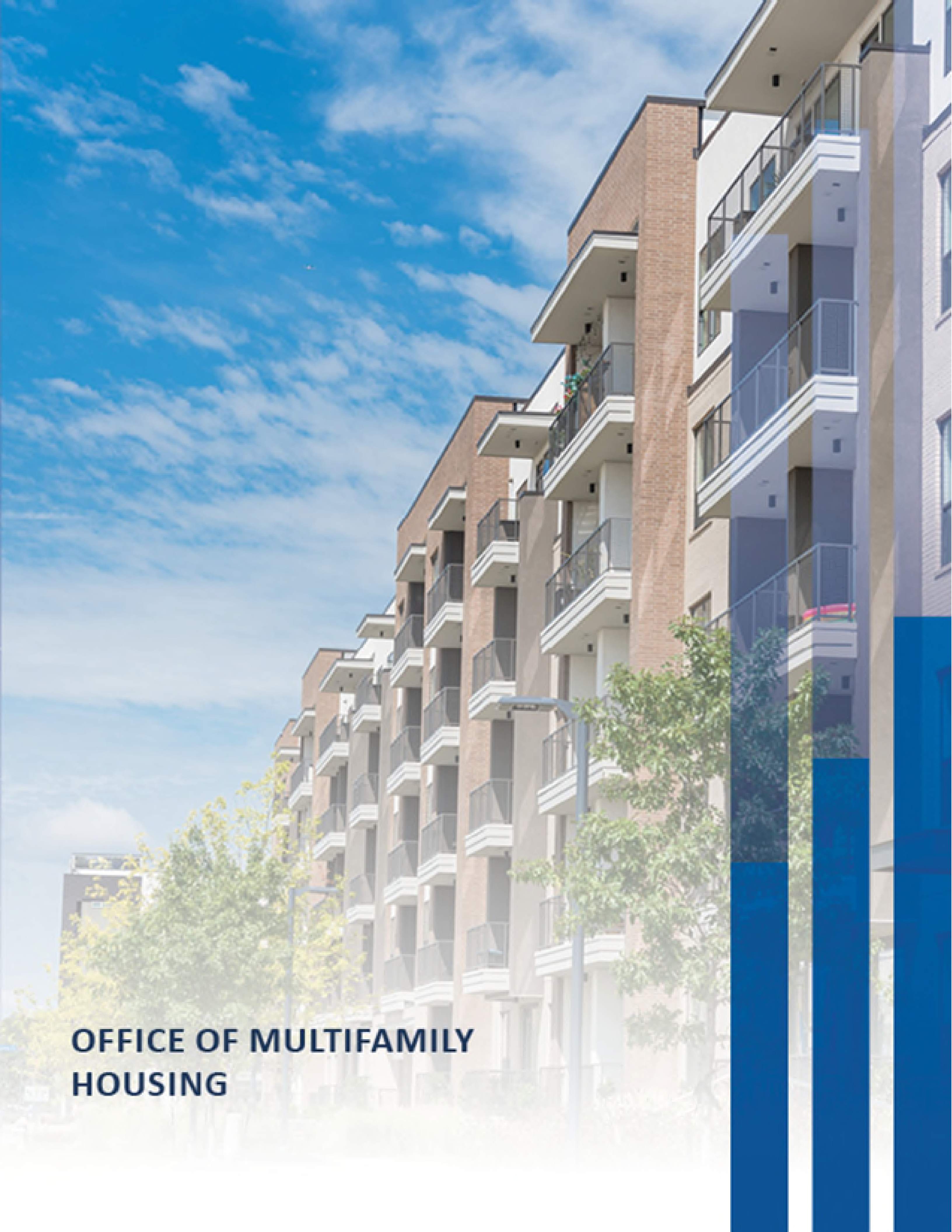
The following changes were made to Handbook 4000.1 during FY 2021:

- ***HECM Section*** – To help provide greater understanding to the HECM program, FHA posted the HECM section of Handbook 4000.1 to the Single Family Drafting Table for industry feedback. The changes, when completed, will for the first time, integrate all HECM policy into the Handbook and consolidate over 150 disparate policy documents. The integration of HECMs into the Handbook will make it easier for FHA-approved mortgagees to participate in the program and assist borrowers in using the program to meet their needs of aging in place.
- ***Updated Servicing and Loss Mitigation Section –*** FHA published a wholesale revision to the servicing section of Handbook 4000.1 in FY 2021. The changes align with industry best practices, reduce burdensome documentation, and streamline onerous processes with the goal of providing servicers with additional tools to help more borrowers remain in the homes, when possible.

SINGLE FAMILY LOAN SALES

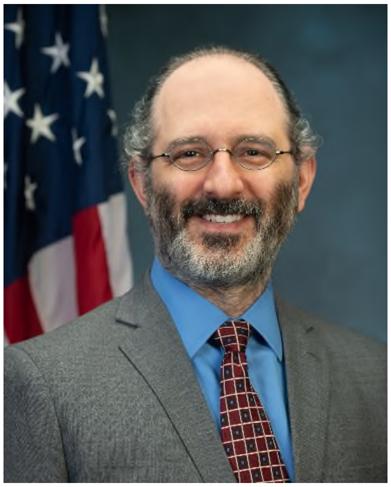
Single Family defaulted loan sales are a collaborative FHA in-house effort between the Office of Finance and Budget's Office of Asset Sales (ASO) and SFH's Office of Asset Management.

In FY 2021, FHA held one direct forward loan sale of seriously delinquent, vacant loans. The notes were sold in a direct award to a state government/non-profit partnership. HUD awarded 70 notes with an Unpaid Principal Balance (UPB) of $11 million and a Broker Price Opinion (BPO) value of $10 million. The average Bid to BPO was 41 percent.



OFFICE OF MULTIFAMILY HOUSING

OFFICE OF MULTIFAMILY HOUSING PROGRAMS



As the COVID-19 national emergency continued during fiscal year 2021, the Office of Multifamily Housing Programs processed unprecedented production volume and continued to provide stability and affordability to the Multifamily housing market, increasing access to safe and affordable housing for our nation's workforce, low-income families, elderly individuals, and people with disabilities. Multifamily housing is critical for building and preserving healthy neighborhoods and communities.

Ethan Handelman **Deputy Assistant Secretary | Office of Multifamily Housing Programs**

OVERVIEW

The Office of Multifamily Housing (MFH) Programs provides mortgage insurance on mortgages originated by FHA-approved lenders in order to facilitate the construction, rehabilitation, repair, refinancing, and purchase of Multifamily rental housing properties. Since its creation, the Office of Multifamily Housing has insured over 11,000 Multifamily project mortgages and currently has over 57,000 insured properties in its portfolio. FHA's Multifamily mortgage insurance endorsement program is an obligation of FHA's General Risk/Special Risk (GI/SRI) insurance funds. Multifamily insurance programs are funded through mortgage insurance premiums paid by borrowers at the time of endorsement and periodic payments thereafter. Through its broad set of programs, the work of MFH provides 893,000 FHA units and supports thousands of private-sector jobs in the construction, property management, supportive service provisions, financial services, and administrative fields.

FISCAL YEAR 2021 PORTFOLIO AND PERFORMANCE HIGHLIGHTS

- Endorsed 1,567 new Multifamily loans totaling $29.1 billion
- Managed insured portfolio of 11,271 Multifamily loans with an unpaid principal balance of $112 billion
- Oversaw portfolio of 29,216 properties and 2.36 million units: 523,000 units were assisted and insured, 949,000 units were assisted only, and 893,000 units were insured only
- Maintained low default rate of.40% and only 30 properties (less than 0.01% of insured properties) entered default

MULTIFAMILY HOUSING PROGRAM OFFICES

Headquartered in Washington, D.C., MFH is led by the Deputy Assistant Secretary for MFH Programs, and includes the following program offices:

- ***Office of Production*** is responsible for providing direction, technical assistance and oversight for Multifamily property mortgages originated for an FHA-insurance endorsement.
- ***Office of Recapitalization*** is responsible for the preservation and recapitalization of federally assisted affordable housing; and oversees and processes financial transactions to ensure the long-term physical and financial viability of affordable rental housing.
- ***Office of Asset Management and Portfolio Oversight*** is responsible for the fiscal and physical soundness of the portfolio of Multifamily assets after the development phase.
- ***Office of Program Systems Management*** is responsible for providing information technology services that empower the strategic vision of MFH Programs.
- ***Office of Field Support & Operations*** provides management direction, guidance and technical support to Multifamily leadership and staff on program management and operational matters.

FISCAL YEAR 2021 PORTFOLIO AND PERFORMANCE HIGHLIGHTS

- Extended the eviction moratorium to protect the safety of residents and other stakeholders in alignment with extensions made by the Centers for Disease Control and Prevention. Continued other efforts to reduce the negative impacts of COVID-19, including electronic submission of closing documents and temporary suspension of Real Estate Assessment Center (REAC) inspections, which resumed on a limited basis in June 2021.
- Implemented the revised Multifamily Accelerated Processing Guide, commonly known as the MAP Guide. The MAP Guide establishes national standards for approved lenders to submit loan applications for FHA multifamily mortgage insurance. The revision, which includes a new Chapter 6 covering Energy and Water Conservation, and Chapter 19 that amends the HUD Closing guide, consolidated interim policies, incorporated modern industry lending and construction practices, and updated various process requirements to manage risk.
- Released Ask a Question (AAQ) service for the MAP Guide. AAQ enhances Multifamily MAP lenders' and third parties' customer experience by providing a consolidated point of entry for MAP Guide policy questions. Common issues are identified and addressed publicly.
- Continued work with HUD's Real Estate Assessment Center on the development of the new National Standard for Physical Inspection of Real Estate (NSPIRE) protocols with the publication of a draft rule in January 2021. HUD reviewed public comment feedback on the draft rule and launched a demonstration of the NSPIRE standards to test the new approach for making certain that Multifamily property owners provide safe, decent, and sanitary housing across the nearly 30,000 properties in the Multifamily portfolio.

- Repositioned 12,758 units in fiscal year 2021 from Public Housing to the Section 8 platform through the Rental Assistance Demonstration, which allows the properties to be stabilized and rehabilitated.
- Utilized Section 8(bb) to preserve 1,722 units in fiscal year 2021 by approving the transfer of budget authority to new and existing Section 8 project based rental assistance contracts.
- Provided disaster support by conducting preliminary assessments on 4,961 properties and onsite final assessments on 51 properties. Onsite assessments were limited by COVID restrictions.
- Restarted the Federal Financing Bank (FFB) Risk-Sharing Initiative which increases access to and reduces the cost of funding for multifamily mortgage loans insured by FHA through its Section 542(c) Risk-Sharing program with Housing Finance Agencies (HFAs). FHA is accepting applications until 2024. This will provide time to pursue legislation and transition Section 542(c) participants from FFB financing to Ginnie Mae securitization.

INSURANCE PROGRAMS

FHA insures mortgages for multi-unit rental properties under a variety of programs, including:

- ***Sections 213, 220, 221(d)(4), 231 and 241(a)*** provide mortgage insurance on market rate and below market rate mortgages to facilitate new construction or substantial rehabilitation of Multifamily rental properties, elderly housing, cooperative housing and Single Room Occupancy (SRO) projects; and insurance on loans to finance repairs, additions, and improvements on projects already insured by FHA.
- ***Sections 223(f) and 223(a)(7)*** provide mortgage insurance for the purchase or refinance of existing rental properties financed with conventional or FHA-insured loans and a streamline refinancing option for mortgages that already have an FHA insurance endorsement.
- ***Sections 542(b) and 542(c)*** provide risk-sharing arrangements for loans on affordable Multifamily rental properties originated, underwritten, and serviced by state Housing Finance Agencies (HFA), Qualified Public Entities (QPE) or Public Housing Authorities (PHAs). FHA assumes an agreed upon loss percentage on these loans and pays the entities when they dispose of defaulted loans.

FISCAL YEAR 2021 PORTFOLIO AND PERFORMANCE ACCOMPLISHMENTS

TABLE 3 – FHA'S MFH INSURANCE PORTFOLIO IN FISCAL YEAR 2021

MFH Endorsements by Program			
	Endorsements for Fiscal Year		
Section of the Act	2019	2020	2021
Section 221(d)(4): New Construction and Substantial Rehabilitation Program Volume (In Millions)	**$ 4,906**	**$ 5,146**	**$ 4,871**
Percentage	43.00%	27.60%	17.00%
Number of Units	37,843	35,928	33,862
Number of Mortgages	224	199	206
Sections 223(f), 223(a)(7), and 241(a): Purchase/Refinancing Program of Existing MFH Projects Volume (In Millions)	**$ 5,648**	**$ 12,532**	**$ 23,084**
Percentage	49.50%	67.30%	79.00%
Number of Units	55,682	112,477	206,137
Number of Mortgages	385	704	1,277
Section 542(b) and 542(c): Risk-Sharing with QPEs & HFAs Volume (In Millions)	**$ 859**	**$ 942**	**$ 1,117**
Percentage	7.50%	5.10%	4.00%
Number of Units	9,179	8,906	10,037
Number of Mortgages	82	74	84
Total	**$ 11,413**	**$ 18,620**	**$ 29,072**

Percentages based on total mortgages endorsed. MFH endorsements shown in Table 3 based on available data for initially endorsed projects in the Development Application Processing (DAP) system. DAP is used to track and monitor MFH basic FHA and Risk Share loan applications.

RENTAL ASSISTANCE DEMONSTRATION HIGHLIGHTS

The Rental Assistance Demonstration (RAD) allows Public Housing Authorities (PHAs) and owners of other HUD-assisted properties to leverage the private market to make capital improvements and preserve properties for long-term affordability. The program converts homes from their original regulatory platform to project-based Section 8 contracts. In fiscal year 2021, through RAD, the Office of Multifamily Housing Programs:

- Repositioned 12,758 units in fiscal year 2021, from public housing to the Section 8 platform through RAD conversions for a total of nearly 152,232 units since the inception of the program.
- Completed $1.6 billion in construction investment for closed RAD transactions to recapitalize public housing stock in fiscal year 2021, surpassing $11.8 billion since the inception of the program.
- Closed on the conversion of 817 Project Rental Assistance Contract (PRAC) apartments to Section 8 for the first time since authorized by the 2018 RAD Statute amendment.
- Converted 1,183 Moderate Rehabilitation and Moderate Rehabilitation Single Room Occupancy (SRO) units to Section 8 in this fiscal year.

CROSS CREEK POINTE APARTMENTS, FAYETTEVILLE, NORTH CAROLINA

Cross Creek Pointe Apartments in Fayetteville, North Carolina, offers 272 apartments of affordable, newly constructed housing on a 30-acre site. The project began with the demolition of 216 obsolete public housing units, all of which were converted to project-based Section 8 in new buildings under the Rental Assistance Demonstration (RAD) program. The remaining 56 units are also limited to people earning 60% or less of the local area median income.

Total construction cost for this project was $31.6 million. Fayetteville Metropolitan Housing Authority used HUD’s Section 221(d)(4) program to obtain an $18.9 million FHA-insured loan, 4% Low Income Housing Tax Credits, and other local funding for the project. Construction was completed in July 2021 and the project is 96% occupied.

MILLBERRY APARTMENTS AND THE LEGENDS AT BERRY SENIOR, ST. PAUL, MINNESOTA

Located just two blocks from a light rail station halfway between the downtowns of Minneapolis and Saint Paul, Minnesota, Millberry Apartments and The Legends at Berry Senior comprise a transit-oriented development that contributes 362 total homes to the local affordable housing stock. The total development cost for both projects was $126 million, including $51 million in FHA-insured Section 221(d)(4) loans and 4% Low-Income Housing Tax Credits. Legends at Berry Senior is a 241-unit building, 100% affordable that is age restricted to 62+ head of household tenants. Millberry Apartments is a 121-unit, 100% affordable general occupancy building. Both properties were completed in fiscal year 2020 and are now fully leased.

The projects were located in a Qualified Census Tract (QCT) allowing them to qualify for 30% additional tax credits ("Basis Boost") resulting in additional equity of approximately $10.4 million. However, the area was transitioning out of its QCT status that would soon eliminate the possibility of additional credits. The application reviews were completed simultaneously by Multifamily staff in 38 days and both were closed 72 days from the date of application, which was just in time to secure the additional tax credits and needed equity.

TECHNOLOGY MODERNIZATION

- Released the first Multifamily FHA Catalyst module as part of the FHA's multi-year information technology modernization initiative. The module allows MAP lenders the option to electronically submit mortgage insurance applications rather than mailing paper binders and flash drives. This is just the first step for Multifamily technology modernization, which over time will provide reliable and accurate data for the full loan lifecycle and will allow FHA program participants to conduct business more seamlessly, ultimately supporting the residents and other stakeholders FHA serves.

- Released CNA e-Tool 3.0, the first step in a transformation of the e-Tool to a cloud-based system with fully automated web-screen data entry. Now all users are guided to customized data entry screens based on their responses identifying the business purposes of the capital needs assessment (e.g., file an application for an insured mortgage, apply for RAD, file an assessment for an asset management purpose). Also, users are able to edit, submit, revise, and resubmit assessments by adjusting only those elements that need change and they are able to "send" their work among their partners for editing and update purposes, (e.g., a lender and the lender's third party needs assessor or a Public Housing Authority and its third party needs assessor.)

MARK-TO-MARKET AND POST MARK-TO-MARKET (M2M)

This program preserves affordability and availability of low-income rental Multifamily properties with federally insured mortgages by reducing rents to market levels and restructuring existing debt to levels supportable by these rents. Although most of the eligible portfolio has been restructured, Mark to Market continues to be an important preservation tool in the Section 8 portfolio, and MFH continued to process transactions in fiscal year 2021. In fiscal year 2021, MFH:

- Published Notice H-2021-02 "Guidelines for Certain HUD Approvals Regarding Properties Encumbered by HUD-Held Mark-to-Market Program Debt and Portfolio Reengineering Demonstration Program Debt" that addresses the assumption, subordination, or assignment of Mark-to-Market Program loans and Portfolio Demonstration Program loans. This Notice replaces Housing Notice 2012-10 in its entirety and provides greater transparency, streamlines, and standardizes processing, and maximizes affordable housing preservation.

- Processed 3 Mark-to-Market transactions in fiscal year 2021 for a total of 456 units, of which one was a full-debt restructure with 326 units; one transaction with 130 units completed as a rent restructuring, with no transactions completed as actions other than closing with potential to re-enter the program for full-debt restructuring.

- Processed 32 Post Mark-to-Market transactions with 3308 homes, and with privately funded rehabilitation costs that averaged $6,137 per unit. Further, through the Post Mark-to-Market program, MFH collected $3.8 million in paydowns of the HUD-held Mark-to Market debt.

PROPERTY DISPOSITION

MFH is responsible for the management and disposition of defaulted Multifamily assets from FHA-held mortgages, formerly FHA-insured properties, and defaulted subsidy contracts. In addition, MFH collaborates with the Office of Finance and Budget's Office of Asset Sales on the disposition of defaulted notes.

MFH's attentiveness to the portfolio has helped maintain a low default rate of .40% percent. There were no foreclosures for MFH properties in fiscal year 2021. Additionally, MFH:

- Collected $4.071 million on seven properties in equity participation from a previous sale and returned it to the U.S. Treasury; and

- Administered over $51 million in active upfront grants for redevelopment or rehabilitation activities at formerly FHA-insured properties, disbursed over $27 million of grant funding during the fiscal year, leaving a balance of $24 million.

COVID-19 NATIONAL EMERGENCY AND OTHER DISASTER RELIEF AND RECOVERY EFFORTS

In response to the COVID-19 national emergency, MFH continued providing support to Multifamily property owners/managers and residents through a series of publications and ongoing outreach. Most of MFH's measures to assist property owners, lenders, and residents remain in place to assist stakeholders in ensuring continuity of business and ensure safety of residents. Working with REAC to prioritize properties, REAC inspections resumed in June 2021. To keep stakeholders informed, MFH continues to provide extensive Q&As in response to questions received from the public and stakeholders. In July 2021, MFH issued an update to Mortgagee Letter 2020-09, updating forbearance information for borrowers, lenders, and MFH staff. MFH provided support for owners and managers who had properties affected within Presidentially Declared Major Disaster Areas (PDMDAs), including Hurricane Ida. For PDMDAs, preliminary assessments were conducted on 30.29**%** of MFH properties in a PDMDA area designated for individual assistance. The teams provided virtual and on-site technical assistance to owners and agents, which are the foundation for review and approval of a restoration plan. The plan outlines all aspects of the restoration processing, including repairs, resident displacement, tracking, sources and uses of funds, and estimated completion dates. FHA closely engaged with property owners and managers as they developed longer-term recovery plans and ensured the residents received their needed assistance.

In fiscal year 2021, HUD dedicated $224 million in CARES Act funding for COVID-19 supplemental payments, of which 10,433 payments totaling $42.7 million has already been completed to multifamily properties. The fourth round is in progress and will make $182.3 million available. Funding is available for owners of project-based Section 8 rental assistance, Section 202, and Section 811 properties to prevent, prepare for, and respond to COVID-19 and to establish the application process for these funds.

RISK MANAGEMENT

During fiscal year 2021, MFH collaborated with the Office of Risk Management and Regulatory Affairs (ORMRA) to better identify and manage risk within its programs, including the examination of Multifamily vacancy rates throughout the country. With the extended challenges of the COVID-19 national emergency and the support authorized by Congress and the Administration, MFH continued to implement forbearance and other mechanisms to assist impacted borrowers and collaborated with ORMRA to manage the increased risk. Both offices continued to measure and monitor current and emerging trends in the Multifamily portfolio for the protection of the GI/SRI Fund. The default rate on the FHA-insured MFH portfolio increased slightly to .40%; however, there have been no insurance claims since the beginning of the COVID-19 national emergency.

OFFICE OF HEALTHCARE PROGRAMS

OFFICE OF HEALTHCARE PROGRAMS

FHA's Office of Healthcare Programs, the nation's largest and most successful Healthcare mortgage insurance program, has continued to serve Healthcare facilities during these unprecedented times where frontline Healthcare providers in hospitals, skilled nursing facilities and other residential care facilities courageously serve our vulnerable population every day. FHA leadership and staff are proud to work with stakeholders serving millions of patients and residents in all fifty states and the American territories.

Roger Lukoff | **Deputy Assistant Secretary | Office of Healthcare Programs**

OVERVIEW

The Office of Healthcare Programs (OHP) administers FHA's programs that provide mortgage insurance to residential care facilities and hospitals under Section 232 and Section 242, respectively, of the National Housing Act. Section 232 was established by Congress in 1959 to support the critical care needs of a vulnerable aging population in residential care facilities across the country. Section 242 was enacted in 1968 to support capital financing for urgently needed hospitals.

With access to FHA mortgage insurance, private lenders are encouraged to increase their capital investments in the Healthcare market. Hospitals, skilled nursing homes, board and care facilities, and assisted living facilities can access capital at lower interest rates, resulting in significant cost savings and the ability to invest in construction, improvement, and/or refinancing projects. With FHA-insured financing, these facilities strengthen the quality of healthcare services available to residents and communities.

FISCAL YEAR 2021 PORTFOLIO AND PERFORMANCE HIGHLIGHTS

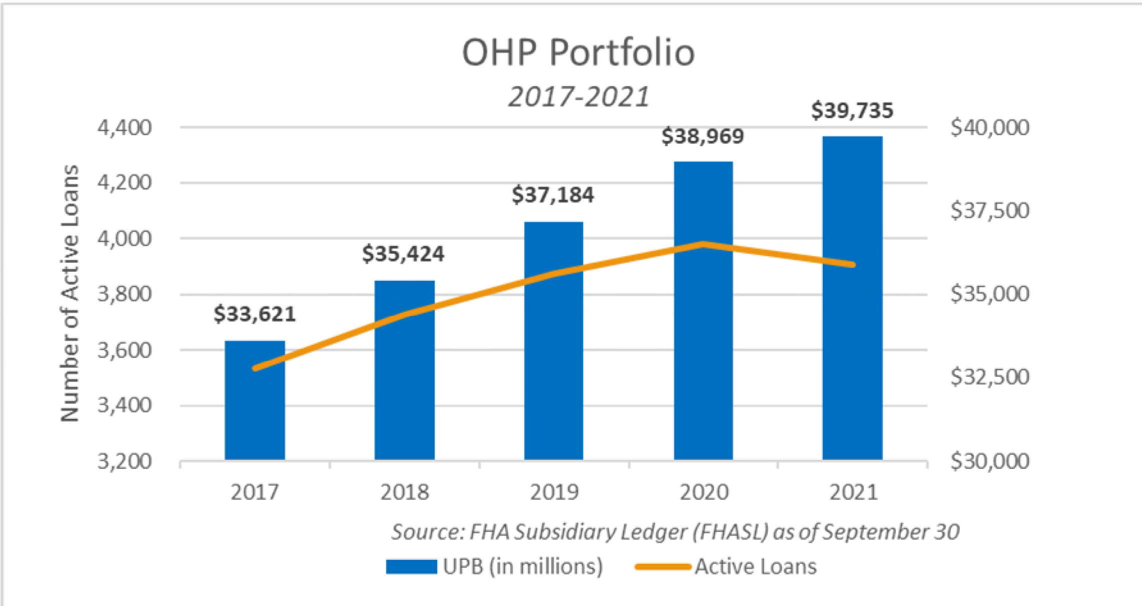
Section 232 Residential Care Facilities

- Issued 426 commitments totaling $4.9 billion
- Managed insured portfolio of 3,816 residential care facility loans with an unpaid principal balance of $33.0 billion
- Maintained a low annual claim rate of 0.22 percent net of recoveries

Section 242 Mortgage Insurance for Hospitals

- Issued seven insurance commitments and two loan interest rate modifications for $1.3 billion
- Managed insured portfolio of 90 hospital facility loans with an unpaid principal balance of $6.7 billion
- Maintained a low cumulative claim rate of 1.68 percent net of recoveries

As of September 30, 2021, the total FHA-insured Healthcare insurance portfolio consisted of 3,906 loans with an unpaid principal balance of $40.0 billion. The programs maintain low claim rates and contribute credit subsidy receipts to the GI/SRI Fund. The annual claim rate for the Section 232 program, net of recoveries is 0.22% (compared to 0.12% in FY 2020). The cumulative claim rate for the Section 242 program, net of recoveries, is 1.68% (compared to 1.28% in FY 2020).



HEALTHCARE PROGRAMS DIVISION STRUCTURE

OHP is comprised of the Office of the Deputy Assistant Secretary for Healthcare Programs that oversees the following program and support offices:

- ***Office of Residential Care Facilities (ORCF)*** is responsible for FHA's Section 232 Healthcare mortgage insurance program that insures mortgages for residential care facilities such as skilled nursing facilities, assisted living centers, and board and care homes.

- ***Office of Hospital Facilities (OHF)*** is responsible for FHA's Section 242 Healthcare mortgage insurance program that insures mortgages for acute care hospitals.

- ***Office of Architecture and Engineering (OAE)*** supports both Section 232 and Section 242 programs with technical expertise related to architectural, engineering, and environmental issues.

MANAGEMENT INITIATIVES AND PROGRAM IMPROVEMENTS

In fiscal year 2021, OHP focused on enhancing underwriting and asset management capabilities. Enhancements were designed to improve workflow and mitigate risk, which included the following:

- ***Increased Flexibility for Housing Units Serving Memory Care Residents.*** Responding to the needs of memory care residents, ORCF published amendments to the existing regulations governing the number and location of bathrooms in certain residential care facilities. The amendments, contained in The Federal Register Notice (85 FR 38323) updated 24 CFR § 232.7, allow providers to configure the facilities to meet the needs of memory care residents and allow for appropriate flexibility of the bathroom requirement when financing or refinancing existing facilities.

- ***Coordinated with HUD's Departmental Enforcement Center (DEC) to Address Operator Violations.*** Recognizing that most residential care facility owners contractually rely on separately licensed operators to manage their facilities, ORCF developed procedures with HUD's Departmental Enforcement Center (DEC) for borrower DEC referrals arising out of operator violations. This positions HUD to pursue civil money penalties against the borrowers who violate their own regulatory agreement by failing to assure their chosen operator manages consistent with program requirements.

- ***Enhanced Staff Knowledge Related to the Impact of the COVID-19 National Emergency on the Healthcare Market.*** OHF continued to train its specialized staff with an emphasis on the pandemic. Staff participated in an in-depth sector commentary on the American acute care hospital landscape by expert healthcare principals, enhancing staff understanding of the macro issues at play during this extraordinary time. In addition, an in-depth accounting and sector training session was facilitated by a member of the American Institute of Certified Public Accountants (AICPA) Health Expert panel. The instructors provided clarification on the unique accounting challenges related to federal stimulus funding for healthcare organizations.

FISCAL YEAR 2021 ACCOMPLISHMENTS

In FY 2021, the Office of Healthcare Programs (OHP) continued to refine its operational processes and provided lender and staff training. In particular, OHP did the following:

- ***OHF Open Forum Discussion.*** In February 2021, OHF held a two-hour forum with over 60 lenders and stakeholders to address questions and comments from participants.

- ***ORCF Production Lender Dialogue:*** In March of 2021, ORCF Production convened a lender dialogue session that was attended by over 200 lenders. The dialogue provided a forum for ORCF staff to highlight issues related to underwriting and closing of Section 232 loans. It also allowed lenders to ask questions related to underwriting and closing of Section 232 loans.

- ***ORCF Asset Management HMAC Outreach Sessions:*** In April and May 2021, ORCF provided a three-part industry outreach, training, and dialogue via the Healthcare Mortgagee Advisory Council (HMAC) reaching a wide audience of lenders, borrowers, and operators of Section 232 facilities. Topics included program updates, feedback sessions, and a review of regulatory obligations & business agreements.

SECTION 232 MORTGAGE INSURANCE FOR RESIDENTIAL CARE FACILITIES

The Section 232 Mortgage Insurance Program for Residential Care Facilities insures loans to finance the construction, substantial rehabilitation, acquisition, or refinancing of skilled nursing homes, assisted living facilities, and board and care homes. As of September 30, 2021, through the Section 232 program, FHA achieved the following:

- ***Production Volume:*** A total of 550 applications were received and ORCF issued 426 commitments totaling $4.9 billion.
- ***Asset Management Volume:*** The Section 232 portfolio totaled 3,816 loans with an unpaid principal balance of $33.0 billion.

BRIAR HILL HEALTH CARE

Briar Hill Health Care, located in Middlefield, OH, completed construction on its 241a Supplemental Loan on January 29, 2021. The expansion added a total of 28 new private rooms and creation of a new therapy gym, offices, and storage space to the existing facility. Post construction, the facility now features a total of 102 units and 147 beds across skilled nursing, assisted living, and independent living.

SECTION 242 MORTGAGE INSURANCE FOR HOSPITALS

The Section 242 Mortgage Insurance Program for Hospitals supports access to affordable financing for acute care hospitals to fund capital projects, such as new construction or modernization projects. Additionally, the Section 242/223(f) program provides options for hospitals wishing to refinance existing loans without new construction or major rehabilitation. As of September 30, 2021, through the Section 242 program FHA achieved the following:

- ***Production Volume:*** OHF issued seven insurance commitments and two loan interest rate modifications totaling $1.3 billion.
- ***Asset Management Volume:*** The Section 242 portfolio consisted of 90 active hospital loans with a total unpaid principal balance of $6.7 billion.

Hospitals with FHA-insured mortgages range from small rural hospitals to major medical centers, all of which serve as major community anchors that provide not only critical healthcare services, but jobs and economic support to their communities.

MaineGeneral Health System

MaineGeneral Health System in Augusta, Maine, is a 198-bed acute care teaching hospital that also provides long-term care, home care, and hospice services. MaineGeneral is the third largest provider of acute care services, has the third largest maternity service, is the largest community hospital provider of mental health and substance abuse services, and is the largest provider of emergency services in the State of Maine. Through FHA’s Section 242/223(f) program, MaineGeneral refinanced high-interest rate existing debt in the amount of $286.5 million. Thanks to Section 242’s refinancing program, and the collaboration between the Health System, HUD and the lender, the Health System will save approximately $110 million over the life of the loan.

COVID-19 NATIONAL EMERGENCY EFFORTS AND HIGHLIGHTS

The COVID-19 National Emergency significantly impacted the operations and finances of the residential care and hospital facilities in the Office of Healthcare Programs portfolio. In FY 2021, the Office of Healthcare Programs staff, in conjunction with program stakeholders, utilized maximum flexibilities for the purpose of ensuring facilities remained open to provide care for the millions of Americans affected by COVID-19 in facilities with mortgages insured by FHA. The Office:

- ***Implemented CARES Act COVID-19 Recovery Operating Loss Mortgage Insurance Program.*** ORCF published ML 2021-01 implementing guidance for a newly authorized program to insure operating loss loans under Section 223(d) of the National Housing Act in order to mitigate the COVID-related temporary reduction of revenue of healthcare facilities.

- ***Refined Flexibilities for Applicants and Existing Borrowers.*** OHP published a series of Mortgagee Letters providing appropriate flexibilities with respect to traditional on-site inspections involved in providing mortgage insurance. These flexibilities ensured safety of residents and third-party representatives while also ensuring sufficient and timely data for prudent underwriting. In addition, OHP continued to work through this extraordinary time in healthcare by transitioning several of its in-person processes to virtual activities, including applicant site visits, face-to-face meetings with applicants and lenders, and construction progress visits.

- ***Hosted Webinar to Address COVID-19 Issues.*** In response to the pandemic, ORCF led a webinar hosted by the American Healthcare Association addressing asset management matters related to COVID-19. Addressing over 700 participants, ORCF presented information on flexible means available to Section 232-insured residential care facility owners and operators to sustain operations during the COVID-19 pandemic.

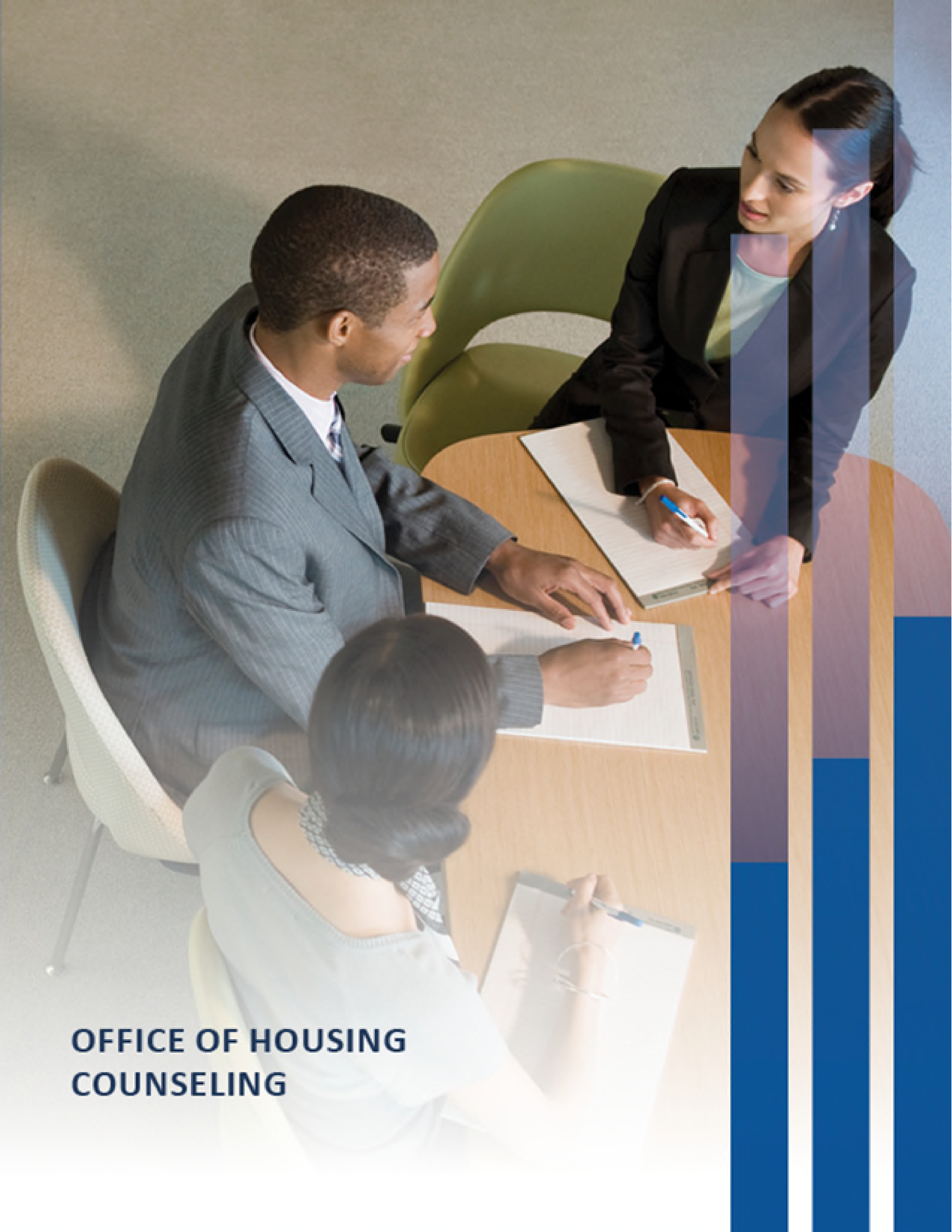
- ***Enhanced Financial and Operational Monitoring of Healthcare Facilities.*** The pandemic created unique challenges in assessing utilization and financial information of applicant and portfolio credits. OHP, through continued training and development of new tools and processes, has expanded its capabilities to monitor the extraordinary impacts to balance sheets, income statements, and utilization data, to properly assess risk in both the production and asset management domains.

RISK MANAGEMENT

With an outstanding portfolio balance of over $40.0 billion, managing risk is an important focus of the OHP programs. OHP mitigates risk upfront during the underwriting process and, after loan closing, through the identification and monitoring of troubled properties. OHP's risk management includes a robust set of actions to reduce claim payments.

- ***OHP continues to work to improve underwriting standards*** and to ensure consistent applications while reducing processing time.
- ***Proactive asset management*** also plays an important role in risk management and loss prevention. In FY 2021, OHP actively engaged lenders and servicers to improve strategies to coordinate asset functions and responsibilities. Open communication with industry stakeholders improves the quality of risk management and helps OHP strengthen asset management and avoid or reduce insurance claims.
- ***Other approaches to loss prevention*** include working with state agencies on early notification of potential adverse actions; expediting refinancing; working with lenders who have identified potential owners, operators, or equity providers with increased risks; and using available options to supplement funds until a property is stabilized.
- ***Options for minimizing losses*** on HUD-held loans include partial payment of claims, positioning notes for re-assignment, modifying mortgages and identifying equity providers and purchasers. Working in concert with internal and external stakeholders, OHP maximizes asset management outcomes for the benefit of the GI/SRI Funds.

HOUSING-FHA OTHER CONTRIBUTING OFFICES



OFFICE OF HOUSING COUNSELING

OFFICE OF HOUSING COUNSELING

The mission of the Office of Housing Counseling is to ensure individuals and families have the knowledge they need to obtain, sustain, and improve their housing situation and financial health via HUD's network of approved housing counseling agencies and certified counselors. The mission supports the Administration's goals of advancing racial equity in sustainable homeownership, recovering from the COVID-19 National Emergency, and supporting eviction prevention.

David Berenbaum **Deputy Assistant Secretary | Office of Housing Counseling**

OVERVIEW

The Housing Counseling Program is authorized by Section 106 of the Housing and Urban Development Act of 1968, as amended (12 U.S.C. 1701x). Through the Office of Housing Counseling (OHC), HUD supports a national network of nonprofit and government housing counseling agencies. These agencies provide tools and educational resources to consumers, prospective FHA and other borrowers, renters, and disaster victims, so that they can make responsible choices to address their housing needs.

The network consists of 1,679 HUD-approved housing counseling agencies who counsel consumers on basic housing principles and financial literacy to help them make informed housing decisions. While the Housing Counseling program is funded through an annual two-year appropriation outside of FHA, its activities contribute to FHA's mission by educating borrowers on the rights and responsibilities of homeownership, rental, and disaster assistance counseling. Housing counselors coach consumers how to increase residual income and savings, improve housing conditions, understand mortgage credit, and improve housing stability. Counselors also serve as a gateway to other community services and housing assistance programs. Housing counselors have been a critical support to families facing financial difficulties because of the coronavirus pandemic. The agencies deliver assistance in helping homeowners identify foreclosure prevention options and support renters in crisis by providing access to information and resources that could help individuals and families avoid eviction; stabilizing their housing situation.

FISCAL YEAR 2021 PORTFOLIO AND PERFORMANCE HIGHLIGHTS

Supported HUD-approved Housing Counseling Agencies in counseling over 1,033,000 households

Nearly $51 million was made available through the housing counseling Notice of Funding Opportunity to HUD-approved Housing Counseling Agencies

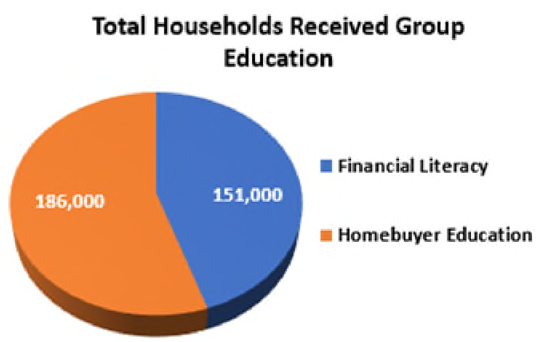
3,663 housing counselors achieved HUD Certification as of September, 2021

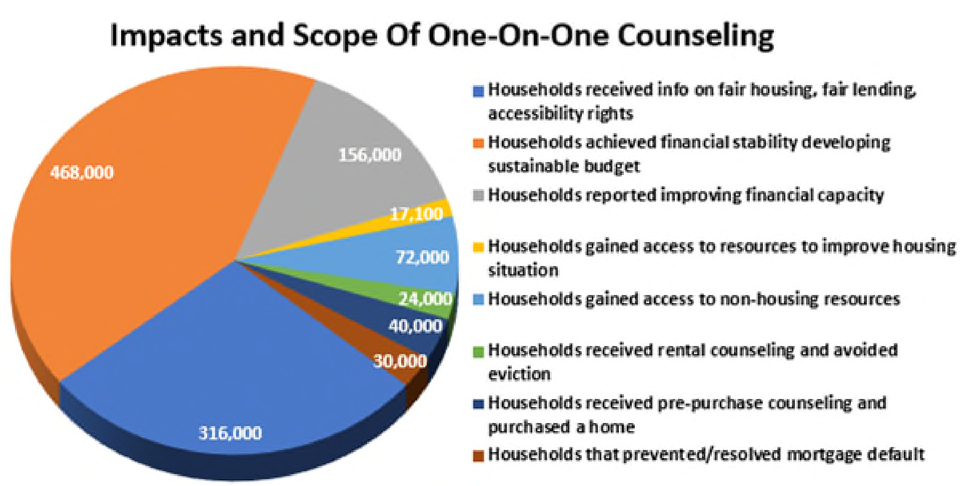
HOUSING COUNSELING OFFICE STRUCTURE

The Office of the Deputy Assistant Secretary for Housing Counseling oversees program performance for the following offices.

- ***Office of Outreach and Capacity Building (OCB)*** leads efforts to expand housing counseling capacity, provides training to agencies and housing partners, and promotes awareness of housing counseling.
- ***Office of Policy and Grant Administration (OPGA)*** is responsible for research, program policies, and grant administration.
- ***Office of Oversight and Accountability (OOA)*** monitors compliance and mitigates risk associated with the Housing Counseling Program.

HOUSING COUNSELING PROGRAM





FISCAL YEAR 2021 ACCOMPLISHMENTS

The Office of Housing Counseling continued efforts to maximize the effectiveness of its services and engage stakeholders to support and improve the program.

- ***FY 2021 Grants:*** Funding of approximately $51 million was made available to HUD-approved housing counseling agencies through the Housing Counseling Notice of Funding Opportunity (NOFO) providing approximately one million families access to HUD-approved housing counseling services.
  - The NOFO designated $3 million for HUD approved Black Colleges and Universities (HBCUs), other Minority Serving Institutions (MSIs) and for HUD-approved agencies partnering with an HBCU or other Minority Serving Organization.

- ***Counselor certification:*** Effective August 1, 2021, all HUD-approved Housing counseling agencies were mandated to have certified Housing Counselors on staff. Professional certification of the industry assures the public housing counselors have the knowledge they need to advise clients in their housing situation and elevates their professional role. As of September 30, 2021, there were 3,663 HUD-certified counselors; 1,570 agencies have at least one HUD certified counselor.

- ***Virtual community conference.*** All HUD-approved housing counseling agencies were invited to attend the conference, as well as national, regional, and local industry stakeholders. Fourteen workshops were conducted, including workshops on topics involving Racial Equity and the Mortgage Industry, The Role of Housing Counseling Agencies in Advancing Racial Equity, and Utilizing Financial Literacy and Education Commission's (FLEC) Financial Literacy and Project Reach to Achieve Racial Equity. Conference presenters were drawn from a wide range of nonprofit industry organizations and government agencies. There were 1,230 counselors and industry stakeholders registered; all workshops averaged between 470-730 participants.

- ***Performance reviews.*** HUD conducts periodic on-site or desk performance reviews of all participating agencies. The performance review consists of a review of the participating agency's compliance with all program requirements, including applicable civil rights requirements, and the agency's level of success in delivering counseling services.

FY 2021 INITIATIVES AND PROGRAM IMPROVEMENTS

The Office of Housing Counseling high priority initiatives in FY 2021 align with the Office's Strategic Planning goals of providing emergency assistance to households affected by the COVID-19 pandemic and advancing racial equity. These initiatives and program improvements consist of the following:

- ***Reached out to FHA borrowers at risk of foreclosure.*** OHC in partnership with FHA's Office of Single-Family Housing, executed a direct mail outreach campaign to 325,477 homeowners who were 60 or more days delinquent FHA-insured single family forward mortgages and had not requested a mortgage payment forbearance from their mortgage servicer.

- ***Extended regulatory and handbook policy waivers.*** To ensure continued availability of housing counseling services during the pandemic, OHC temporarily removed the requirement for in-person housing counseling until December 2021 and extended the performance period of FY 2020 housing counseling grants to September 2021 for counseling agencies who needed this extension.

- ***Increased access to information and counseling for emergency assistance to pandemic affected households.*** OHC assessed the operational status and capacity of housing counseling agencies by continuing to administer a national survey to all HUD-approved agencies impacted by nationally declared disasters. Surveys were sent to impacted agencies in Tennessee, Michigan, Louisiana, and Oklahoma where individual assistance was available. OHC expanded information and resources on its HUD Exchange website for housing counseling agencies to prepare and respond to disasters and emergencies.

- ***Furthered rental housing counseling and eviction prevention.*** OHC hosted five webinars to help housing counseling agencies provide rental counseling amid the COVID-19 national emergency. Housing counselors were provided a toolkit including an updated chart of short-term programs available for rental assistance amid the COVID-19 pandemic.

- ***Advanced racial equity by closing the homeownership gap***. In partnership with other HUD offices, federal agencies, and housing counseling agencies, OHC hosted and participated in events focused on examining public and private sector policies for advancing racial equity financial recovery and closing the gap for sustainable homeownership. These events included an industry wide webinar on advancing racial equity in homeownership reaching approximately 900 attendees; partnering with the Federal Trade Commission on educating counselors on how to help clients identify and avoid housing scams and partnering with Consumer Financial Protection Board on housing protection for military families.

- ***Partnered with the Financial Literacy Education Commission (FLEC).*** OHC and FLEC started two pilot projects focusing on expanding black homeownership in cities with a high concentration of black residents by increasing the number of families counseled and improving the financial capability of black residents living in the small towns and rural areas of west Alabama.

- ***Launched OHC's Housing Counseling Grant Program for Minority Serving Institutions.*** OHC launched an initiative to support collaboration between HUD-approved housing counseling agencies and Historically Black Colleges and Universities and other Minority Serving Institutions by providing funding for financial education, training, a professional development opportunity to students, faculty, school administrators and community members.

- ***Expanded Engagement with Tribal Housing Organizations.*** OHC conducted two tribal consultation sessions and multiple listening sessions with representatives of Regional Indian Housing Authorities, Native Community Development Financial Institutions, and HUD-approved housing counseling agencies serving these communities to obtain feedback on implementation of the counselor certification statutory amendments as it applies to the Indian Housing Block Grant (IHBG) program and the Indian Community Development Block Grant (ICDBG) program. Participants discussed opportunities and challenges of creating sustainable affordable housing and homeownership opportunities in Native communities, and the role that culturally appropriate housing and financial education plays in these opportunities. OHC will use the feedback to determine how to apply the housing counseling program and certification requirements in Section 106 of the National Housing Act to these programs.

- ***Celebrated a Native American counseling agency***. Oweesta became the first Native American homeownership network to become HUD-approved as a national intermediary. Oweesta is the longest standing Native Community Development Financial Institutions (CDFI) intermediary offering financial products and development services exclusively to Native CDFIs and Native communities. Oweesta provides training, technical assistance, investments, research, and policy advocacy to help Native communities develop an integrated range of asset-building products and services, including financial education and financial products.

- ***Celebrated a HUD-approved counseling agency in Guam.*** Guam Housing Urban Renewal Authority (GHURA) was established as the first HUD-approved housing counseling agency on the island. For 50 years, the Authority has assisted thousands of low and moderate-income renters and homeowners to acquire suitable housing. GHURA provides housing and community planning for those who reside in GHURA-managed housing and those who participate in GHURA-supported rental and homeownership programs across the island.

SUCCESS STORY

In June 2021, the Office of Housing Counseling, in partnership with the Office of Single Family Housing, initiated an innovative direct mail outreach campaign to homeowners with FHA-insured single family mortgages who were significantly behind on their mortgage payments to ensure homeowners who were struggling financially because of COVID-19 were aware of FHA options available to help. A letter from the Office of Housing Counseling was mailed to 325,000 homeowners. These borrowers were 60 or more days delinquent on their mortgage payments as of April 30, 2021 and had not requested a mortgage payment forbearance from their mortgage servicer. The letter encouraged the homeowners to reach out to their mortgage servicer to request a forbearance or to contact a HUD-approved housing counseling agency for assistance. This campaign was the first of its kind in recent FHA history.

This initiative successfully demonstrated the power of collaborative work across the Office of Housing and supports the vital role HUD-approved housing counselors play in supporting FHA borrowers with access to the information and assistance they need if they are having trouble making mortgage payments.

COVID 19 NATIONAL EMERGENCY EFFORTS AND HIGHLIGHTS

The Office of Housing Counseling hosted four national webinars for housing counselors on COVID-19 mortgage relief covering the latest information on mortgage forbearance, loss mitigation waterfalls, and foreclosure moratoria. OHC expanded information and resources on its COVID-19 Emergency Information for Housing Counselors web page on HUD Exchange to include updated announcements and resources to aid agencies. In addition, OHC:

- ***Developed digital outreach materials.*** OHC created and provided online promotional ads and banners available to HUD-approved housing counseling agencies, housing finance agencies, and intermediaries to assist in reaching those struggling to make their mortgage payments because of COVID-19.

- ***Surveyed on impact of COVID-19 on agency operations.*** A national survey was sent out six times to all HUD-approved agencies. Information from the surveys was used to develop needed training, resources, and other guidance. Six webinars were provided on emergency preparedness and COVID-19 policies for housing counseling agencies.

RISK MANAGEMENT

Throughout the past fiscal year, the Office of Housing Counseling worked to ensure consumers have access to quality housing counseling services and the Department effectively captures program outcomes and impact by:

- ***Supporting counselor certification.*** OHC supported housing counselors to prepare, take, and pass the exam to become HUD certified by the mandatory August 1, 2021, deadline. Ninety-four percent of the 1,679 housing counseling agencies successfully maintained their HUD approved status. Ongoing efforts continue to assist the remaining 6 percent ensuring their counselors pass the exam and the agencies maintain their status as HUD-approved.
- ***Strengthen operational procedures and oversight for Housing Counseling Agencies and Housing Counseling Grantees.*** The Office of Housing Counseling revised and implemented controls and standard operating procedures around its agency approval and reapproval process, supervisory controls of performance reviews conducted of HUD-approved housing counseling agencies, as well as OHC grant management processes.
- ***Strengthen reporting tool for documenting outcomes and impact of the program activities of Housing Counseling Agencies.*** OHC revised the reporting tool, HUD-9902, agencies utilize to report on program outcomes and impacts. The revisions improve HUD's efforts to accurately capture program data and measure the impact and effectiveness of the Housing Counseling Program.

OFFICE OF RISK MANAGEMENT AND REGULATORY AFFAIRS

OFFICE OF RISK MANAGEMENT AND REGULATORY AFFAIRS

The COVID-19 National Emergency in the United States has brought economic challenges to FHA homeowners, which are predominantly first-time, low-to-moderate income borrowers. The Office of Risk Management and Regulatory Affairs (ORMRA) continues to support FHA's mission during this crisis by measuring, monitoring and managing the risk to the approximately $1.5 trillion insured portfolios and to establish and ensure compliance with federal construction, installation, and safety standards in the manufactured housing industry.

Mia N. Pittman	**Deputy Assistant Secretary | Office of Risk Management and Regulatory Affairs**

OVERVIEW

The Office of Risk Management and Regulatory Affairs (ORMRA) serves as the risk mitigator across the Office of Housing-FHA's Program Offices, measuring, monitoring, and managing the credit, model, operational, and counterparty risks of each Program Office, including the offices responsible for FHA's Single Family, Multifamily, and Healthcare insurance programs. ORMRA also provides oversight of manufactured housing construction and safety standards through its Office of Manufactured Housing.

Through prudent risk and capital management standards, ORMRA strives to accurately mitigate risk to the single family and commercial insured portfolios. ORMRA examines current and emerging risks facing the Office of Housing-FHA and articulates effective strategies and procedures to each Program Office in accordance with industry best practice risk management strategies and governance policies. In pursuit of its statutorily directed mission, ORMRA promotes a risk-conscious climate in alignment with the mission of the Office of Housing and the Federal Housing Administration.

FISCAL YEAR 2021 PORTFOLIO AND PERFORMANCE HIGHLIGHTS

- In rapid response to the COVID-19 National Emergency, the Single Family and Commercial risk teams conducted a series of stress tests on the respective portfolios to monitor and measure the potential impacts to the Mutual Mortgage Insurance (MMI) and General Insurance/Special Risk Insurance (GI/SRI) funds during this critical time
- Working with each Program Office, the Operational Risk team analyzed impacts on daily operations, including internal reporting, surveillance, and operational readiness to monitor the potential risks
- Each of the risk teams continued to strengthen outreach and collaboration with internal and external stakeholders to understand issues facing all business lines, to identify best practices, and to ensure those practices are being utilized

RISK MANAGEMENT AND REGULATORY AFFAIRS STRUCTURE

The Office of Risk Management and Regulatory Affairs organizational structure consists of:

- ***Office of Evaluation,*** which is responsible for the overall credit risk associated with FHA's Single Family loan portfolios. The Office of Evaluation performs continuous and in-depth analyses and provides financial valuations related to the Single Family insured portfolios, including forward mortgages and Home Equity Conversion (HECM) or "reverse" mortgages.
- ***Office of Risk Management,*** which is responsible for monitoring, reporting, and forecasting portfolio and loan level credit risk for FHA's commercial lines of business, which include the Office of Multifamily Housing and the Office of Healthcare Programs.
- ***Operational Risk Management Division,*** which is responsible for the oversight of the Office of Housing-FHA's ability to identify, measure, monitor, and control risks related to internal processes and systems. The division is responsible for the Office of Housing-FHA's annual development of its Organizational Risk Profile.

The ***Office of Manufactured Housing Programs (OMHP),*** which implements the National Manufactured Housing Construction and Safety Standards Act of 1974 (the Act), is housed within ORMRA; however, as a standalone rulemaking and enforcement function, this office is discussed separately in this report.

ORMRA quantifies and monitors the risk of underwriting standards and credit policies to support FHA's critical role as a countercyclical force to help stabilize the mortgage market. ORMRA accomplishes this via analysis of FHA portfolio performance and performs financial valuations of the FHA insured portfolios, which are economically modeled to provide quantitative solutions to ensure the MMI and the GI/SRI funds are sound. ORMRA partners with the Office of Housing program areas to support enhanced risk management elements of each programs' policies and procedures. Through recurring formal credit and model risk committees, ORMRA presents its assessments and recommendations to the program offices and FHA senior leadership.

To better manage programmatic and financial risk in FY 2021, ORMRA executed the following key actions:

SINGLE FAMILY PORTFOLIO

- As distress in the mortgage market increased because of the pandemic, ORMRA monitored and informed senior FHA leadership of emerging risks to the MMI Fund via modeled projections and scenario forecasting in order to better inform policy considerations.
- Provided the analytical foundation for multiple risk mitigation policies to better manage lender, servicer, and borrower performance during the COVID-19 National Emergency.
- Continued to provide data and insights in strategic policy development, including underwriting policies for cash-out refinance mortgages and performance of mortgages with down payment assistance.
- Enhanced the risk reporting framework to examine risks in the Home Equity Conversion Mortgage (HECM) program with greater precision.
- Developed and refined a capital management strategy designed to ensure the MMI Fund could withstand various stress scenarios.

COMMERCIAL (MULTIFAMILY AND HEALTHCARE) PORTFOLIOS

- Developed Multifamily and Healthcare watch lists for defaulted loans and monitored loans entering and exiting forbearance agreements. Improved documentation of all loan performance models used to monitor the commercial portfolio.
- Improved analytical tools and streamlined review processes to assess risk levels for large multifamily loans over $75 million, residential care loans over $35 million, and hospital loans over $250 million where the lender was seeking FHA mortgage insurance.
- Modeled the budgetary impact various multifamily and healthcare policies may have on the GI/SRI fund including extension of forbearance options for non-COVID-19 related defaults.

These and similar actions taken by ORMRA in Fiscal Year 2021 ensure that the risk to FHA's insured portfolios are quantified and comprehensively monitored. By benchmarking results against other financial institutions, ORMRA provides lessons learned and best practices.

FISCAL YEAR 2021 PORTFOLIO AND PERFORMANCE HIGHLIGHTS

Single Family Risk Management: ORMRA's Single Family Risk Management team provided in-depth policy analyses to the Office of Single Family Housing (Single Family) and FHA senior leadership, which allowed the organization to develop and improve existing policies to manage risk to the MMI Fund with more precision. As mortgage, borrower, and market characteristics changed and evolved, ORMRA continued to support the policy decisions of Single Family and offer guidance to effectively manage potential risks. ORMRA continually analyzed, monitored, and reported on data and performance of mortgages to determine the impact to the MMI Fund. In addition, during the COVID-19 National Emergency, ORMRA assisted in the update of new underwriting requirements, provided data and analyses to Single Family and senior FHA leadership for assisting mortgage lenders, mortgage servicers, and borrowers through the pandemic.

Commercial Risk Management: ORMRA's Commercial Risk Management team refined tools by risk category and cohort to give a greater line of sight into the performance and economic budget estimate and re-estimate impact to the credit subsidy rate of the GI/SRI fund. The team performed in-depth risk analyses of multiple policy proposals and provided results to senior FHA leadership and the Multifamily and Healthcare Program offices, including insights and potential impacts to the GI/SRI fund. In response to the COVID-19 National Emergency, the commercial portfolio was stress tested using various COVID-19 scenarios, both nationally and globally. Enhanced monitoring of the commercial portfolio was conducted in areas with high concentrations of COVID-19 breakouts. The team continues to monitor current and emerging trends and provide data and analysis to the Multifamily and Healthcare businesses and senior FHA leadership.

Operational Risk Management: ORMRA's Operational Risk Management team provides expert advice to support the FHA's enterprise risk management framework, in accordance with OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Throughout fiscal year 2021, the Operational Risk Management team implemented innovative risk identification, risk analysis, and risk monitoring tools and dashboards. The team facilitated risk assessments with Program Offices to identify new and emerging operational risks arising from people, processes, information technology, and external events. The team recently completed Housing-FHA's fiscal year 2021 Organizational Risk Profile, elevating operational risks to senior FHA leadership. Operational Risk Management developed and/or hosted risk management development trainings to encourage a risk-aware/risk-conscious culture within FHA.

OFFICE OF MANUFACTURED HOUSING

OFFICE OF MANUFACTURED HOUSING PROGRAMS

The Office of Manufactured Housing Programs administers the only federal building code that exists today in the United States. Our programs are dedicated to executing responsible regulation, oversight, and monitoring to protect consumers and ultimately, preserve and promote the affordability, quality, durability, and safety of manufactured homes nationwide.

Teresa Payne **Administrator | Office of Manufactured Housing Programs**

OVERVIEW

The Office of Manufactured Housing Programs (OMHP) administers the National Manufactured Housing Construction and Safety Standards Act of 1974 (the Act) which authorizes HUD to establish federal standards also known as the HUD Code, for the design and construction of manufactured homes to assure quality, durability, safety, and affordability. HUD standards may preempt state and local laws that do not conform to the HUD standards. OMHP enforces standards directly or through state agencies that have partnered with HUD, inspects factories and retailer lots, regulates installation standards for the homes, administers a dispute resolution program for defects discovered within one year of installation, establishes and collects a fee for each home built, authorizes a certification label to be placed on each section of a home that meet the HUD standards, and pursues a civil or criminal action for violations of the Act.

OMHP also oversees HUD's Manufactured Housing Consensus Committee (a federal advisory committee, composed of twenty-one producers, users, and general interest and public officials to advise HUD), and works with other federal agencies such as the Department of Energy and the Environmental Protection Agency on crosscutting issues. The Office also provides technical assistance to the Federal Housing Administration (FHA) for the Minimum Property Standards and the Technical Suitability of Products programs administered by the Office of Single Family Housing.

FISCAL YEAR 2021 PERFORMANCE HIGHLIGHTS

Issued two Final Rules amending the Federal Manufactured Home Construction and Safety Standards and Regulations, achieving significant updates and improvements to the HUD Code and better aligning to more current industry standards

Addressed COVID-19 supply-chain disruptions by issuing industry-wide Alternative Construction letters to address industry needs and enable the continued production of homes despite manufactured housing material shortages

Maintained a productive schedule of inspections, audits, and record reviews in spite of COVID-19 pandemic limitations and travel constraints by implementing innovative electronic procedures and maximizing the use of virtual technologies

OFFICE OF MANUFACTURED HOUSING PROGRAMS

Headquartered in Washington, D.C., OMHP is led by the Administrator for the Office of Manufactured Housing Programs, and carries out three core programs:

- ***Manufactured Home Construction and Safety Program (including the HUD Code).*** The Office of Manufactured Housing Programs oversees the construction statutes, standards, and regulations of manufactured housing and provides consumers with resources related to the purchase, installation, and maintenance of a manufactured home. In addition to these programs, there is recourse for homeowners to resolve complaints through the State Administrative Agency or through dispute resolution.
- ***Manufactured Home Dispute Resolution Program****.* The HUD Manufactured Home Dispute Resolution Program is a program of the U.S. Department of Housing and Urban Development, Office of Manufactured Housing Programs that provides the timely resolution of eligible disputes between manufacturers, retailers, and installers of manufactured homes regarding responsibility, and for the issuance of appropriate orders for the correction or repair of defects in manufactured homes, (within one year of the installation of the home). In FY 2021, manufactured homes installed in 24 states and the District of Columbia are eligible for dispute resolution administered under the HUD Manufactured Home Dispute Resolution Program, and 26 states have an established dispute resolution program that HUD has accepted.
- ***Manufactured Home Installation Program.*** The Manufactured Home Installation Program will be available to ensure that states have in place a minimum installation standard and an operating installation program. For states where HUD will administer the Manufactured Home Installation Program, HUD will ensure that trainers of installers planning to work in HUD-administered states are registered with HUD, and that persons planning to install homes in HUD-administered states are licensed by HUD. In FY 2021, HUD licensed 148 installers in the state of Pennsylvania alone and has 725 licensed installers in the 15 states that HUD administers.

FISCAL YEAR 2021 PORTFOLIO AND PERFORMANCE HIGHLIGHTS

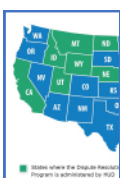
In FY 2021, the Office of Manufactured Housing Programs (OMHP) completed a several key regulatory accomplishments:

- Issued a Final Rule on January 12, 2021, updating the Federal Manufactured Home Construction and Safety Standards based upon the third group of recommendations from the Manufactured Housing Consensus Committee (MHCC) to HUD. The rule achieved significant improvements to the HUD Code, aligning with more current industry standards such as the provision of carbon monoxide detectors, and eliminating the need for burdensome Alternative Construction approvals for certain design features that enable design flexibility for innovative concepts such as two-story homes, attached (townhome style) homes, attached garages and attached carports. OMHP continued to collaborate with the manufactured housing industry throughout FY 2021, holding multiple, virtual discussions for further improvements to the HUD Code.

- Published a Final Rule on Minimum Payments to States on November 12, 2020, to improve upon previous regulations to work towards more equitable and reasonable distributions of state payments, strengthening the HUD-state partnerships.

- Published an Advance Notice of Proposed Rulemaking (ANPR) for state payments along with the Final Rule on November 12, 2020, to solicit feedback from stakeholders to support HUD's intention to further streamline and enhance the minimum payments formula to produce more equitable distributions in subsequent rulemaking.

OMHP'S MISSION AND OBJECTIVES ARE TO:



<u>Execute responsible regulation</u> and <u>solutions-oriented oversight and</u> monitoring of the manufactured housing industry nationwide;

Preserve and promote the <u>quality, durability, safety, and affordability</u> of manufactured homes;

<u>Facilitate the availability</u> of affordable manufactured homes and <u>increase homeownership</u> for all Americans, including the underserved;

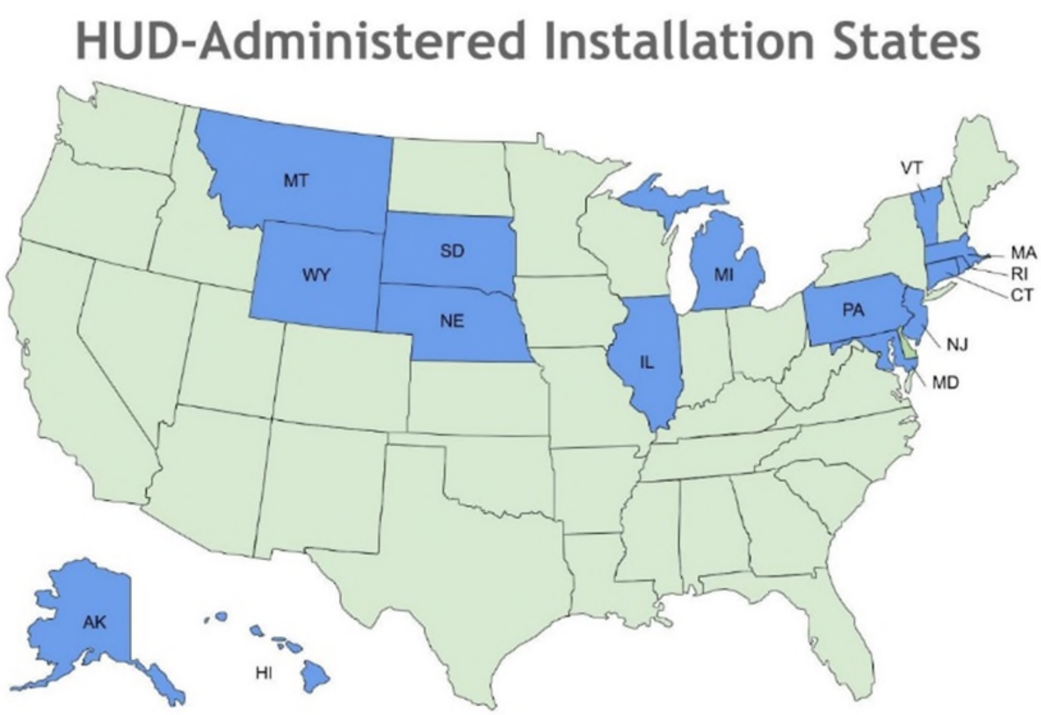
<u>Establish Federal construction standards</u> for manufactured homes that are practical, uniform, and as possible, performance-based;

<u>Encourage innovation and cost-effective construction techniques</u> for manufactured homes; and

<u>Protect residents</u> of manufactured homes with respect to personal injuries, insurance costs and property damages in manufactured housing.

SUCCESS STORY

In FY 2021, OMHP successfully completed a highly complicated, multi-year effort to resolve a large collection of complaints submitted to HUD from a manufactured home community in the Northeast. In 2018, HUD received over 130 complaints from several homeowners in the community regarding water infiltration and other problems occurring after their homes were installed. OMHP conducted a thorough investigation and validated numerous issues related to home manufacturer defects and installation errors. The Office ultimately launched a complex correction campaign that covered 102 homes in the community. Working diligently with the homeowners, manufacturer, community management/owner, and local code officials, OMHP ensured that all 102 homes were fully assessed, repaired, and inspected. In addition, OMHP provided guidance to the local code authority concerning the requirements of the Federal manufactured home installation program, ensuring that manufactured homes will be inspected in the future and work would be completed by HUD-licensed installers.



COVID-19 NATIONAL EMERGENCY EFFORTS AND HIGHLIGHTS

The COVID-19 National Emergency significantly impacted the operations of the manufactured housing industry in FY 2021, particularly from material supply chain disruptions and labor workforce constraints. At its peak, the pandemic resulted in the closure of up to 32 manufacturing plants due to outbreaks. To tackle these challenges, in FY 2021 OMHP:

- Addressed COVID-19 National Emergency-related supply chain disruptions by issuing industry-wide Alternative Construction letters for manufactured housing windows, 25-amp circuit breakers, and exterior doors, facilitating continued and increased production levels of manufactured homes nationwide.
- Extended the renewal period for manufactured housing installer licenses expiring by December 31, 2020, to ensure continued manufactured home installation activity in states and address limitations imposed by travel and group gathering restrictions due to the COVID-19 National Emergency.

OMHP also provided prioritized support for the manufactured housing industry by:

- Implementing expedited processing for letters addressing COVID-19 National Emergency issues;
- Developing innovative procedures to enable contractors to conduct safe, remote audits in manufacturing plants; and
- Fully utilizing electronic processes for seamless continuation of all program operations.

With travel also constrained by the pandemic, OMHP staff, inspection contractor personnel, and manufacturers quickly responded by developing innovative, electronic procedures to maintain an effective and productive schedule of inspections, audits, and record reviews.

OFFICE OF OPERATIONS

OFFICE OF OPERATIONS

"Mission First, People Always!" The Office of Housing Operations performs a wide variety of functions that facilitate and support the Federal Housing Administration (FHA) and Office of Housing efforts. The ongoing Covid-19 National Emergency has demonstrated the importance of our work, and the need to adapt as we help ensure that the Housing Program Areas have the resources and services they need in order to meet their respective missions. To that end, we provide guidance, processing assistance, as well as a myriad of coordination efforts that allow the Office of Housing and FHA to meet their mandates and missions.

Anthony B. Reeves **Deputy Assistant Secretary | Office of Operations**

OVERVIEW

The Office of Housing Operations provides resources and services that are essential to meet the goals, objectives, and mission of the Office of Housing and FHA programs. Housing Operations also acts as the principal advisor to the Assistant Secretary for Housing-Federal Housing Commissioner for operational matters, including but not limited to: procurement oversight and management, human resource management services, space-planning, technology application and travel oversight. Additionally, on behalf of the Office of Housing and FHA, Housing Operations coordinates oversight of: training for Office of Housing personnel, Freedom of Information Act (FOIA) responses, controlled correspondence responses, web content, records management, and compliance with the Paperwork Reduction Act as well as the Privacy Act. Housing Operations also coordinates the Housing Continuity of Operations (COOP) efforts for Housing's Mission Essential Functions (MEFs). Finally, Housing Operations facilitates the Office of Housing and FHA's compliance with the National Environmental Policy Act requirements through the Housing Program Environmental Clearance Officer (PECO) efforts.

FISCAL YEAR 2021 PORTFOLIO AND PERFORMANCE HIGHLIGHTS

Completed the FY 2022 Annual Strategic Acquisition Plan (ASAP) August 26, 2021 which projects Housing's acquisition needs in FY 2022

Managed performance management process, including the awards program for just over $7.9 Million in FY 2021

Facilitated 720 training sessions for just under $1 Million in FY 2021

OFFICE OF OPERATIONS PROGRAM OFFICES

Headquartered in Washington, D.C., Office of Operations is led by the Deputy Assistant Secretary for Operations Programs, and includes the following areas:

- ***Housing Continuity of Operations (COOP):*** Create opportunities for the Office of Housing to enhance Housing's COOP Implementation strategies and to ensure that Housing's continuity footprint is a resilient one to carry out our six Mission Essential Functions and twenty-six Essential Supporting Activities.
- ***Environmental Officer:*** Housing Program Environmental Clearance Officer ensures that Housing programs, policies and projects comply with the National Environmental Policy Act (NEPA) and HUD environmental regulations.
- ***Employee Engagement Team:*** Provides leadership, guidance, and training on employee engagement for the office of Housing. Analyzes the Federal Employee Viewpoint Survey (FEVS) and provides recommendations on engagement, morale, and culture improvement initiatives.
- ***Employee Support Services Division:*** Manages talent acquisition, performance, time & attendance, employee & labor relations, and Equal Employment matters.
- ***Procurement Management Division:*** Provides contract services and portfolio analysis, quality assurance, and contract close- out.
- ***Organizational Policy, Planning and Analysis Division:*** Facilitates Directives clearance, Paperwork Reduction Act – Privacy Act, and training.
- ***Administrative Support Services Division:*** Manages travel, space, parking, and office supplies.
- ***Communications and Marketing Division:*** Manages records management process, Freedom of Information Act, correspondence, and marketing.
- ***Systems and Technology Division:*** Manages web content, SharePoint development, application development, and technology resources.

FISCAL YEAR 2021 PORTFOLIO AND PERFORMANCE HIGHLIGHTS

In addition to the above activities, other actions of note in direct support of FHA by Housing Operations included:

- Responded to 118 Multifamily FHA environmental questions via the Multifamily Accelerated Processing (MAP) Ask A Question (AAQ) portal from April 2021 to date.
- Represented FHA on HUD's Climate and Environmental Justice Working Group and coordinated FHA submissions to HUD's Climate Action Plan.
- Provided project specific environmental guidance for Multifamily and Healthcare FHA projects in FY 2021 to date.
- Prepared and delivered three webinars for Multifamily FHA on the 2020 Multifamily MAP Guide environmental requirements: Chapter 9 overview; Radon; and Section 106 Delegation Memo to date in FY 2021.
- Developed and implemented Standard Operating Procedures (SOP) including guidance written for FHA records and information management program.
- Developed and submitted records and systems disposition plans for FHA.
- Conducted FHA's inventory of automated systems and began the Privacy Impact Assessments (PIA) for these systems.
- Utilized Housing's TransAccess Services (HTS) to help FHA meet the requirements in M-19-21-Transiting to Electronic Records by December 31, 2022.

ANALYSIS OF FINANCIAL STATEMENTS

ANALYSIS OF FINANCIAL STATEMENTS

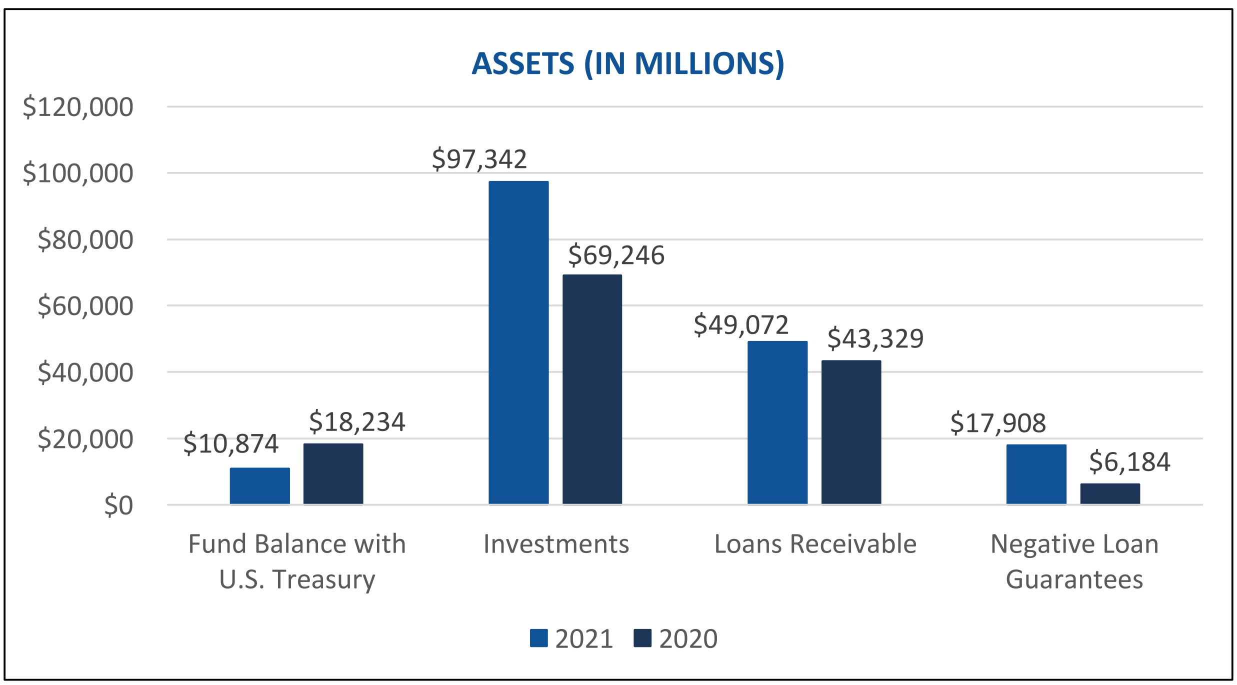
This section presents a summary of FHA's financial statements. These financial statements were prepared in accordance with Generally Accepted Accounting Principles (GAAP) for Federal entities, Federal Accounting and Standards Advisory Board (FASAB) standards and concepts statements as applicable to programs operating under the Federal Credit Reform Act (FCRA) of 1990, as amended, and in accordance with the requirements specified in the Office of Management and Budget's Circular A-136, Financial Reporting Requirements (Revised). FHA's management is responsible for the integrity and objectivity of the financial information presented in the financial statements.

OVERVIEW OF FINANCIAL POSITION

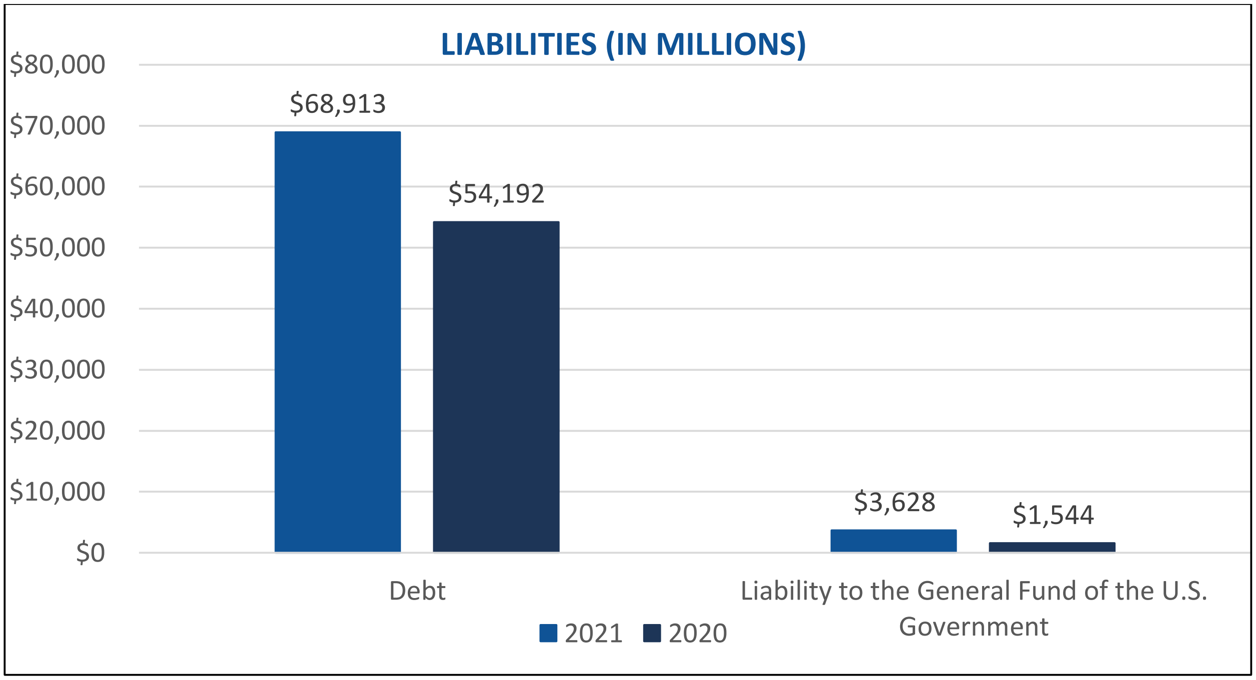
A summary of FHA's change in financial position from fiscal year 2020 to fiscal year 2021 is presented in the following sections on Assets and Liabilities, Net Cost, and Budgetary Resources.

ASSETS AND LIABILITIES

FHA's balance sheet assets primarily consist of fund balances with the U.S. Treasury, investments, loan receivables, and negative loan guarantees[4], while the liabilities consist mostly of debt to the U.S. Treasury and liabilities to the General Fund of the U.S. Government. The nature of FHA's business requires it to carry, or acquire through borrowing, the funds needed to make claim payments on defaulted guaranteed loans. Additionally, FHA must transfer subsidy expense and credit subsidy re-estimates under the requirements of FCRA. These subsidy transfers to the capital reserve fund are invested in U.S. Treasury Securities. The subsidy expense and re-estimate calculations are based on assumptions regarding future premium collections, prepayments, claims, and recoveries on credit program assets. On that basis, FHA's fund balances with the U.S. Treasury, investments, and debt can fluctuate significantly depending largely on economic and market conditions and customer demand.



[4] *On FHA's Balance Sheet, the negative loan guarantees are reported as part of Loans Receivable, net.*



Total assets increased by $38,668 million during fiscal year 2021. This increase was primarily due to a $28,096 million increase in investments, an $11,724 million increase in negative loan guarantees, a $5,743 million increase in loans receivable, and a $420 million increase in accounts receivable. The $28,096 million increase in investments resulted from transfers in fiscal year 2021 of fund balance from a net downward LLG re-estimate and negative subsidy to the capital reserve fund. The differences in the negative loan guarantees are described in the next section. The $5,743 million increase in loans receivable is mostly attributable to an increase in HECM loans receivable. Increases in Single Family Forward loans receivable and Federal Financing Bank direct loans receivable also contributed to the overall increase. Fund Balance with Treasury decreased by $7,360 million due primarily to uninvested funds being converted to Investments. Total liabilities increased by $16,758 million, primarily due to increases of $14,271 million in debt and of $2,084 million in the Liability to the General Fund of the U.S. Government. Debt increased in fiscal year 2021 to make cash available to cover transfers of the previous year's net downward re-estimate and negative subsidy, as well as make claim payments. The Liability to the General Fund of the U.S. Government increased due to an increase in the GI/SRI downward re-estimate liability and negative subsidy in fiscal year 2021.

NEGATIVE LOAN GUARANTEES

FHA reported net negative loan guarantee in fiscal years 2021 and 2020. Negative loan guarantees occur when the liability for loan guarantees reflects a positive net present value (projected cash inflows are greater than cash outflows). A negative loan guarantee is presented as an asset on the financial statements. As such, FHA's liability for loan guarantees or net negative loan guarantees were reported as an asset on the Balance Sheet under Loans Receivable, net. The net negative loan guarantee is an indication that FHA's mortgage insurance programs are generally profitable for the U.S. government.

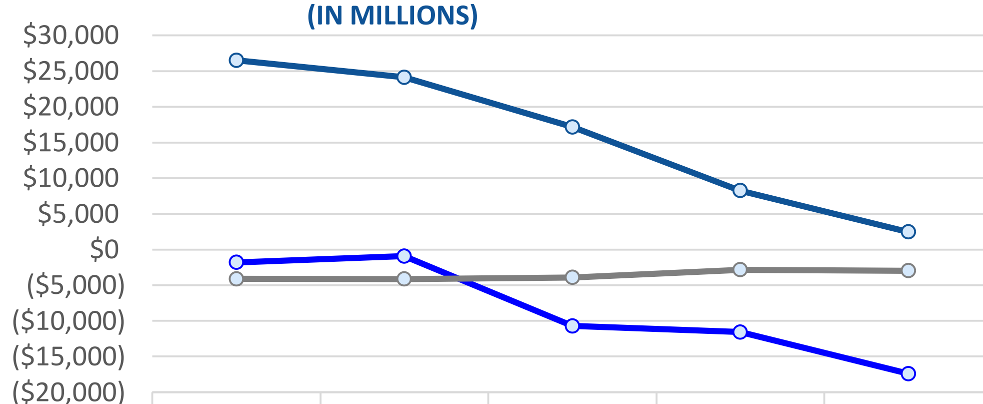
FHA's liability for loan guarantees or net negative loan guarantees represents the present value of anticipated cash outflows, such as claim payments, premium refunds, property expense for on-hand properties, and sales expense for sold properties; less the present value of anticipated cash inflows, such as premium receipts, proceeds from property and note sales, and principal and interest on Secretary-held notes.

Liability for Loan Guarantees (Negative Loan Guarantees) (Dollars in Millions)				
	FY2021	FY2020	Difference	% Change
Single Family Forward	(17,405)	(11,567)	(5,838)	50%
HECM	2,457	8,232	(5,775)	-70%
Multifamily/Healthcare	(2,960)	(2,849)	(111)	4%
Total	**(17,908)**	**(6,184)**	**(11,724)**	**190%**

The $5,838 million Single Family Forward LLG decrease and the $5,775 million HECM LLG liability decreases were mostly due to changes in the actuarial methodology, more favorable economic forecasts, and changes in actual loan performance in the MMI fund. There were also liability decreases in the LLG estimates in the GI/SRI funds for Single Family Forward and HECM that contributed to the overall decrease in those program areas.

For Multifamily/Healthcare, the $111 million decrease in the LLG occurred mostly in the GI/SRI funds. The LLG estimates for the Section 223(f) and Section 223(a)(7) programs decreased by $74 million and $6 million, respectively, due to lower prepayment expectations and higher insurance-in-force. There were also decreases in the LLG estimates for the Section 242 program of $53 million due to lower claim and prepayment expectations, and the Section 232 Healthcare Purchasing or Refinancing program of $10 million due to higher premium revenue. These decreases were offset by increases in the LLG estimates of $31 million for the Section 221(d)(4) program due to higher claim projections and $13 million for the Section 232 Healthcare New Construction program due to higher claim projections and lower insurance-in-force.

LIABILITY FOR LOAN GUARANTEES (NEGATIVE LOAN GUARANTEES)
(IN MILLIONS)



	2017	2018	2019	2020	2021
Single Family Forward	($1,786)	($921)	($10,725)	($11,567)	($17,405)
HECM	$26,519	$24,147	$17,182	$8,232	$2,457
Multifamily/Healthcare	($4,125)	($4,120)	($3,889)	($2,849)	($2,960)

NET COST/SURPLUS

In fiscal year 2021, FHA reported a net surplus of $24,683 million. The most significant contributor to FHA's net surplus was gross costs with the public, which consists primarily of subsidy expense and re-estimate expense associated with the LLG. Pursuant to the accounting principles established based on the FCRA, FHA records subsidy expense when a loan is guaranteed and when the LLG is re-estimated at the end of the fiscal year. The increase in FHA's net surplus from 2020 to 2021 was mainly due to an increase in negative subsidy in fiscal year 2021.

Schedule of Net Cost/Surplus
(Dollars in Millions)

	FY2021	FY2020	Difference	% Change
Program Cost/Surplus	(23,560)	(18,327)	(5,233)	29%
Less: Program Revenues	1,123	2,106	(983)	-47%
Net Cost/Surplus	**(24,683)**	**(20,433)**	**(4,250)**	**21%**

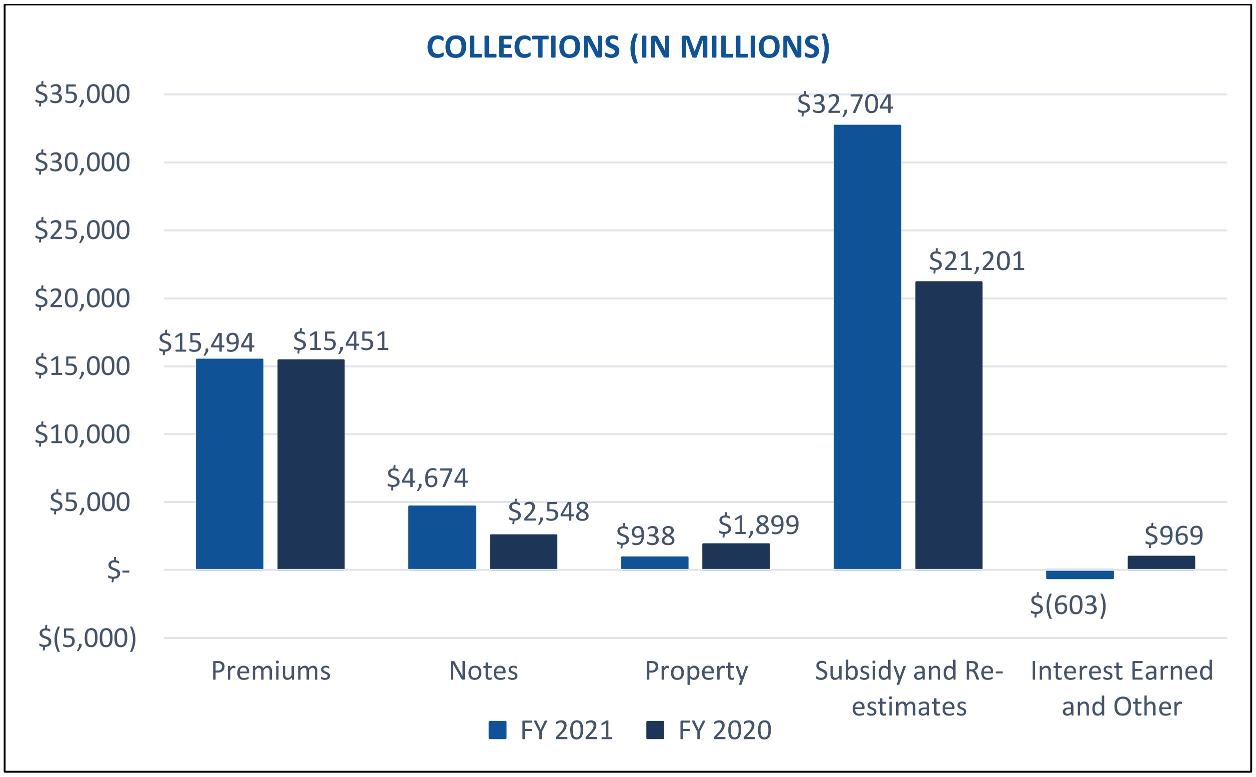
BUDGETARY RESOURCES

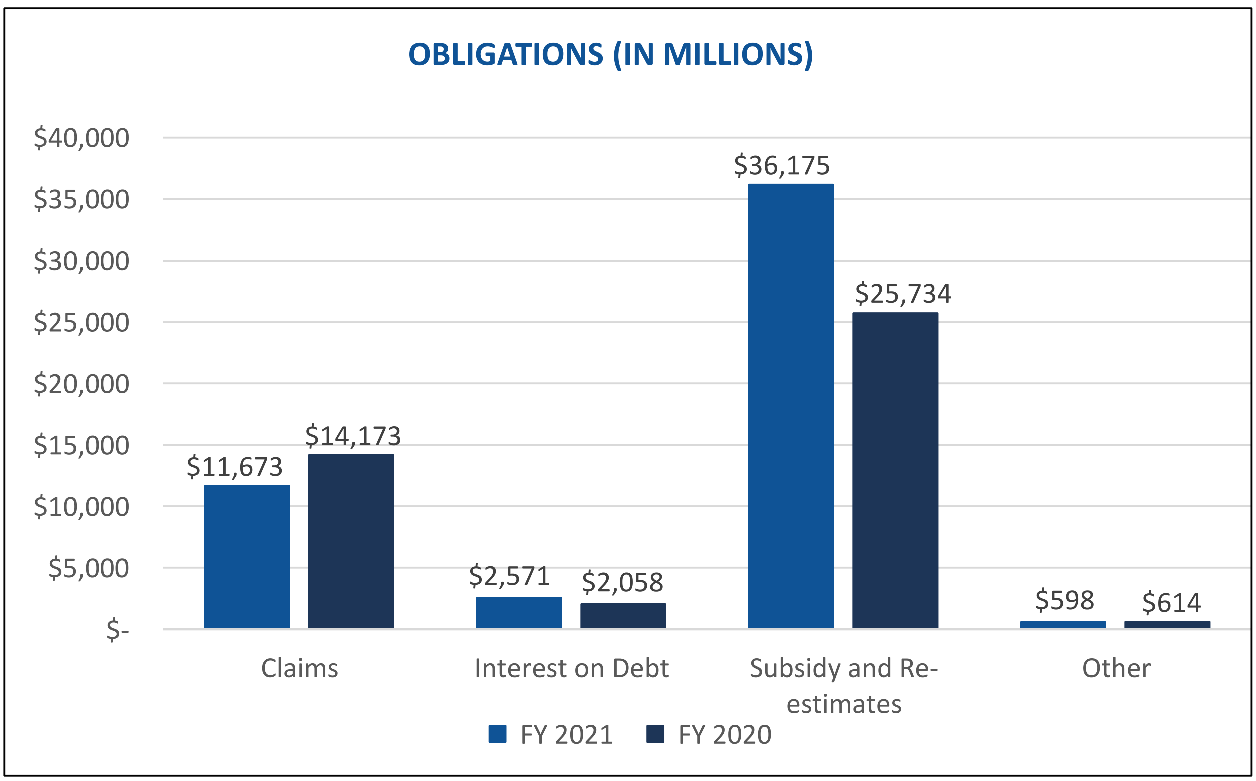
FHA finances its operations through a combination of appropriated funds, debt to the U.S. Treasury, spending authority from offsetting collections, and unexpired prior-year unobligated balances brought forward. Spending authority from offsetting collections includes collections of premiums and fees, sales proceeds from credit program assets, and credit subsidy transferred between different FHA accounts.

FHA's budgetary resources are increased by Appropriations, Borrowing authority, and Spending authority from offsetting collections. The $1,205 million increase in appropriations in fiscal year 2021 was primarily due to the GI/SRI re-estimate that projected more funds would be needed for future cash flows. Borrowing authority decreased by $2,043 million in fiscal year 2021 because a smaller amount of borrowing authority was required to maintain liquidity in FHA's financing funds. For Spending authority from offsetting collections, the increase of $6,165 million in fiscal year 2021 resulted primarily from an increase in negative subsidy disbursed from the MMI financing fund to the capital reserve fund.

Budgetary Resources (Dollars in Millions)				
	FY2021	FY2020	Difference	% Change
Unobligated Balance from prior year budget authority, net	$ 84,387	$ 61,799	$ 22,588	37%
Appropriations (discretionary and mandatory)	2,152	947	1,205	127%
Borrowing authority (discretionary and mandatory)	21,393	23,436	(2,043)	-9%
Spending authority from offsetting collections (discretionary and mandatory)	46,405	40,240	6,165	15%
Total	**$ 154,337**	**$ 126,422**	**$ 27,915**	**22%**

These resources were used to cover the fiscal year 2021 obligations totaling $51,017 million. Obligations included subsidy/re-estimate costs, claim payments on defaulted guaranteed loans, interest on borrowings, and other obligations. These obligations were offset by FHA collections received in fiscal year 2021 totaling $53,207 million, which included premiums, notes, property, subsidy/re-estimate, and interest earned from U.S. Treasury and other collections. Interest earned from U.S. Treasury was negative in fiscal year 2021 because investments were purchased at a premium.


COLLECTIONS (IN MILLIONS)
$35,000
$30,000
$25,000
$20,000
$15,000
$10,000
$5,000
$-
$(5,000)
$15,494
$15,451
$4,674
$2,548
$938
$1,899
$32,704
$21,201
$(603)
$969
Premiums
Notes
Property
Subsidy and Re-estimates
Interest Earned and Other
FY 2021
FY 2020


OBLIGATIONS (IN MILLIONS)
$40,000
$35,000
$30,000
$25,000
$20,000
$15,000
$10,000
$5,000
$-
$11,673
$14,173
$2,571
$2,058
$36,175
$25,734
$598
$614
Claims
Interest on Debt
Subsidy and Re-estimates
Other
FY 2021
FY 2020

SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

SYSTEMS, CONTROLS AND LEGAL COMPLIANCE

FHA continues to maintain and improve its overall financial management and system control environment by addressing areas identified through regular self-assessments, management reviews and independent auditor's reviews.

FHA COMPLIANCE WITH OMB CIRCULAR A-123, MANAGEMENT'S RESPONSIBILITY FOR ENTERPRISE RISK MANAGEMENT AND INTERNAL CONTROL

Management is responsible for managing risks and maintaining effective internal controls to meet the objectives of Sections 2 and 4 of the FMFIA. Housing/FHA conducted its assessment of risk and internal control in accordance with OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. To comply with the requirements in OMB Circular A-123, an internal control certification statement is provided to the Chief Financial Officer by the Department's Assistant Secretaries to support the overall statement from the Secretary. Annually, Housing/FHA prepares an Internal Control Assurance Statement. This statement attests to whether Housing:

- Is in compliance with Sections 2 and 4 of the Federal Manager's Financial Integrity Act
- Systems generally comply with the requirements of the Federal Information Security Management Act (FISMA) requirements, Appendix III of OMB's Circular A-130, "Management of Federal Information Resources", and FFMIA Appendix D of OMB Circular A-123.

Based on the results of the assessment, FHA can provide reasonable assurance that its internal controls over operations, reporting, and compliance were operating effectively as of September 30, 2021, except for the following material weakness:

- Certain control weaknesses over financial reporting

In addition, FHA conducted its assessment of the effectiveness of internal control over financial reporting in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this evaluation, FHA can provide reasonable assurance with the exception of one material weakness identified above that its internal control over financial reporting as of September 30, 2021 was operating effectively.

Fiscal Year 2021

Annual Assurance Statement

The Federal Housing Administration's (FHA) management is responsible for managing risks and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). FHA conducted its assessments of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control.*

Based on the results of these assessments, FHA provides a qualified assurance that its internal controls over financial reporting were operating effectively as of September 30, 2021, with the exception of one material weakness surrounding certain controls over financial reporting. Other than the noted exception, no other material weaknesses were found in the design or operation of the internal controls over financial reporting.

LOpal Kolluri

Principal Deputy Assistant Secretary for
Housing and the Federal Housing Administration

FHA COMPLIANCE WITH OMB CIRCULAR A-123, FINANCIAL MANAGEMENT SYSTEMS

FHA's management has reviewed FHA's core financial system and sixteen financial and mixed financial systems for compliance with the OMB Circular A-123 "Management's Responsibility for Enterprise Risk Management and Internal Control," and the Federal Financial Management Improvement Act (FFMIA) Compliance Determination Framework. Management has concluded that FHA's core financial system complies with the Federal Financial Management system requirements and applicable accounting standards and maintenance of the U.S. Standard General Ledger at the transaction level. FHA's sixteen financial and mixed financial and program systems are integrated with the core financial system through extensive electronic interfaces. Operating interdependently, these financial systems taken together are substantially in compliance with FFMIA and OMB Circular A-123 requirements.

The Office of the Housing FHA Comptroller continuously monitors all FHA accounting and financial operations through weekly management meetings and through exception reporting for operational problems identified by managers and staff. FHA has sustained program operations with its current systems through significant changes in its mortgage insurance operations to implement the goals of FHA. Included in the Annual Performance Plan is the priority to strengthen HUD's internal institutional capacity to deliver on its mission. This priority focuses on financial transformation and modernizing information technology. FHA will continue investment initiatives to modernize our outdated IT systems by focusing on the implementation of an enterprise-wide solution. The goal is to improve the quality and efficiency of FHA's data. The move to an enterprise-wide solution will allow program offices to better collaborate across silos, make better housing decisions, and use accurate data.

To track the progress towards this objective, one of the performance indicators that HUD will use is the number of enterprise-wide IT solutions that are implemented to streamline manual or cumbersome processes.

FHA management recognizes that its systems must continue to meet advancing standards and new expectations for efficiency and flexibility of operations. In the fiscal year 2021 budget, FHA received an additional $20 million appropriation from Congress for IT modernization, in addition to the $40 million in appropriations from fiscal years 2020 and 2019. With this funding, FHA has made significant progress in its multi-year development effort to modernize its technology systems, starting with the technology used for its Single Family insurance programs. Called FHA Catalyst, the initiative is progressing toward the goal of a secure, single cloud-based portal accessible by participants in the FHA program. When complete, FHA Catalyst will allow FHA program participants to conduct a full suite of transactions, from loan application to claims, including premium collections.

FISCAL YEAR 2021 FINANCIAL STATEMENTS AUDIT FINDINGS

The Office of the Inspector General has identified one material weakness in the Internal Control Report for FHA's FY 2021 financial statement audit. The OIG noted in its finding that FHA recorded and invested an excess of credit subsidy associated with Home Equity Conversion Mortgages (HECM) loan endorsements and had weaknesses in controls over financial reporting. Specifically, the OIG noted that FHA incorrectly recorded excess subsidy for HECM loan endorsements that resulted in an overstatement of subsidy funds being transferred from the Mutual Mortgage Insurance Financing Fund to the Capital Reserve account for investment, in which FHA improperly earned interest revenue. In addition, FHA's borrowings were overstated, resulting in the payment of unnecessary interest expense.

Management has already taken steps to resolve this finding and to strengthen controls around this process.

PAYMENT INTEGRITY INFORMATION ACT REPORTING

In accordance with the Payment Integrity Information Act of 2019 (PIIA), OMB Memorandum M-21-19 dated March 5, 2021, and the OMB Circular No. 123, Appendix C, Requirements for Payment Integrity Improvement, FHA performed its improper payments estimation and risk assessment for fiscal year 2021. Based on a three-year cycle, the following FHA disbursements programs were reviewed for fiscal year 2021.

- Single Family Insurance Claims (SFIC)
- Multi-Family Insurance Claims (MFIC)
- Multi-Family Notes
- Multi-Family Premium Refunds
- Other Disbursements

During fiscal year 2021, limited risk assessments were conducted on the above programs and determined that these programs were low risk. Additionally, the review of these programs showed no significant changes to processes by which the disbursements were processed, leading to the conclusion that these disbursement programs are not susceptible to improper payments. FHA also performed analysis of Do Not Pay initiatives and found no significant incidence of erroneous payments.

FHA's recovery auditing program is part of its overall program of effective internal control over disbursements. Internal control policies and procedures establish a system to monitor improper payments and their causes and include controls for preventing, detecting, and recovering improper payments. In addition, FHA has taken specific actions to develop and regularly generate a report that identifies potential duplicate disbursements, researching questionable disbursements and initiating recovery actions for payments deemed to be improper.

FHA has established a payment recapture processes for its claim disbursement systems and an extensive debt collection program to recover overpayments.

Additional information about payment integrity can be found in HUD'S FY 2021 Annual Financial Report.

LIMITATIONS OF FINANCIAL STATEMENTS

The principal financial statements are prepared to report the financial position, financial condition, and results of operations, pursuant to the requirements of 31 U.S.C. § 3515(b). The statements are prepared from records of Federal entities in accordance with Federal generally accepted accounting principles (GAAP) and the formats prescribed by OMB. Reports used to monitor, and control budgetary resources are prepared from the same records. Users of the statements are advised that the statements are for a component of the U.S. Government.

PRINCIPAL FINANCIAL STATEMENTS

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MESSAGE FROM THE DEPUTY ASSISTANT SECRETARY FOR FINANCE AND BUDGET

DECEMBER 6, 2021

I am pleased to present the Federal Housing Administration (FHA) Annual Management Report, which includes the Principal Financial Statements for the fiscal year (FY) ending September 30, 2021. On the heels of the worst pandemic to ever hit the United States, the Office of Finance and Budget stepped up to the challenge of providing seamless financial management services to stakeholders. We continued to maintain a high level of customer service response time, timely budget formulation and execution, and strong financial management practices and controls in support of the Federal Housing Administration's (FHA) mission and fiscal responsibilities.

Our financial management framework has resulted in FHA attaining an unmodified (clean) audit opinion for the past fiscal year. However, during the FY 2021 audit, FHA's financial statement auditors identified one material weakness and one significant deficiency. The material weakness relates to controls surrounding financial reporting. The significant deficiency relates controls surrounding cash flow modeling. FHA leadership has already initiated steps to resolve these findings. Our focus in FY 2022 will be to resolve these deficiencies in addition to enhancing our processes to ensure we continue to maintain a strong internal control framework.

HIGHLIGHTS OF TRANSFORMATION WORK COMPLETED IN FY 2021:

- Implemented FHA Catalyst: Servicing Module. On January 19, 2021, the first functionality from the FHA Catalyst: Servicing Module was successfully released as part of the HUD Information Technology Modernization initiative. This is the first time the data from two modules (origination and servicing) were joined within FHA Catalyst, laying the groundwork for eliminating redundant information submission and allowing access to case level data through one application.
- Continued implementation of FHA Catalyst: Claims Module. Further development of the FHA Catalyst Claims Module technology allows mortgage servicers to electronically submit claim data for FHA's Single Family forward mortgage programs. The new technology allows lenders to utilize one platform for claim submission and monitoring and eliminates a manual, labor-intensive process for servicers and FHA.

- Prioritized the reduction of audit findings. In FY 21, the Office of Housing closed 96 open audit recommendations. As of the end of FY 21, the Office has 145 open recommendations, which is the lowest level of open recommendations in over 5 years. The Office was able to reduce its open audit recommendations by 50% from the prior fiscal year.
- Implemented revised U.S. Department of the Treasury accounting guidance to reflect new credit reform requirements for financial reporting within the financial statements.

FY 2021 FHA FINANCIAL HIGHLIGHTS IN BRIEF:

- Endorsed more than $342 billion of Single Family forward mortgages in FY 2021, an increase from $310 billion in FY 2020. This increase in volume resulted in $13.8 billion of mortgage insurance premiums collected, $300 million more than in FY 2020.
- Endorsed over $29 billion in Multifamily loans, a 56 percent increase over FY 2020.
- Issued firm commitments of approximately $6.2 billion in Hospital and Residential Care Facility loans, 35 percent more than the commitment volume of FY 2020.
- Exceeded the two percent Mutual Mortgage Insurance Fund capital ratio requirement mandated by Congress.
- Conducted one direct sale to a unit of local government and its nonprofit partner. This was the first forward note sale since 2016.
- Conducted a nonprofit conference aimed at expanding sale opportunities for non-profits.

The Office of Finance and Budget would not be able to meet its mission and achieve results without the collaboration, hard work and dedication of the FHA staff. I am proud of the commitment and effort exhibited by the team toward advancing FHA's excellence in financial management and looking forward to continuing this success in the coming year.

Susan A. Betts
Deputy Assistant Secretary
for Finance and Budget

FEDERAL HOUSING ADMINISTRATION
(AN AGENCY OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT)
CONSOLIDATED BALANCE SHEET
As of September 30, 2021 and 2020
(Dollars in Millions)

	FY 2021	FY 2020
ASSETS		
Intragovernmental		
Fund Balance with U.S. Treasury (Note 3)	$ 10,874	$ 18,234
Investments (Note 5)		
Federal Investments	96,842	68,923
Interest Receivable - Investments	500	323
Total Intragovernmental	$ 108,216	$ 87,480
Cash and Other Monetary Assets (Note 4)	$ 77	$ 32
Accounts Receivable, net (Note 6)	1,311	891
Loans Receivable, net (Note 7)		
Loans Receivable	49,072	43,329
Negative Loan Guarantees	17,908	6,184
TOTAL ASSETS	**$ 176,584**	**$ 137,916**
LIABILITIES		
Intragovernmental		
Accounts Payable (Note 8)	$ 1	$ 2
Debt (Note 9)		
Interest Payable - Loans and Not Otherwise Classified	6	6
Loans Payable	68,907	54,186
Other Liabilities (Note 10)		
Liability to the General Fund of the U.S. Government for custodial and other non-entity assets	3,628	1,544
Total Intragovernmental	$ 72,542	$ 55,738
Accounts Payable (Note 8)	$ 753	$ 779
Advances from others and deferred revenue	290	315
Other Liabilities (Note 10)	155	150
TOTAL LIABILITIES	**$ 73,740**	**$ 56,982**
Commitments and Contingencies (Note 12)		
NET POSITION		
Unexpended Appropriations	$ 535	$ 524
Cumulative Results of Operations	102,309	80,410
TOTAL NET POSITION	**$ 102,844**	**$ 80,934**
TOTAL LIABILITIES AND NET POSITION	**$ 176,584**	**$ 137,916**

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, 2021 and 2020
(Dollars in Millions)

PROGRAM COSTS	FY 2021	FY 2020
Single Family Forward		
Intragovernmental Gross Costs	$ 876	$ 668
Less: Intragovernmental Earned Revenue	523	919
Intragovernmental Net Costs	$ 353	$ (251)
Gross Costs With the Public	$ (17,278)	$ (11,987)
Less: Earned Revenues	4	4
Net Costs With the Public	$ (17,282)	$ (11,991)
Single Family Forward Net Cost (Surplus)	$ (16,929)	$ (12,242)
HECM		
Intragovernmental Gross Costs	$ 1,429	$ 1,128
Less: Intragovernmental Earned Revenue	311	680
Intragovernmental Net Costs	$ 1,118	$ 448
Gross Costs With the Public	$ (8,958)	$ (9,685)
Net Costs With the Public	$ (8,958)	$ (9,685)
HECM Net Cost (Surplus)	$ (7,840)	$ (9,237)
Multifamily		
Intragovernmental Gross Costs	$ 231	$ 216
Less: Intragovernmental Earned Revenue	106	60
Intragovernmental Net Costs	$ 125	$ 156
Gross Costs With the Public	$ (536)	$ 477
Less: Earned Revenues	150	407
Net Costs With the Public	$ (686)	$ 70
Multifamily Net Cost (Surplus)	$ (561)	$ 226
Healthcare		
Intragovernmental Gross Costs	$ 36	$ 45
Less: Intragovernmental Earned Revenue	29	33
Intragovernmental Net Costs	$ 7	$ 12
Gross Costs With the Public	$ (215)	$ (31)
Less: Earned Revenues	$ -	4
Net Costs With the Public	$ (215)	$ (35)
Healthcare Net Cost (Surplus)	$ (208)	$ (23)
Administrative and Contract Expenses		
Intragovernmental Gross Costs	$ 255	$ 232
Intragovernmental Net Costs	$ 255	$ 232
Gross Costs With the Public	$ 599	$ 609
Net Costs With the Public	$ 599	$ 609
Adminstrative and Contract Net Cost (Surplus)	$ 854	$ 841
Net Cost of Operations	**$ (24,684)**	**$ (20,435)**

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, 2021 and 2020

(Dollars in Millions)

	2021	2020
Unexpended Appropriations		
Beginning Balance	$ 524	$ 499
Appropriations Received	2,152	947
Other Adjustments (Recissions, etc)	(18)	(17)
Appropriations Used	(2,123)	(905)
Net Change in Unexpended Appropriations	$ 11	$ 25
Total Unexpended Appropriations	**$ 535**	**$ 524**
Cumulative Results of Operations		
Beginning Balance	80,410	60,866
Changes in Accounting Principles	-	320
Beginning Balance, As Adjusted	$ 80,410	$ 61,186
Appropriations Used	2,123	905
Transfers In/Out Without Reimbursement	714	714
Imputed Financing	16	14
Other	(5,638)	(2,844)
Net Cost of Operations	$ 24,684	$ 20,435
Net Change in Cumulative Results of Operations	$ 21,899	$ 19,224
Cumulative Results of Operations: Ending	102,309	80,410
Net Position	**$ 102,844**	**$ 80,934**

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, 2021
(Dollars in Millions)

	Budgetary	Non-Budgetary Credit Reform Financing Account	Total
Budgetary Resources:			
Unobligated balance from prior year budget authority, net (discretionary and mandatory) (Note 20)	$ 69,066	$ 15,321	$ 84,387
Appropriations (discretionary and mandatory)	2,152	-	2,152
Borrowing authority (discretionary and mandatory)	-	21,393	21,393
Spending authority from offsetting collections (discretionary and mandatory)	26,534	19,871	46,405
Total budgetary resources	**$ 97,752**	**$ 56,585**	**$ 154,337**
Status of Budgetary Resources:			
New Obligations and upward adjustment (total)	$ 5,142	$ 45,875	$ 51,017
Unobligated balance, end of year			
Apportioned, unexpired accounts	57	2,571	2,628
Unapportioned, unexpired accounts	92,487	8,139	100,626
Unexpired unobligated balance, end of year	92,544	10,710	103,254
Expired unobligated balance, end of year	65	-	65
Unobligated balance, end of year	92,610	10,710	103,320
Total budgetary resources	**$ 97,752**	**$ 56,585**	**$ 154,337**
Outlays, Net:			
Outlays, net (discretionary and mandatory)	$ (21,198)	$ -	$ (21,198)
Distributed offsetting receipts (-)	(3,429)	-	(3,429)
Agency outlays, net (discretionary and mandatory)	**$ (24,627)**	**$ -**	**$ (24,627)**
Disbursements, Net (Total) (mandatory)	**$ -**	**$ 19,095**	**$ 19,095**

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)

	Budgetary	Non-Budgetary Credit Reform Financing Account	Total
Budgetary Resources:			
Unobligated balance from prior year budget authority, net (discretionary and mandatory) (Note 20)	$ 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
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)
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.

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

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. 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 first-time, low-income, and disadvantaged borrowers. 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 homeownership; 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 (MMI) fund, 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 (CMHI) fund, another mutual fund, provides mortgage insurance for management-type cooperatives. The General Insurance (GI) fund, 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 (SRI) fund 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 intended to combat 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*. In addition, the accompanying principal financial statements have been prepared to report the financial position, net cost, changes in net position, and budgetary resources of FHA in accordance with OMB Circular A-136, *Financial Reporting Requirements*.

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 statement of changes in net position. The Status of Budgetary Resource (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. Recoveries include fees and penalties, settlement agreements with mortgagees, collections of loan and interest receivable, and collection of debts, in addition to amounts received from property or note sales. The balance is available to fund payments for claims, property and operating expenses and includes amounts collected but unavailable until authorizing legislation is enacted (see Notes 2 and 3).

In fiscal year 2021, FHA transferred $3,303 million in excess negative subsidy for the HECM program from the MMI/CMHI financing fund to the MMI/CMHI capital reserve fund. At the end of the fiscal year, the Fund Balance with Treasury in the MMI/CMHI financing fund was adjusted to the correct amount through a journal entry that resulted in an abnormal Fund Balance with Treasury in the MMI/CMHI capital reserve fund. The abnormal balance in the MMI/CMHI capital reserve fund fully offsets the adjustment to the Fund Balance with Treasury in the MMI/CMHI financing fund. Thus, FHA's Fund Balance with Treasury is correctly stated on the Balance Sheet and in Note 3. Fund Balance with U.S. Treasury. FHA resolved the abnormal Fund Balance with Treasury in the MMI/CMHI capital reserve fund by liquidating $4,128 million in MMI/CMHI investments in October 2021. If FHA had not transferred the excess negative subsidy, it would have paid $92 million less in interest expense to Treasury on borrowed funds and earned $28 million less in interest revenue on MMI/CMHI investments.

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.

In fiscal year 2021, FHA transferred $3,303 million in excess negative subsidy for the HECM program from the MMI/CMHI financing account to the MMI/CMHI capital reserve account. The $3,303 million was invested in non-marketable, market-based U.S. Treasury securities during fiscal year 2021. In October 2021, FHA liquidated $4,128 million in MMI/CMHI investments to restore the $3,303 million in excess negative subsidy to the MMI/CMHI financing account. If FHA had not transferred the $3,303 million in negative subsidy from the MMI/CMHI financing account to the MMI/CMHI capital reserve account, FHA would have reported $3,303 million less in MMI/CMHI Investments as of September 30, 2021. FHA's Interest Revenue from MMI/CMHI investments would have been about $28 million less if FHA had not invested the additional HECM subsidy. See Notes 5. Investments and 14. Earned Revenue for more details.

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. The fund balances in the receipt accounts are swept to Treasury's general fund at the end of each fiscal year.

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.

ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE

FHA records accruals related to FCRA direct loans and loan guarantees under accounts receivable and accounts payable. FHA's accounts receivable includes receivables related to Credit Program assets, premium receivables, partial claims receivables, generic debt receivables, criminal restitution receivables, settlement receivables, and other miscellaneous receivables. Only partial claims receivables that are unsupported by promissory notes are included as part of FHA's accounts receivable. These partial claims are reclassed from loans receivable to accounts receivable. They would otherwise be reported as part of Single Family Forward Defaulted Guaranteed Loans from Post-1991 Guarantees. FHA does not report an allowance for loss on most of its accounts receivable. It does report an allowance for loss on partial claims receivable equivalent to the allowance for subsidy associated with the partial claims. Under accounts payable, FHA reports claims payable, premium refunds payable, payables associated with Single Family property disposition, and other miscellaneous payables. More details about FHA's accounts receivable and accounts payable may be found under Note 6. Accounts Receivable and Note 8. Accounts Payable, respectively.

LOANS RECEIVABLE, 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.

OMB Circular A-136 requires the loan guarantee liability to be reported as an asset when the net loan guarantee liability for all credit programs of a reporting entity is negative. Because FHA reported a net negative loan guarantee liability in fiscal years 2020 and 2021, FHA is reporting its negative loan guarantees as an asset on the fiscal year 2021 Balance Sheet. Based on guidance from Treasury, FHA is reporting Negative Loan Guarantees for fiscal years 2020 and 2021 as part of Loans Receivable, net, on the Balance Sheet.

DEBT

Pursuant to the FCRA, FHA has authority to borrow funds when necessary to support transfers of negative subsidy or downward re-estimates from its financing accounts to its general fund receipt accounts and the MMI/CMHI capital reserve account and to pay claims on defaulted loan guarantees. FHA's debt is mostly with the U.S. Treasury. When sufficient funds are available in the financing accounts, FHA repays its debt obligations. For additional information refer to Note (9) Debt which includes FHA's *Terms of Borrowing Authority Used* and *Available Borrowing Authority End of the Period.*

Due to the issue noted above regarding the transfer of $3,303 million in excess negative subsidy from the MMI/CMHI financing account to the MMI/CMHI capital reserve account, FHA had to borrow additional funds from the U.S. Treasury in fiscal year 2021 to support the payment of negative subsidy, downward re-estimates, and claims payable in the MMI/CMHI financing account. If FHA had not transferred the $3,303 million in excess negative subsidy, it would have had to borrow $3,303 million less during fiscal year 2021. Additionally, FHA paid $92 million in interest expense on the $3,303 million in debt, which it would otherwise not have had to pay. For more details, see Notes (9). Debt and (13). Gross Costs.

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 and does not directly own any property, plant, or equipment. 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, actual salaries and administrative costs are recorded based on amounts computed by HUD, and the transfer in from HUD is reflected in the Statement of Changes in Net Position. 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 $16 million for fiscal year 2021 and $14 million for fiscal year 2020, 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. FHA has no liabilities not covered by budgetary resources.

LIABILITIES NOT REQUIRING BUDGETARY RESOURCES

Liabilities not requiring budgetary resources are liabilities that have not previously, nor will in the future, require the use of budgetary resources. As defined by OMB Circular A-136, this includes liabilities for clearing accounts, non-fiduciary deposit funds, custodial collections, and unearned revenue. FHA's liabilities not requiring budgetary resources include amounts in non-fiduciary deposit funds and general fund receipt accounts.

DEFERRED REVENUE

Deferred revenue are amounts received for goods or services to be delivered or performed in the future and reflect amounts that have yet to be earned. The deferred revenue reported on FHA's Balance Sheet consist mostly of premiums collected on loans that have not been endorsed for FHA mortgage insurance. These premiums are excluded from FHA's LLG because they have not been earned.

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 loan guarantee 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. Any remaining resources from appropriations, except no-year budget authority, are returned to Treasury upon cancellation.

RECLASSIFICATION

The negative loan guarantee liability was reclassified from liabilities to assets on the prior year balance sheet and note disclosure to conform to the current year presentation. These changes impacted total assets and total liabilities, but had no effect on net position, net cost of operations, or budgetary resources.

NO SUBSEQUENT EVENT(S)

FHA determined that there were no subsequent events by the date on which the financial statements were issued.

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, 2021 and 2020, are as follows:

(DOLLARS IN MILLIONS)

	FY 2021	FY 2020
Intragovernmental:		
Fund Balance with Treasury	$ 32	$ 16
Total Intragovernmental	32	16
Cash and Other Monetary Assets	18	21
Total Non-Entity Assets	50	37
Total Entity Assets	176,534	137,879
Total Assets	**$ 176,584**	**$ 137,916**

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 the change in Total Assets on FHA's Balance Sheet based on the reclassification of FHA's fiscal year 2020 negative loan guarantees, Total Entity Assets and Total Assets for fiscal year 2020 increased by $6,184 million.

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, 2021 and 2020:

(DOLLARS IN MILLIONS)

	FY 2021	FY 2020
Status of Fund Balance with U.S. Treasury:		
Unobligated Balance -		
Available	$ 2,310	$ 2,102
Unavailable	6,071	12,921
Obligated Balance Not Yet Disbursed	2,493	3,211
Total	**$ 10,874**	**$ 18,234**

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.

If FHA had not transferred $3,303 million in excess negative subsidy from the MMI/CMHI financing account to the MMI/CMHI capital reserve account, it would have paid $92 million less in interest expense and earned $28 million less in interest revenue, for a net change of $64 million in Fund Balance with U.S. Treasury.

NOTE 4. CASH AND OTHER MONETARY ASSETS

(DOLLARS IN MILLIONS)

	FY 2021	FY 2020
With the Public:		
Escrow Monies Deposited at Minority-Owned Banks	$ 18	$ 21
Deposits in Transit	59	11
Total	**$ 77**	**$ 32**

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.

FHA planned to redeem some long-term securities in October 2021 prior to their maturity dates to resolve the issue described in Note 1 regarding the transfer of $3,303 million in negative subsidy from the MMI/CMHI financing account to the MMI/CMHI capital reserve account. These securities, with a current book value of $4,128 million, had a market value of $4,124 million as of September 30, 2021. These amounts were reported as part of the MMI/CMHI Investments as of September 30, 2021. If FHA had not transferred the excess negative subsidy to the MMI/CMHI capital reserve account, FHA would have reported $3,303 million less in MMI/CMHI Investments. The change in MMI/CMHI Accrued Interest would have been $14 million less.

The cost, net amortized premium/discount, net investment, and market values of FHA's investments in U.S. Treasury securities as of September 30, 2021, were as follows:

(DOLLARS IN MILLIONS)

FY 2021	Cost	Amortized (Premium) / Discount, Net	Investments, Net	Market Value
MMI/CMHI Investments	$ 98,168	$ (1,326)	$ 96,842	$ 96,725
MMI/CMHI Accrued Interest			500	
Total	**$ 98,168**	**$ (1,326)**	**$ 97,342**	**$ 96,725**

The cost, net amortized premium/discount, net investment, and market values as of September 30, 2020, were as follows:

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**

INVESTMENTS IN PRIVATE-SECTOR ENTITIES

FHA's investments in private-sector entities included Risk-sharing Debentures. 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. The balance as of September 30, 2020, was $0. FHA had no investments in private-sector entities in fiscal year 2021.

NOTE 6. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net, as of September 30, 2021 and 2020, are as follows:

(DOLLARS IN MILLIONS)

	Gross		Allowance	Net	
	FY 2021	FY 2020	FY 2021	FY 2021	FY 2020
With the Public:					
Receivables Related to Credit Program Assets	$ 7	$ 10	$ -	$ 7	$ 10
Premiums Receivables	567	647	-	567	647
Partial Claims Receivables	817	77	(264)	553	77
Generic Debt Receivables	48	68	-	48	68
Criminal Restitution Receivables	63	13	-	63	13
Settlements Receivables	41	48	-	41	48
Miscellaneous Receivables	32	28	-	32	28
Total	**$ 1,575**	**$ 891**	**$ (264)**	**$ 1,311**	**$ 891**

RECEIVABLES RELATED TO CREDIT PROGRAM ASSETS

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

PREMIUMS 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 CLAIMS RECEIVABLES

Partial Claims 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.

SETTLEMENTS RECEIVABLES

Settlements 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 except for partial claims receivables in fiscal year 2021 because the allowances did not exceed $1 million. The allowance for loss on partial claims receivable equals the allowance for subsidy on the associated partial claims.

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, 2021, and 2020, 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 was discontinued in fiscal years 2020 and 2021 for new loan obligations. However, the program will be relaunched in fiscal year 2022.

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 PRIOR TO FY 1992

(DOLLARS IN MILLIONS)

	GI/SRI - Multifamily	Total
September 30, 2021		
Loan Receivables	$ 7	$ 7
Interest Receivables	14	14
Allowance	(10)	(10)
Total Value of Assets	$ 11	$ 11
September 30, 2020		
Loan Receivables	$ 8	$ 8
Interest Receivables	13	13
Allowance	(8)	(8)
Total Value of Assets	$ 13	$ 13

DIRECT LOANS OBLIGATED AFTER FY 1991

(DOLLARS IN MILLIONS)

	GI/SRI - Multifamily	Total
September 30, 2021		
Loan Receivables	$ 2,630	$ 2,630
Interest Receivables	6	6
Allowance	284	284
Total Value of Assets	$ 2,920	$ 2,920
September 30, 2020		
Loan Receivables	$ 2,364	$ 2,364
Interest Receivables	6	6
Allowance	317	317
Total Value of Assets	$ 2,687	$ 2,687

TOTAL AMOUNT OF DIRECT LOANS DISBURSED (POST- 1991):

(DOLLARS IN MILLIONS)

Direct Loan Programs	FY 2021	FY 2020
GI/SRI		
Multifamily/Healthcare	$ 296	$ 421
GI/SRI Subtotal	$ 296	$ 421

SUBSIDY EXPENSE FOR DIRECT LOAN PROGRAMS

(DOLLARS IN MILLIONS)

September 30, 2021	GI/SRI	Total
Multifamily/Healthcare		
FFB		
Financing	$ (52)	$ (52)
Defaults	-	-
Fees and Other Collections	(4)	(4)
Other	14	14
Subtotal	**$ (42)**	**$ (42)**

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)**

SUBSIDY EXPENSE FOR REESTIMATES:

(DOLLARS IN MILLIONS)

FY 2021	Interest Rate Reestimate	Technical Reestimate	Total Reestimate
GI/SRI	$ -	$ 70	$ 70
Total	$ -	$ 70	$ 70

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

TOTAL DIRECT LOAN SUBSIDY EXPENSE:

Direct Loan Programs	FY 2021	FY 2020
GI/SRI	$ 28	$ (3)
Total	$ 28	$ (3)

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 2021 current year rates because no new FFB loans were issued in fiscal year 2020 or fiscal year 2021. A new subsidy rate will be established when the FFB loan program is relaunched in fiscal year 2022.

SCHEDULE FOR RECONCILING SUBSIDY COST ALLOWANCE BALANCES (POST-1991 DIRECT LOANS)

(DOLLARS IN MILLIONS)

		FY 2021		FY 2020
Beginning balance of the subsidy cost allowance	$	(317)	$	(306)
Add total subsidy expense for direct loans disbursed during the reporting years	$	(42)	$	(38)
Adjustments:				
- Fees received	$	1	$	1
- Subsidy allowance amortization		4		(1)
- Other		1		(8)
Ending balance of the subsidy cost allowance before reestimates	$	(353)	$	(353)
Add or subtract subsidy reestimates by component: Total Subsidy Reestimates	$	70	$	34
Ending balance of the subsidy cost allowance	**$**	**(283)**	**$**	**(319)**

LOAN GUARANTEE PROGRAMS:

DEFAULTED GUARANTEED LOANS FROM PRE-1992 GUARANTEES (ALLOWANCE FOR LOSS METHOD): (DOLLARS IN MILLIONS)

FY 2021	MMI/CMHI	GI/SRI	Total
Guaranteed Loans			
Single Family Forward			
Loan Receivables	$ 16	1	$ 17
Foreclosed Property	2	9	11
Allowance for Loan Losses	(2)	(4)	(6)
Subtotal	**$ 16**	**$ 6**	**$ 22**
Multifamily/Healthcare			
Loan Receivables	$ -	$ 1,248	$ 1,248
Interest Receivables	-	250	250
Foreclosed Property	-	(5)	(5)
Allowance for Loan Losses	-	(626)	(626)
Subtotal	**$ -**	**$ 867**	**$ 867**
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	**$ 16**	**$ 874**	**$ 890**

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**

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

DEFAULTED GUARANTEED LOANS FROM POST-1991 GUARANTEES:

(DOLLARS IN MILLIONS)

FY 2021	MMI/CMHI	GI/SRI	H4H	Total
Guaranteed Loans				
Single Family Forward				
Loan Receivables	$ 16,870	$ 393	$ 6	$ 17,269
Foreclosed Property	291	10	-	301
Allowance	(5,751)	(139)	(3)	(5,893)
Subtotal	**$ 11,410**	**$ 264**	**$ 3**	**$ 11,677**
Multifamily/Healthcare				
Loan Receivables	$ -	$ 633	$ -	$ 633
Interest Receivables	-	55	-	55
Foreclosed Property	-	19	-	19
Allowance	-	(325)	-	(325)
Subtotal	**$ -**	**$ 382**	**$ -**	**$ 382**
HECM				
Loan Receivables	$ 18,260	$ 6,124	$ -	$ 24,384
Interest Receivables	15,653	3,917	-	19,570
Foreclosed Property	158	147	-	305
Allowance	(8,037)	(3,029)	-	(11,066)
Subtotal	**$ 26,034**	**$ 7,159**	**$ -**	**$ 33,193**
Total Guaranteed Loans	**$ 37,444**	**$ 7,805**	**$ 3**	**$ 45,252**

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**

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

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 2021):		
MMI/CMHI		
Single Family Forward	$ 1,331,743	$ 1,188,595
Multifamily/Healthcare	905	857
MMI/CMHI Subtotal	**$ 1,332,648**	**$ 1,189,452**
GI/SRI		
Single Family Forward	$ 4,680	$ 2,627
Multifamily/Healthcare	166,203	152,283
GI/SRI Subtotal	**$ 170,883**	**$ 154,910**
H4H		
Single Family - 257	$ 56	$ 46
H4H Subtotal	**$ 56**	**$ 46**
Total	**$ 1,503,587**	**$ 1,344,408**
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**

NEW GUARANTEED LOANS DISBURSED:
(DOLLARS IN MILLIONS)

Loan Guarantee Programs		Outstanding Principal of Guaranteed Loans, Face Value		Amount of Outstanding Principal Guaranteed
New Guaranteed Loans Disbursed (FY 2021):				
MMI/CMHI				
Single Family Forward	$	342,772	$	338,882
Multifamily/Healthcare		89		88
MMI/CMHI Subtotal	**$**	**342,861**	**$**	**338,970**
GI/SRI				
Single Family Forward	$	24	$	24
Multifamily/Healthcare		23,846		23,440
GI/SRI Subtotal	**$**	**23,870**	**$**	**23,464**
Total	**$**	**366,731**	**$**	**362,434**
New Guaranteed Loans Disbursed (FY 2020):				
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**

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 1,222,919 HECM loans with a maximum claim amount of $317 billion. Of these 1,222,919 HECM loans insured by FHA, 433,870 loans with a maximum claim amount of $121 billion are still insured. As of September 30, 2021, the insurance-in-force (the outstanding balance of active loans that have not been assigned) was $80 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 2021			
MMI/CMHI	$ 21,330	$ 62,675	$ 102,803
GI/SRI	-	17,012	18,523
Total	**$ 21,330**	**$ 79,687**	**$ 121,326**
FY 2020			
MMI/CMHI	$ 16,282	$ 62,638	$ 101,118
GI/SRI	-	20,049	22,259
Total	**$ 16,282**	**$ 82,687**	**$ 123,377**

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

NEGATIVE LOAN GUARANTEES, NET:
(DOLLARS IN MILLIONS)

FY 2021	MMI/CMHI	GI/SRI	H4H	Total
LLG				
Single Family Forward	$ (17,466)	$ 60	$ 1	$ (17,405)
Multifamily/Healthcare	(39)	(2,921)	-	(2,960)
HECM	(753)	3,210	-	2,457
Subtotal	**$ (18,258)**	**$ 349**	**$ 1**	**$ (17,908)**
Negative Loan Guarantees, Net	**$ (18,258)**	**$ 349**	**$ 1**	**$ (17,908)**

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)**
Negative Loan Guarantees, Net	**$ (9,479)**	**$ 3,293**	**$ 2**	**$ (6,184)**

SUBSIDY EXPENSE FOR LOAN GUARANTEES BY PROGRAM AND COMPONENT:

(DOLLARS IN MILLIONS)

FY 2021	MMI/CMHI	GI/SRI	H4H	Total
Single Family Forward				
Defaults	$ 10,551	$ 1	$ -	$ 10,552
Fees and Other Collections	(23,526)	(2)	-	(23,528)
Other	1,457	-	-	1,457
Subtotal	**$ (11,518)**	**$ (1)**	**$ -**	**$ (11,519)**
Multifamily/Healthcare				
Defaults	$ 10	$ 240	$ -	$ 250
Fees and Other Collections	(21)	(1,123)	-	(1,144)
Other	2	-	-	2
Subtotal	**$ (9)**	**$ (883)**	**$ -**	**$ (892)**
HECM				
Defaults	$ 3,542	$ -	$ -	$ 3,542
Fees and Other Collections	(7,355)	-	-	(7,355)
Other	3,303	-	-	3,303
Subtotal	**$ (510)**	**$ -**	**$ -**	**$ (510)**
Total	**$ (12,037)**	**$ (884)**	**$ -**	**$ (12,921)**

FY 2020	MMI/CMHI	GI/SRI	H4H	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)**

SUBSIDY EXPENSE FOR MODIFICATION AND REESTIMATES:
(DOLLARS IN MILLIONS)

FY 2021	Interest Rate Reestimate	Technical Reestimate	Total Reestimate
MMI/CMHI	$ (764)	$ (8,619)	$ (9,382)
GI/SRI	(7)	(2,869)	(2,876)
H4H	-	(1)	(1)
Total	**$ (771)**	**$ (11,489)**	**$ (12,259)**
FY 2020			
MMI/CMHI	$ (79)	$ (11,767)	$ (11,846)
GI/SRI	(3)	(951)	(954)
H4H	-	(1)	(1)
Total	**$ (82)**	**$ (12,719)**	**$ (12,801)**

TOTAL LOAN GUARANTEE SUBSIDY EXPENSE:
(DOLLARS IN MILLIONS)

	FY 2021	FY 2020
MMI/CMHI	$ (21,419)	$ (18,903)
GI/SRI	(3,760)	(1,654)
H4H	(1)	(1)
Total	**$ (25,180)**	**$ (20,558)**

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 2021 Loans Guarantees:			
MMI/CMHI			
Single Family			
SF - Forward	3.09	(6.45)	(3.36)
SF - HECM	2.22	(4.61)	(2.39)
Multifamily			
MF - Default CMHI- (Cooperatives)	3.09	(6.45)	(3.36)
GI/SRI			
Single Family			
Title I - Manufactured Housing	4.64	(10.84)	(6.20)
Title I - Property Improvements	4.86	(7.31)	(2.45)
Multifamily			
Apartments - NC/SC	1.27	(2.46)	(1.19)
Tax Credit Projects	0.54	(2.81)	(2.27)
Apartments- Refinance	0.19	(2.56)	(2.37)
HFA Risk Share	0.10	(1.42)	(1.32)
Other Rental	1.22	(3.49)	(2.27)
Healthcare			
MF - Health Care Refinance	2.95	(5.65)	(2.70)
MF - Hospitals (includes refi., and Suppl. Loan)	1.13	(6.94)	(5.81)
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 05/14/2020 - Current	1.19	(2.99)	(1.80)
Healthcare			
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)

SCHEDULE FOR RECONCILING NEGATIVE LOAN GUARANTEES:

(DOLLARS IN MILLIONS)

	FY 2021	FY 2020
Beginning balance of the negative loan guarantees	**$ (6,184)**	**$ 2,568**
Less claim payments to lenders	(14,743)	(16,891)
Add fees received	15,607	15,471
Add foreclosed property and loans acquired	14,446	13,950
Less interest revenue on uninvested funds	643	835
Add interest expense on entity borrowings	(2,487)	(1,978)
Less negative subsidy payments	(12,921)	(7,758)
Add upward reestimates	3,113	3,854
Less downward reestimates	(15,372)	(16,655)
Other	(9)	419
Ending Balance of the negative loan guarantees	**$ (17,908)**	**$ (6,184)**

If FHA had not transferred excess negative subsidy from the MMI/CMHI financing account to the MMI/CMHI capital reserve account, FHA's interest expense on entity borrowings in fiscal year 2021 would have been $92 million less. There would have been no difference in Interest Revenue on Uninvested Funds. The change in interest expense on entity borrowings would have had an impact on the upward and downward reestimates reported in the schedule. The net of the upward and downward reestimates would have been $92 million more.

ADMINISTRATIVE EXPENSE:
(DOLLARS IN MILLIONS)

	FY 2021	FY 2020
MMI/CMHI	$ 840	$ 826
Total	**$ 840**	**$ 826**

LOANS RECEIVABLE, GROSS:
(DOLLARS IN MILLIONS)

Loans Receivable	FY 2021	FY 2020
Loans Receivable, Gross, Start of Year	$ 2,372	$ 1,977
Plus Loans Disbursed	296	421
Less Principal Payments Received	(30)	(26)
Loans Receivable, Gross, End of Year	**$ 2,638**	**$ 2,372**

Defaulted Guaranteed Loans Receivable	FY 2021	FY 2020
Defaulted Guaranteed Loans Receivable, Start of Year	$ 39,481	$ 34,993
Plus Guarantee Payments	7,885	7,246
Less Principal Payments Received	(3,815)	(2,758)
Defaulted Guaranteed Loans Receivable, End of Year	**$ 43,551**	**$ 39,481**

OTHER INFORMATION ON FORECLOSED PROPERTY:

Additional information on FHA foreclosed property as of September 30, 2021 and 2020, is as follows:

	FY 2021	FY 2020
Average number of days in inventory for Sold Cases	157	145
End of Fiscal Year active inventory	2,618	4,359

This chart reports the average holding period for FHA foreclosed property and the total number of foreclosed properties on-hand as of September 30, 2021. 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, 2021, 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 Healthcare 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. Five factors caused that variance: (1) the addition of 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 2021. Overall, FHA’s liability decreased from the fiscal year 2020 estimates.

Mutual Mortgage Insurance (MMI) – On net, the MMI Fund LLG decreased from ($9,479) million to ($18,258) million at the end of fiscal year 2021. 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 2021 SFF LLG forecast calculation is similar to the methodology used in 2020. 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 2020 LLG, the 2021 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 2021, 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 2020 LLG, the 2021 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 $3,211 million at the end of 2021, down from $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 impact 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 $49.7 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 decreased this year by $74 million, from ($1,123) million to ($1,197) million, due to lower prepayment expectations and higher insurance-in-force.

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 $20.6 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 decreased this year by $6 million, from ($366) million to ($372) million due to lower prepayment expectations and higher insurance-in-force.

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 $25.3 billion. The Section 221(d)(4) liability increased by $31 million this year, from ($93) million to ($62) million, due to higher claim projections.

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 $2.6 billion. The Section 232 NC liability increased by $13 million this year, from ($105) million to ($92) million, due to higher claim projections and lower insurance-in-force.

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 $33.6 billion. The Section 232 Refinance liability decreased by $10 million this year, from ($544) million to ($554) million, due to higher premium revenue resulting from a decrease 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 $6.8 billion. The Section 242 liability decreased by $53 million this year from ($186) million to ($239) million due to lower claim and prepayment expectations.

RISKS TO LLG CALCULATIONS

LLG calculations for some programs 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 2021 is $2 thousand.

GI/SRI Multifamily & Healthcare LLR - For the Multifamily and Healthcare portfolio, the remaining insurance-in-force for pre-credit reform loans is $81.2 million. The aggregate liability for the remaining pre-credit reform loans in fiscal year 2021 is ($193) thousand, which is a $64 thousand increase from the ($257) thousand estimate in fiscal year 2020. The year-over-year increase in aggregate liability is due to a $25 million decline in insurance-in-force as both measures move closer to zero.

NOTE 8. ACCOUNTS PAYABLE

Accounts Payable as of September 30, 2021 and 2020, are as follows:

(DOLLARS IN MILLIONS)

	FY 2021	FY 2020
Intragovernmental:		
Claims Payable to Ginnie Mae	$ -	$ 1
Miscellaneous Payables to Other Federal Agencies	1	1
Total	**$ 1**	**$ 2**
With the Public:		
Claims Payable	$ 220	$ 246
Premium Refunds Payable	431	435
Single Family Property Disposition Payable	25	22
Miscellaneous Payables	77	76
Total	**$ 753**	**$ 779**

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.

NOTE 9. DEBT

The following tables describe the composition of Debt held by FHA as of September 30, 2020 and 2021:

(DOLLARS IN MILLIONS)

	2020 Beginning Balance	2020 Net Borrowings	2020 Ending Balance	2021 Beginning Balance	2021 Net Borrowings	2021 Ending Balance
Other Debt:						
Debt to the FFB	$ 1,974	$ 395	$ 2,370	$ 2,370	$ 267	$ 2,636
Debt to the U.S. Treasury	30,386	21,436	51,822	51,822	14,455	66,277
Total	**$ 32,360**	**$ 21,831**	**$ 54,192**	**$ 54,192**	**$ 14,722**	**$ 68,913**

	FY 2020	FY 2021
Classification of Debt:		
Intragovernmental Debt	$ 54,192	$ 68,913
Total	**$ 54,192**	**$ 68,913**

DEBT TO THE TREASURY

The National Housing Act authorizes FHA, in certain cases, to issue debentures in lieu of cash to pay claims. FHA borrows from the Bureau of the Fiscal Services (BFS) Federal Investments and Borrowings Branch, which facilitates loans to federal agencies on behalf of the Department of the Treasury. The FCRA permits agencies to borrow from Treasury to support credit programs. Collections and disbursements with the public are transacted in FHA's financing accounts and are considered a means-of-financing (non-budgetary). When cash balances are insufficient to support its operations, FHA borrows from Treasury. When there is sufficient cash in the financing accounts, FHA can opt to repay principal. Repayments of principal can be made throughout the fiscal year. 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. Interest paid on borrowings by FHA as of September 30, 2021, was $2,571 million.

Both interest revenue and expense are accrued at FHA's Single Effective Rate (SER). During fiscal year 2021, 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. Interest revenue is based on the cash balances in the financing accounts, whereas interest expense is based on the principal balances for the entire fiscal year (effective date of October 1st of the current fiscal year), regardless of the actual transaction date.

FHA's available borrowing authority as of September 30, 2021 and 2020, was $7,352 million and $0 million, respectively from the U.S. Treasury.

If FHA had not transferred excess negative subsidy from the MMI/CMHI financing account to the MMI/CMHI capital reserve account, FHA's debt to the U.S. Treasury would have been $3,303 million less in fiscal year 2021. FHA had to borrow additional funds in fiscal year 2021 to compensate for the excess transfers of negative subsidy.

DEBT TO THE FEDERAL FINANCING BANK

FHA began an FFB Risk Share program, in fiscal year 2015, an inter-agency partnership between HUD, FFB, and the HFAs. The FFB Risk Share Program provides funding for multifamily mortgage loans insured by FHA. Under this program, FHA records a direct loan from the public and borrowing from FFB. The program does not change the basic structure of Risk Sharing; it only substitutes FFB as the funding source. The HFAs would originate and service the loans and share in any losses. Because the FFB Risk Share program ended in fiscal year 2019, there is no new borrowing authority. New borrowing authority will need to be authorized when the program restarts in fiscal year 2022.

During fiscal year 2021, 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 May 2038 to October 2061.

NOTE 10. OTHER LIABILITIES

The following table describes the composition of Other Liabilities as of September 30, 2021 and 2020:

(DOLLARS IN MILLIONS)

FY 2021	Current
Intragovernmental:	
Receipt Account Liability	$ 3,628
Total	**$ 3,628**
With the Public:	
Trust and Deposit Liabilities	$ 50
Miscellaneous Liabilities	105
Total	**$ 155**

FY 2020	Current
Intragovernmental:	
Receipt Account Liability	$ 1,544
Total	**$ 1,544**
With the Public:	
Trust and Deposit Liabilities	$ 36
Miscellaneous Liabilities	114
Total	**$ 150**

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.

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.

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.

Per OMB Circular A-136, FHA is reporting deferred revenue of $290 million and $315 million for fiscal years 2021 and 2020, respectively, separately from Other Liabilities.

NOTE 11. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

(DOLLARS IN MILLIONS)

Description		2021		2020
Total Liabilities Covered by Budgetary Resources	$	70,094	$	55,417
Total Liabilities Not Requiring Budgetary Resources		3,646		1,565
Total Liabilities	**$**	**73,740**	**$**	**56,982**

***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 2021 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.

Due to the change in Total Liabilities on FHA's Balance Sheet based on the reclassification of FHA's fiscal year 2020 negative loan guarantees, Total Liabilities Covered by Budgetary Resources and Total Liabilities for fiscal year 2020 increased by $6,184 million.

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, 2021. There are pending or threatened legal actions where judgment against FHA is reasonably possible with an estimated potential loss of $10.9 million or more.

ACTIVITY WITH GINNIE MAE

As of September 30, 2021, and 2020, the Government National Mortgage Association ("Ginnie Mae") held defaulted FHA-insured mortgage loans acquired from defaulted mortgage-backed securities issuers with the following balances:

(DOLLARS IN MILLIONS)

	FY 2021	FY 2020
Mortgages Held for Investment & Foreclosed Property (Pre-claim)	$ 1,782	$ 2,082
Short Sale Claims Receivable	$ 1	$ 1

"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, 2021 and 2020, are as follows:

(DOLLARS IN MILLIONS)

FY 2021	Single Family Forward	HECM	Multifamily	Healthcare	Administrative Expenses	Total
Intragovernmental:						
Interest Expense	$ 876	$ 1,429	$ 231	$ 36	$ -	$ 2,571
Imputed Cost	-	-	-	-	16	16
Other Expenses	-	-	-	-	240	240
Total	**$ 876**	**$ 1,429**	**$ 231**	**$ 36**	**$ 256**	**$ 2,827**
With the Public:						
Salary and Administrative Expense	$ -	$ -	$ -	$ -	$ 600	$ 600
Subsidy Expense	(11,519)	(510)	(709)	(224)	-	(12,962)
Re-estimate Expense	(5,133)	(7,293)	220	17	-	(12,189)
Interest Accumulation Expense	(634)	(1,155)	(48)	(8)	-	(1,845)
Bad Debt Expense	1	-	(4)	-	-	(3)
Other Expenses	7	-	5	-	-	12
Total	**$ (17,278)**	**$ (8,958)**	**$ (536)**	**$ (215)**	**$ 600**	**$ (26,387)**
Total Gross Costs	**$ (16,402)**	**$ (7,529)**	**$ (305)**	**$ (179)**	**$ 856**	**$ (23,560)**

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)**

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. If FHA had not transferred excess negative subsidy from the MMI/CMHI financing account to the MMI/CMHI capital reserve account, FHA's interest expense would have been $92 million less in fiscal year 2021.

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.

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.

Due to the increase of $92 million in interest expense based on the transfer of excess negative subsidy from the MMI/CMHI financing account to the MMI/CMHI capital reserve account, FHA's interest accumulation expense in fiscal year 2021 was $92 million more than it would otherwise have been if FHA had not made that transfer.

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.

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, 2021 and 2020, are as follows:

(DOLLARS IN MILLIONS)

FY 2021	Single Family Forward	HECM	Multifamily	Healthcare	Total
Intragovernmental:					
Interest Revenue from Deposits at U.S. Treasury	$ 242	$ 274	$ 106	$ 29	$ 651
Interest Revenue from MMI/CMHI Investments	281	37	-	-	318
Total Intragovernmental	**$ 523**	**$ 311**	**$ 106**	**$ 29**	**$ 969**
With the Public:					
Insurance Premium Revenue	$ -	$ -	$ 1	$ -	$ 1
Income from Notes and Properties	2	-	73	-	75
Other Revenue	2	-	76	-	78
Total With the Public	**$ 4**	**$ -**	**$ 150**	**$ -**	**$ 154**
Total Earned Revenue	**$ 527**	**$ 311**	**$ 256**	**$ 29**	**$ 1,123**

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**

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. If FHA had not transferred excess negative subsidy from the MMI/CMHI financing account to the MMI/CMHI capital reserve account, FHA's Interest Revenue from MMI/CMHI Investments would have decreased by about $28 million.

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 2021 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 2021 were:

Upfront Premium Rates	
10/01/2020 - 9/30/2021	
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 2021 were:

Annual Periodic Premium Rates	
10/01/2020 - 9/30/2021	
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.

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, 2021 and 2020, are as follows:

(DOLLARS IN MILLIONS)

FY 2021	Beginning Balance	Appropriations Received	Other Adjustments	Appropriations Used	Ending Balance
Positive Subsidy	$ 2	$ -	$ -	$ -	$ 2
Authority for Contract Expenses	244	130	(18)	(126)	230
Reestimates	-	1,997	-	(1,997)	-
GI/SRI Liquidating	278	25	-	-	303
Total	**$ 524**	**$ 2,152**	**$ (18)**	**$ (2,123)**	**$ 535**

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**

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, 2021 and 2020, are as follows:

UNDELIVERED ORDERS – UNPAID
(DOLLARS IN MILLIONS)

FY 2021	Federal	Non-Federal	Total
MMI/CMHI	$ 5	$ 1,121	$ 1,125
GI/SRI	2	518	520
H4H	-	2	2
Undelivered Orders Subtotal	**$ 7**	**$ 1,641**	**$ 1,647**

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

NOTE 18. BUDGETARY RESOURCES - COLLECTIONS

The following table presents FHA's collections for the period ended September 30, 2021 and 2020:

(DOLLARS IN MILLIONS)

FY 2021	MMI/CMHI	GI/SRI	H4H	Total
Collections:				
Premiums	$ 14,630	$ 864	$ -	$ 15,494
Notes	3,655	1,018	1	4,674
Property	780	158	-	938
Interest Earned from U.S. Treasury	(1,185)	249	-	(936)
Subsidy	11,991	-	-	11,991
Reestimates	18,716	1,997	-	20,713
Collections from Settlements	90	-	-	90
Other	142	101	-	243
Total	**$ 48,819**	**$ 4,387**	**$ 1**	**$ 53,207**

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**

The abnormal balance for Interest Earned from U.S. Treasury is due to FHA's purchase of securities at a premium. It will clear when the securities mature.

If FHA had not transferred $3,303 million in excess negative subsidy from the MMI/CMHI financing account to the MMI/CMHI capital reserve account, Interest Earned from Treasury would have been $13 million less during fiscal year 2021.

NOTE 19. BUDGETARY RESOURCES – OBLIGATIONS

The following table presents FHA's obligations incurred for the period ended September 30, 2021 and 2020:

(DOLLARS IN MILLIONS)

FY 2021	MMI/CMHI	GI/SRI	H4H	Total
Obligations				
Claims	$ 9,594	$ 2,078	$ 1	$ 11,673
Property Expenses	196	52	1	249
Interest on Borrowings - BFS	2,088	403	-	2,491
Interest on Borrowings - FFB	-	80	-	80
Subsidy	12,084	900	-	12,984
Downward Reestimates	15,747	2,477	1	18,225
Upward Reestimates	2,969	1,997	-	4,966
Administrative Contracts	153	-	-	153
Other	106	90	-	196
Total	**$ 42,937**	**$ 8,077**	**$ 3**	**$ 51,017**

FY 2020	MMI/CMHI	GI/SRI	H4H	Total
Obligations				
Claims	$ 11,550	$ 2,623	$ 1	$ 14,173
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
Admin, Contract and Working Capital	131	-	-	131
Other	92	100	-	192
Total	**$ 34,042**	**$ 8,518**	**$ 20**	**$ 42,579**

If FHA had not transferred $3,303 million in excess negative subsidy from the MMI/CMHI financing account to the MMI/CMHI capital reserve account, obligations for Interest on Borrowings – BFS would have been $92 million less in fiscal year 2021.

NOTE 20. NET ADJUSTMENTS TO UNOBLIGATED BALANCE, BROUGHT FORWARD, OCTOBER 1

During the years ended September 30, 2021 and 2020, certain adjustments were made to the balance of unobligated budgetary resources available as of October 1, 2020 and 2019. 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.

(DOLLARS IN MILLIONS)

	FY 2021	FY 2020
Net Adjustments to Unobligated Balance, Brought Forward October 1		
Prior Year Ending Unobligated Balance	$ 83,843	$ 61,295
Adjustments to Budgetary Resources Made During Current Year		
Adjustments Reported on Line 1020 of the SF-133	(1)	
Downward Adjustments of Prior year Undelivered Orders	630	592
Downward Adjustments of Prior Year Delivered Orders	59	56
Other Adjustments	(144)	(144)
Net Adjustments to Unobligated Balance Brought Forward, October 1	$ 544	$ 504
Unobligated Balance from Prior Year (Discretionary and Mandatory)	**$ 84,387**	**$ 61,799**

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.

(DOLLARS IN MILLIONS)

For the Period Ended September 30, 2021	Intragovernmental	With the Public	Total
NET COST	$ (62)	$ (24,622)	$ (24,684)
Components of Net Cost That Are Not Part of the Budgetary Outlays:			
Year-end credit reform subsidy accrual reestimates	$ 9,970	$ -	$ 9,970
Negative Subsidy	12,962	-	12,962
Adjustments to prior year credit reform reestimates accrual	2,219	-	2,219
Increase/(decrease) in assets:			
Accounts receivable, net	$ (2,629)	$ (4)	$ (2,634)
Loans receivable, net (Non-FCRA)	-	(65)	(65)
Securities and investments	1,905	-	1,905
(Increase)/decrease in liabilities:			
Accounts payable	$ 1,363	$ 1	$ 1,364
Other liabilities	-	1	1
Financing Sources:			
Imputed Cost	(16)	-	(16)
Total Components of Net Operating Cost Not Part of the Budgetary Outlays	$ 25,774	$ (67)	$ 25,706
Components of the Budget Outlays That Are Not Part of Net Operating Cost:			
Effect of prior year credit reform subsidy re-estimates	1,997	-	1,997
Financing Sources:			
Transfers out (in) without reimbursements	(27,646)	-	(27,646)
Total Components of the budget outlays that are not part of net operating cost	$ (25,649)	$ -	$ (25,649)
Misc. Items:			
Distributed offsetting receipts (SBR 4200)	$ (3,429)	$ -	$ (3,429)
Non-Entity Activity	3,554	-	3,554
Liability for Liquidating Fund Transfers	(125)	-	(125)
Total Other Reconciling Items	$ -	$ -	$ -
Total Net Outlays (Calculated Total)	$ 63	$ (24,690)	$ (24,627)
Budgetary Agency Outlays, net (SBR 4210)			$ (24,627)

For the Period Ended September 30, 2020	Intragovernmental	With the Public	Total
NET COST	$ (620)	$ (19,814)	$ (20,435)
Components of Net Cost That Are Not Part of the Budgetary Outlays:			
Year-end credit reform subsidy accrual reestimates	10,696	-	10,696
Negative Subsidy	7,797	-	7,797
Adjustments to prior year credit reform reestimates accrual	2,069	-	2,069
Increase/(decrease) in assets:			
Accounts receivable, net	893	1	894
Loans receivable, net (Non-FCRA)	-	(148)	(148)
Securities and investments	974	-	974
(Increase)/decrease in liabilities:			
Accounts payable	(1,925)	1	(1,925)
Other liabilities	-	256	256
Financing Sources:			
Imputed Cost	(14)	-	(14)
Total Components of Net Operating Cost Not Part of the Budgetary Outlays	$ 20,489	$ 109	$ 20,599
Components of the Budget Outlays That Are Not Part of Net Operating Cost:			
Effect of prior year credit reform subsidy re-estimates	$ 792	$ -	$ 792
Financing Sources:			
Transfers out (in) without reimbursements	(22,973)	-	(22,973)
Total Components of the budget outlays that are not part of net operating cost	$ (22,180)	$ -	$ (22,180)
Misc. Items:			
Distributed offsetting receipts (SBR 4200)	$ (4,416)	$ -	$ (4,416)
Non-Entity Activity	4,542	-	4,542
Other Temporary Timing Differences	-	561	561
Liability for Liquidating Fund Transfers	(126)	-	(126)
Total Other Reconciling Items	$ -	$ 561	$ 561
Total Net Outlays (Calculated Total)	$ (2,311)	$ (19,144)	$ (21,455)
Budgetary Agency Outlays, net (SBR 4210)			$ (21,455)

The Treasury crosswalk for the Reconciliation of Net Cost to Net Outlays changed in fiscal year 2021 from the previous fiscal year. In the new crosswalk issued in July 2021, Treasury added the following lines relevant to FHA: Adjustments to prior year credit reform reestimates accrual, Distributed offsetting receipts (SBR 4200), Custodial/Non-exchange revenue, and Non-Entity Activity. FHA is now reporting the "Adjustment to prior year credit reform reestimates accrual" on the new line item in the reconciliation rather than on the "Effect of prior year agencies credit reform subsidy re-estimates" line. Previously, distributed offsetting receipts was included as a reconciling item on FHA's reconciliation as part of the "Other Temporary Timing Differences" line, and custodial/non-exchange revenue and non-entity activity were included on the "Other" line on the reconciliation. Based on guidance from Treasury, FHA is also reporting two additional line items in fiscal year 2021 not included in the Treasury crosswalk: "Negative Subsidy" and "Liability for Liquidating Fund Transfers." FHA's liability for liquidating fund transfers was previously included by FHA on the "Other Temporary Timing Differences" line on the reconciliation.

FHA follows the Treasury crosswalk for most of the line items in the Reconciliation of Net Cost to Net Outlays, with the exception of "Accounts Payable." Subsidy payable to the financing account is included as part of accounts payable on the Treasury crosswalk for the reconciliation. However, FHA uses this account to help calculate the Year-end credit reform subsidy accrual reestimates and the Adjustments to prior year credit reform reestimates accrual. Therefore, subsidy payable to the financing account is not reported as part of Accounts Payable in FHA's reconciliation. Treasury did not provide a crosswalk for the Year-end credit reform subsidy accrual reestimates, Adjustments to prior year credit reform reestimates accrual, and Effect of prior year credit reform subsidy re-estimates line items. Thus, FHA developed its own crosswalks for these line items. In fiscal year 2021, FHA is reporting the budgetary outlays required to liquidate the prior year's reestimate on the Effect of prior year agencies credit reform subsidy re-estimates line item. Budgetary outlays are only required to liquidate upward reestimates in FHA's GI/SRI and H4H funds.

FHA implemented the 2017 Treasury guidance related to accounting for direct loans and loan guarantees in fiscal year 2021. Under the new guidance, FHA changed its posting models for negative subsidy and downward re-estimates so that it is no longer recording re-estimate and subsidy expense in its financing funds.

Based on the new Treasury crosswalk, FHA made some conforming changes to the reconciliation presented in FHA's fiscal year 2020 AMR. The new crosswalk excludes some accounts that were previously included in the reconciliation, resulting in changes in the amounts reported as "Other Liabilities" and "Non-Entity Activity" in the fiscal year 2020 reconciliation. As a result of the changes to the crosswalk, FHA is no longer reporting the receipt account liability and offset to non-entity collections associated with FHA's year-end accrual of downward reestimates and negative subsidy as part of the reconciliation. Other Liabilities decreased from $1,932 million to $256 million, and Non-entity Activity increased from $2,844 million to $4,542 million. The amount reported as "Transfers out (in) without reimbursement" in the fiscal year 2020 reconciliation also changed based on the separate reporting of Negative Subsidy in the reconciliation and the new reporting of the budgetary impact of the prior year's reestimate on the "Effect of prior year agencies credit reform subsidy re-estimates" line item. In the fiscal year 2020 reconciliation, FHA would have used the transfers out (in) without reimbursement to populate the Negative Subsidy and Effect of prior year agencies credit reform subsidy re-estimates lines. As a result of these changes in the Treasury crosswalk, FHA's Transfers out (in) without reimbursement decreased from ($14,383) million to ($22,973) million.

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. For the fourth quarter of fiscal year 2021, intragovernmental net cost on the reconciliation was $1,920 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 was $1,920 million more than the total net cost with the public reported on FHA's Statement of Net Cost. For the fourth quarter of fiscal year 2020, intragovernmental net cost on the reconciliation was $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 was $1,218 million more than the total net cost with the public reported on FHA's Statement of Net Cost.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE A: INTRAGOVERNMENTAL ASSETS

FHA's Intra-governmental assets, by Federal entity, are as follows on September 30, 2021 and 2020:

(DOLLARS IN MILLIONS)

FY 2021	Fund Balance with U.S. Treasury	Investments in U.S. Treasury Securities	Total
U.S. Treasury	$ 10,874	$ 97,342	$ 108,216
Total	**$ 10,874**	**$ 97,342**	**$ 108,216**

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

SCHEDULE B: INTRAGOVERNMENTAL LIABILITIES

FHA's Intra-governmental liabilities, by Federal entity, are as follows on September 30, 2021 and 2020:

(DOLLARS IN MILLIONS)

FY 2021	Accounts Payable	Borrowings	Other Liabilities	Total
Federal Financing Bank	$ -	$ 2,636	$ -	$ 2,636
U.S. Treasury	-	66,277	3,628	69,905
HUD	1	-	-	1
Total	**$ 1**	**$ 68,913**	**$ 3,628**	**$ 72,542**

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**

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE C: COMPARATIVE COMBINING STATEMENT OF BUDGETARY RESOURCES BY FHA PROGRAM FOR BUDGETARY

(DOLLARS IN MILLIONS)
SEPTEMBER 30, 2021

FY 2021	MMI/CMHI Capital Reserve	MMI/CMHI Program	GI/SRI Program	Other	Budgetary Total
Budgetary Resources:					
Unobligated balance from prior year budget authority, net	$ 65,933	$ 3,080	$ 2	$ 51	$ 69,066
Appropriations (discretionary and mandatory)	-	130	1,997	25	2,152
Spending authority from offsetting collections (discretionary & mandatory)	26,375	-	-	159	26,534
Total budgetary resources	**$ 92,309**	**$ 3,210**	**$ 1,999**	**$ 234**	**$ 97,752**
Status of Budgetary Resources:					
Obligations incurred	$ -	$ 3,122	$ 1,997	$ 23	$ 5,142
Unobligated balance, end of year:					
Apportioned	-	23	2	32	57
Unapportioned	92,309	-	-	178	92,487
Unexpired unobligated balance, end of year	92,309	23	2	210	92,544
Expired unobligated balance, end of year	-	65	-	-	65
Total unobligated balance, end of year	92,309	88	2	211	92,610
Total budgetary resources	**$ 92,309**	**$ 3,210**	**$ 1,999**	**$ 234**	**$ 97,752**
Outlays, Net:					
Outlays, net (discretionary and mandatory)	$ (26,152)	$ 3,095	$ 1,997	$ (138)	$ (21,198)
Distributed offsetting receipts (-)	-	-	-	(3,429)	(3,429)
Agency outlays, net (discretionary and mandatory)	**$ (26,152)**	**$ 3,095**	**$ 1,997**	**$ (3,567)**	**$ (24,627)**

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE C: COMPARATIVE COMBINING STATEMENT OF BUDGETARY RESOURCES BY FHA PROGRAM FOR BUDGETARY

(DOLLARS IN MILLIONS)
SEPTEMBER 30, 2020

FY 2020	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	-	(0)	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

SCHEDULE D: COMPARATIVE COMBINING BUDGETARY RESOURCES BY FHA PROGRAM FOR NON-BUDGETARY:

(DOLLARS IN MILLIONS)
SEPTEMBER 30, 2021

FY 2021	MMI/CMHI Financing	GI/SRI Financing	Other	Non Budgetary Total
Budgetary Resources:				
Unobligated balance from prior year budget	$ 9,078	$ 6,240	$ 3	$ 15,321
Borrowing authority (discretionary and	19,647	1,746	-	21,393
Spending authority from offsetting collections (discretionary and mandatory)	17,479	2,391	1	19,871
Total budgetary resources	**$ 46,204**	**$ 10,377**	**$ 4**	**$ 56,585**
Status of Budgetary Resources:				
Obligations incurred	$ 39,810	$ 6,063	$ 2	$ 45,875
Unobligated balance, end of year:				
Apportioned	1,829	737	5	2,571
Exempt from apportionment				
Unapportioned	4,565	3,577	(3)	8,139
Unexpired unobligated balance, end of year	6,394	4,314	2	10,710
Total unobligated balance, end of year	6,394	4,314	2	10,710
Total budgetary resources	**$ 46,204**	**$ 10,377**	**$ 4**	**$ 56,585**
Disbursements, Net (Total)(mandatory)	**$ 16,944**	**$ 2,151**	**$ -**	**$ 19,095**

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE D: COMPARATIVE COMBINING BUDGETARY RESOURCES BY FHA PROGRAM FOR NON-BUDGETARY

(DOLLARS IN MILLIONS)
SEPTEMBER 30, 2020

FY 2020	MMI/CMHI Financing	GI/SRI Financing	Other	Non Budgetary Total
Budgetary Resources:				
Unobligated balance from prior year budget	$ 2,654	$ 8,163	$ 17	$ 10,834
Borrowing authority (discretionary and	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	**$ 41,222**	**$ 13,826**	**$ 23**	**$ 55,071**
Disbursements, Net (Total)(mandatory)	**$ 12,703**	**$ 5,042**	**$ 18**	**$ 17,763**

OTHER ACCOMPANYING INFORMATION

For FY 2021, one material weakness was identified in its audit of FHA's Principal Financial Statements and accompanying Notes. Table 1 provides a summary of financial audit findings with regard to the audit opinion. Table 2 is a summary of FHA's Federal Managers' Financial Integrity Act management assurances.

Table 1					
Summary of Financial Statement Audit					
Audit Opinion	Unmodified				
Restatement	No				
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Controls Over Financial Reporting Had Weaknesses	0	1	0	0	1
Total Material Weaknesses	0	1	0	0	1

Table 2					
Summary of Management Assurances					
Effectiveness of Internal Control over Financial Reporting (FMFIA section 2)					
Statement of Assurance	Qualified				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Controls Over Financial Reporting Had Weaknesses	0	1	0	0	1
Total Material Weaknesses	0	1	0	0	1

AUDITOR'S REPORT

This report was issued separately on December 9, 2021 by the HUD Office of Inspector General entitled, "Federal Housing Administration, Washington, DC, Fiscal Years 2021 and 2020 Financial Statements Audit" (2022-FO-0003). The report is available at HUD, OIG's internet site at:

https://www.hudoig.gov

To: Lopa P. Kolluri

Principal Deputy Assistant Secretary for Housing and the Federal Housing Administration, H

//signed//

From: Kilah S. White

Assistant Inspector General for Audit, GA

Subject: Independent Public Accountant's Audit Report on the Federal Housing Administration's Fiscal Years 2021 and 2020 Consolidated Financial Statements

Attached are the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) results of the audit of the Federal Housing Administration's (FHA) consolidated fiscal years 2021 and 2020 financial statements and reports on internal control over financial reporting and compliance with laws, regulations, contracts, and grant agreements and other matters.

We contracted with the independent public accounting firm of CliftonLarsonAllen LLP (CLA) to audit the financial statements of FHA as of and for the fiscal years ended September 30, 2021 and 2020,[1] and to provide reports on FHA's 1) internal control over financial reporting; and 2) compliance with laws, regulations, contracts, and grant agreements in its financial reporting. Our contract with CLA required that the audit be performed in accordance with U.S. generally accepted government auditing standards, Office of Management and Budget audit requirements, and the Financial Audit Manual of the U.S. Government Accountability Office and the Council of the Inspectors General on Integrity and Efficiency.

In its audit of FHA, CLA reported:

- The consolidated financial statements as of and for the fiscal year ended September 30, 2021, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles.
- One material weakness[2] and one significant deficiency[3] in internal control over financial reporting, based on the limited procedures that it performed.

[1] The accompanying consolidated financial statements as of and for the fiscal year ended September 30, 2020, were audited by other auditors, whose Independent Auditor's Report was issued on November 12, 2020.

[2] A material weakness is a deficiency or a combination of deficiencies in internal control over financial reporting, 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.

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

Office of Audit
451 7th Street, SW, Room 8180, Washington, DC 20410
Phone (202) 708-0364, Fax (202) 708-1783
Visit the Office of Inspector General website at https://www.hudoig.gov.

    - A material weakness existed related to FHA controls over financial accounting and reporting.
    - A significant deficiency existed related to FHA econometric modeling activities used to estimate the agency's loan guarantee liability.
- No reportable noncompliance issues for fiscal year 2021 with provisions of applicable laws, regulations, contracts, and grant agreements tested and no other matters.

In connection with the contract, we reviewed CLA's reports and related documentation and inquired of its representatives. Our review, as differentiated from an audit of the financial statements in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on FHA's financial statements or conclusions about the 1) effectiveness of FHA's internal control over financial reporting and 2) FHA's compliance with laws, regulations, contracts, and grant agreements and other matters in its financial reporting. CLA is responsible for the attached Independent Auditors' Report, dated December 6, 2021, and the conclusions expressed therein. Our review disclosed no instances in which CLA did not comply, in all material respects, with U.S. generally accepted government auditing standards.

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

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

If you have any questions or comments about this report, please call Thomas McEnanly, Audit Director, at (202) 402-8216.

CliftonLarsonAllen LLP
CLAconnect.com

Independent Auditors' Report

Inspector General

U.S. Department of Housing and Urban Development

Assistant Secretary for Housing – Federal Housing Commissioner
Federal Housing Administration

In our audit of the fiscal year 2021 consolidated financial statements of the Federal Housing Administration (FHA), a component of the U.S. Department of Housing and Urban Development (HUD), we found:

- FHA's consolidated financial statements as of and for the fiscal year ended September 30, 2021, are presented fairly, in all material respects, in accordance with United States of America (U.S.) generally accepted accounting principles;
- A material weakness and a significant deficiency for fiscal year 2021 in internal control over financial reporting based on the limited procedures we performed; and
- No reportable noncompliance for fiscal year 2021 with provisions of applicable laws, regulations, contracts, and grant agreements we tested and no other matters.

The following sections discuss in more detail (1) our report on the consolidated financial statements, which includes an emphasis-of-matter paragraph related to the loans receivable and related foreclosed property, net, and loan guarantee liability line items and the required supplementary information (RSI)[1] and other information[2] included with the financial statements; (2) our report on internal control over financial reporting; (3) our report on compliance with laws, regulations, contracts, and grant agreements and other matters; and (4) FHA's response to our findings and recommendations.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of FHA, which comprise the consolidated balance sheet as of September 30, 2021; the related consolidated statements of net cost, changes in net position, and the combined statement of budgetary resources for the fiscal year then ended; and the related notes to the consolidated financial statements.

[1]The RSI consists of Management's Discussion and Analysis section and Schedules A (Intragovernmental Assets), B (Intragovernmental Liabilities), C (Comparative Combining Statement of Budgetary Resources by FHA Program for Budgetary), and D (Comparative Combining Statement of Budgetary Resources by FHA Program for Non-Budgetary) included as RSI within the Principal Financial Statements section of the Annual Management report for fiscal year 2021.
[2]Other information consists of the Message from the Principal Deputy Assistant Secretary for Housing and Federal Housing Administration section; Systems, Controls and Legal Compliance discussion within the Management's Discussion and Analysis section; Message from the Deputy Assistant Secretary for Finance and Budget and Other Accompanying Information within the Principal Financial Statements section; and the FHA Organizational Chart section of the Annual Management Report for fiscal year 2021.

We conducted our audit in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 21-04, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 21-04). We believe that the audit evidence we obtained is 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 consolidated 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 auditors' 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. *Government Auditing Standards* require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We are also responsible for applying certain limited procedures to the RSI and other information included with the consolidated financial statements.

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

Opinion on Financial Statements

In our opinion, the Federal Housing Administration's consolidated financial statements present fairly, in all material respects, FHA's financial position as of September 30, 2021, and its net cost of operations, changes in net position, and budgetary resources for the fiscal year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in notes 1, 7, and 13 to the financial statements, FHA has loans receivable, net, and negative loan guarantees of $49,072 million and $17,908 million, respectively, as of September 30, 2021, the majority of which are issued under the *Federal Credit Reform Act of 1990*. FHA values its Credit Reform direct loans and loan guarantees and related receivables from assigned notes and property inventories at the net present value of their estimated future cash flows associated with these assets. Anticipated cash outflows primarily include lender claims arising from borrower defaults, premium refunds and costs to maintain and sell foreclosed properties. Anticipated cash inflows primarily include insurance premium receipts, proceeds from asset sales and principal and interest collections on Secretary-held notes. The valuation estimates are 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. Subsidy costs are intended to estimate the long-term cost to the U.S. Government of its direct loan and loan guarantee programs. A subsidy re-estimate is performed annually and any adjustment resulting from the re-estimate is recognized as subsidy expense when net cash outflows are expected or subsidy surplus when net cash inflows are expected. Actual results may differ from the estimates. Our opinion on FHA's financial statements is not modified with respect to this matter.

Other Matters

Accompanying Prior Year Financial Statements

The accompanying consolidated FHA financial statements as of and for the year ended September 30, 2020, were audited by other auditors, whose Independent Auditor's Report thereon dated November 12, 2020, expressed an unmodified opinion on those financial statements and included an emphasis of matter paragraph on the loan guarantee liability estimate. We were not engaged to audit, review, or apply any procedures to FHA's fiscal year 2020 consolidated financial statements and, accordingly, we do not express an opinion or any other form of assurance on the fiscal year 2020 consolidated financial statements.

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 consolidated financial statements. Although the RSI is not a part of the consolidated financial statements, FASAB considers this information to be an essential part of financial reporting for placing the consolidated financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with *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 auditors' inquiries, the consolidated financial statements, and other knowledge we obtained during the audit of the consolidated financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. We did not audit and we do not express an opinion or provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

Other Information

FHA's other information contains a wide range of information, some of which is not directly related to the consolidated financial statements. This information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements or the RSI. We read the other information included with the consolidated financial statements in order to identify material inconsistencies, if any, with the audited consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on FHA's consolidated 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 audit of FHA's consolidated financial statements, we considered FHA's internal control over financial reporting, consistent with our auditors' responsibility discussed below. We performed our procedures related to FHA's internal control over financial reporting in accordance with *Government Auditing Standards*.

Management's Responsibility

FHA management is responsible for (1) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; (2) evaluating the effectiveness of internal control over financial reporting based on the criteria established under 31 U.S.C. 3512 (c), (d) (commonly known as the Federal Managers' Financial Integrity Act (FMFIA)); and (3) providing an assurance statement on the overall effectiveness of internal control over financial reporting included in management's discussion and analysis (MD&A), as Systems, Controls, and Legal Compliance section.

Auditors' Responsibility

In planning and performing our audit of FHA's financial statements as of and for the year ended September 30, 2021, in accordance with *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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of FHA's internal control over financial reporting or on management's assurance statement on the overall effectiveness on internal control over financial reporting. Accordingly, we do not express an opinion on FHA's internal control over financial reporting or on management's assurance statement on the overall effectiveness of internal control over financial reporting. We are required to report all deficiencies that are considered to be material weaknesses or significant deficiencies. We did not consider or evaluate all internal controls relevant to operating objectives as broadly established by the FMFIA, such as those controls relevant to preparing performance information and ensuring efficient operations.

Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of consolidated financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the consolidated 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit, we did identify certain deficiencies in internal control over financial reporting that we consider to be a material weakness and a significant deficiency, described below and in Exhibit A and Exhibit B, respectively.

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 over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described below and in Exhibit A to be a material weakness.

Weaknesses in Controls over Financial Accounting and Reporting

> In fiscal year 2021, FHA recorded a series of erroneous loan endorsements and associated negative subsidy for its Home Equity Conversion Mortgage (HECM) program, which led to misstatements of approximately $3,303 million in its accounting records and borrowing and investment transactions that would otherwise not occur. In addition, FHA management did not adequately review and implement OMB Circular A-136, *Financial Reporting Requirements-Revised*, which resulted in the improper presentation of the loan guarantee liability as a negative liability in the initial version of the financial statements as of September 30, 2021 and 2020.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described below and in Exhibit B to be a significant deficiency.

Weaknesses in Controls over Econometric Modeling Activities

> FHA's econometric modeling activities used to estimate the agency's loan guarantee liability need improvements to minimize the precision risks or the susceptibility to error associated with estimating FHA's largest liability on its balance sheet. Further, we identified areas of needed improvement regarding documentation used to support FHA management's current modeling practices.

During our fiscal year 2021 audit, we identified deficiencies in FHA's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. Nonetheless, these deficiencies warrant FHA management's attention. We have communicated these matters to FHA management and, where appropriate, will report on them separately.

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 *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, Contracts, and Grant Agreements and Other Matters

In connection with our audit of FHA's consolidated financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditors' 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 *Government Auditing Standards*.

<u>Management's Responsibility</u>

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

<u>Auditors' Responsibility</u>

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

<u>Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements and Other Matters</u>

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance or other matters for fiscal year 2021 that would be reportable under *Government Auditing Standards*. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to FHA. Accordingly, we do not express such an opinion.

<u>Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements and Other Matters</u>

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

Status of Prior Year's Control Deficiencies and Noncompliance Issues

We have reviewed the status of FHA's corrective actions with respect to the findings and recommendations included in the prior year's Independent Auditors' Report, dated November 12, 2020. The status of prior year findings is presented in Exhibit C.

FHA's Response to Audit Findings and Recommendations

FHA's response to the findings and recommendations identified in our report is described in Exhibit D. FHA's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Greenbelt, MD
December 6, 2021

EXHIBIT A
Material Weakness

1. Weaknesses in Controls over Financial Accounting and Reporting

A. <u>Erroneous Recording of HECM Subsidy Expense and Underlying Obligations</u>

Background:

The Financial Analysis and Controls Division (FACD) is responsible for calculating the Home Equity Conversion Mortgage (HECM) program subsidy. In addition, FACD staff review the reconciliations of the data sources used to calculate the subsidy and records the accounting transactions into FHA's source systems and the general ledger. Procedures require the FACD staff to review the reconciliations prepared by the Single Family Insurance Operations Division (SFIOD), which compares the daily Computerized Home Underwriting Management System (CHUMS) file activity to the monthly Home Equity Reverse Mortgage Information Technology (HERMIT) Cohort Summary report. Further, FACD staff runs the Credit Subsidy Control System (CSCS) Transaction Summary report and compares the year-to-date endorsement amounts to the HERMIT Cohort Summary report on a monthly basis. Manual journal entries are recorded in CSCS to bring the cumulative endorsements in CSCS in line with the HERMIT Cohort Summary report and to record the related subsidy expense and underlying obligations.

CSCS is the subsidiary system used to calculate the subsidy expense and underlying obligation amounts, and CSCS subsequently transfers the calculated subsidy amounts into the general leger through an automated interface. Because the CSCS Transaction Summary report reconciliation to the HERMIT Cohort Summary report takes place after the monthly close, the endorsement variance is processed in CSCS in the month following the reconciliation period. Therefore, FHA records an accrual entry into the general ledger for the month impacted by the reconciling difference to ensure the subsidy expense and underlying obligations are complete and accurate for the current month. The general ledger accrual entry is reversed the following month, as the actual transactions are recorded through the automated CSCS interface.

Condition:

In May 2021, FHA's FACD identified a $3,303 million error with its calculation of the HECM program subsidy and underlying obligations. This error had been undetected since at least September 2020. Once the error was detected, FACD attempted to reverse the erroneous entries in CSCS. However, FACD could not reverse the erroneous transactions due to system limitations and functionality within CSCS. A system solution could not be developed before the end of the fiscal year and a number of manual journal entries were needed to correct the general ledger balances impacted by the erroneous HECM subsidy expense and obligations entries. As part of the September 2021 closing activities, FACD corrected the subsidy expense balance and related proprietary transactions, but could not correct the over-estimate of underlying obligations and the related budgetary entries in the general ledger before year end due to the lack of budgetary resources. Working with the U.S. Department of the Treasury and Office of Management and Budget (OMB), FHA was able to correct the transactions in October 2021 to properly reflect accurate balances in the published September 30, 2021 financial statements.

During the year end audit procedures, we requested that FHA perform a complete review of the HERMIT to CHUMS to CSCS reconciliation process to determine the root cause of the error. At that time, FHA management discovered that FACD staff recorded the monthly HECM subsidy expense and obligations adjusting entries for the difference between the endorsements on the HERMIT Cohort Summary report versus the CSCS Transaction Summary report, without determining whether this difference increased or decreased the cumulative endorsement balance in CSCS. Further, FHA did not use the HERMIT to CHUMS reconciliation as a reasonableness check for the adjusting entry that was recorded in CSCS. As a result of the erroneous monthly adjustments, the cumulative endorsement amount and the related HECM subsidy expense and obligations increased significantly in fiscal year 2021. Specifically, as the reconciling difference between HERMIT and CSCS grew more negative, the adjustment in CSCS continued to be processed as a positive amount. In contrast, the associated monthly accrual to capture the CSCS adjustment in the general ledger was recorded as a negative amount. Although the monthly accrual offset some of the error impact on the CSCS calculated subsidy expense and obligations, it resulted in an abnormal balance in budgetary account 4901, *Delivered Orders, Unpaid*.

Criteria:

The Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* states that effective documentation assists in management's design of internal control by establishing and communicating the who, what, when, where, and why of internal control execution to personnel. Documentation also provides a means to retain organizational knowledge and mitigate the risk of having that knowledge limited to a few personnel, as well as a means to communicate that knowledge as needed to external parties, such as external auditors.

In addition, GAO's standards state that management should design the entity's information system and related control activities to achieve objectives and respond to risks. Further, GAO's standards state that management should internally communicate the necessary quality information to achieve the entity's objectives. Management communicates quality information throughout the entity using established reporting lines. Quality information is communicated down, across, up and around reporting lines to all levels of the entity. Management communicates quality information down and across reporting lines to enable personnel to perform key roles in achieving objectives, addressing risks, and supporting the internal control system.

Cause:

The erroneous monthly entries occurred because of misinterpretation of reconciliation procedures and input values by a new FACD accountant and a new branch chief who were not adequately trained and monitored. Also, the standard operating procedures were not sufficiently detailed and did not provide a sufficient description of the steps or actions required to perform the reconciliation and prepare the accrual entries. Further, FACD management did not timely assess the impact that the erroneous CSCS entries had on various facets of FHA operations and financial accounting and reporting. Once identified, the issue was not adequately analyzed and communicated to the Office of Financial Accounting and Reporting (OFAR). According to FHA, senior leadership was not fully aware of the magnitude of the error.

Effect:

The lack of adequate procedures, proper reconciliations, staff training, and management reviews resulted in a $3,303 million error in the initial version of the September 30, 2021 financial statements. In addition, these control deficiencies led to a risk of noncompliance with laws and regulations, such as the Antideficiency Act.

Recommendations:

We recommend that the Deputy Asssitant Secretary for Finance and Budget:

1A. Request an opinion from HUD's Office of the Chief Financial Officer's Appropriation Law Division on whether the abnormal balance in account 4901 constitutes a violation of the Antideficiency Act.

1B. Enhance standard operating procedures around system and account reconciliations to ensure that they cover all possible scenarios and are easy to follow.

1C. Appropriately train and monitor new personnel to ensure that they understand and execute the procedures and controls.

1D. Update procedures to clearly define error thresholds that require followup and the communincation process for elevating errors to supervisors, managers, and senior leadership.

1E. Establish clear lines of comminication within and between divisions to ensure that all personnel become aware of issues that may impact their duties and responsibilities.

1F. Strengthen controls over the preparation of HECM-related reconciliations, reviews, and oversight by ensuring that (1) program personnel preparing such reconciliations understand how such reconciliations impact financial accounting and reporting and (2) financial personnel sufficiently understand programs and systems to determine their general ledger impact.

1G. Enhance the quarterly variance analysis to identify the business reasons for changes in account balances and pay specific attention to abnormal balances and activity.

B. Improper Presentation of the Loan Guarantee Liability

Background:

The net potential future losses related to FHA's central business of providing mortgage insurance are reflected in the Loan Guarantee Liability (LGL) in the consolidated balance sheet. As required by SFFAS [Statement of Federal Financial Accounting Standards] No. 2, *Accounting for Direct Loans and Loan Guarantees,* the LGL includes the Credit Reform-related Liabilities for Loan Guarantees (LLG) and the pre-Credit Reform Loan Loss Reserve (LLR).

The LLG is calculated as the net present value of anticipated cash outflows 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 uses cash flow model assumptions associated with loan guarantee cases subject to the Federal Credit Reform Act 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.

EXHIBIT A
Material Weakness

Condition:

During our review of FHA's initial version of the year-end financial statements, we found that the abnormal negative LGL balances in the amount of $17,908 million and $6,184 million at September 30, 2021 and 2020, respectively, were improperly presented within the liabilities section of FHA's balance sheet. FHA's credit program econometric model calculates the present value of net cash flows. When the models predict that future estimated cash inflows will exceed the future estimated cash outflows for FHA's programs in their entirety, the LGL is negative. The abnormal LGL should be classified as an asset in FHA's financial statements in accordance with OMB financial reporting guidance. Once we brought the matter to FHA management's attention, the LGL balances were reclassified to the appropriate asset financial statement line item on FHA's published financial statements and related footnotes.

Criteria:

OMB Circular A – 136, *Financial Reporting Requirements-Revised* states that when the net LGL for all credit programs of a reporting entity is negative, it should be reported as an asset. In addition, the components of the line item must be disclosed.

Cause:

FHA's OFAR Division did not adequately review and implement OMB Circular A-136, *Financial Reporting Requirements-Revised,* to ensure compliance with the financial reporting guidance issued by OMB.

Effect:

The inadequate review and implementation of OMB Circular A-136 increases the risk of improper presentation of the financial statements and material misstatement. By reclassifying the negative LGL as an asset:

- FHA's total assets increased from $158,676 million to $176,584 million at September 30, 2021, and from $131,732 million to $137,916 million at September 30, 2020.

- FHA's total liabilities increased from $55,832 million to $73,740 million at September 30, 2021, and from $50,798 million to $56,982 million at September 30, 2020.

Recommendations:

We recommend that the Director of OFAR:

1H. Strengthen the financial statement review controls by completing a compliance matrix to ensure all balances that are presented and disclosed reflect the most up-to-date finanicial accounting and reporting guidance.

EXHIBIT B
Significant Deficiency

2. Weaknesses in Controls over Econometric Modeling Activities

A. <u>Model Inputs</u>

Background:

The Federal Housing Administration (FHA) is responsible for administering programs that provide mortgage insurance for three primary programs: Single Family, Multifamily, and Healthcare, that have mortgages financed by FHA-approved lenders throughout the United States (U.S.) and its territories, backed by the full faith and credit of the U.S. Government. FHA uses complex econometric modeling techniques to estimate the future cash flows over the life of these loans and determine the cost of the loan guarantees on a present value basis. The program components principally impacted by these activities are the Single Family Forward (SF), Home Equity Conversion Mortgage (HECM), [3] Multifamily, and Healthcare Facilities. [4] The FHA offices principally responsible for the econometric modeling activities for the SF, HECM, and the MF programs are the Office of Evaluations and the Office of Risk Management.

Condition:

During our examination of FHA's econometric models, we found that the controls related to modeling activities need improvements to minimize the precision risks associated with estimating FHA's largest liability on its balance sheet. The accuracy and precision of FHA's LGL estimate is highly dependent upon the use of the most up-to-date, accurate, and complete data as well as the reasonableness of the assumptions. Also, the reliability and completeness of the data inputs are essential to assisting FHA management in predicting the Federal Government's future economic loan guarantee obligations for its programs. During our review of FHA's econometric models, we identified the following:

- The SF credit risk estimation process uses the scheduled Unpaid Principal Balance (UPB), instead of the current UPB, to run credit models. The current UPB represents actual value, whereas the scheduled UPB qualifies as an imprecise estimate that is not adjusted for additional payments of principal. This process is not consistently applied because FHA management uses the current UPB for its MF and HECM econometric models.

- The MF cash flow model inputs contained a loan with a different attribute than the source document. The final source document was accurate, but FHA incorrectly processed the transaction in its Development Application Processing (DAP) feeder system, which resulted in an erroneous input into the MF cash flow model.

- The SF Technical Note states FHA's rationale for routinely estimating the fourth quarter (July through September) loan origination volume as equal to the third quarter (April through June). However, the basis for the decision is not adequately analyzed and reviewed on a regular basis. Further, our review of FHA's SF model identified that FHA's assumption related to the fourth quarter loan volume lacks historical data support. We found that the fourth quarter endorsement volume, on average, was higher than third quarter in the last 5,10, and 29 years through year 2020. In addition. we found significant fluctuations in the loan volume between the fourth quarter and third quarter. In the last 5, 10, and 29 years, the mean percentage change in loan volume

[3] HECM is a program within Single Family.

[4] Healthcare Facilities is a program within Multifamily (herein after, collectively referred to as "MF").

between the fourth quarter and the third quarter was 14%, 8%, and 7%, respectively. In addition, the maximum percentage change between the fourth quarter and the third quarter in the last 5, 10, and 29 years was 25%, 25%, and 41%, respectively.

Criteria:

Federal Financial Accounting and Auditing Technical Release 6: *Preparing Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act – Amendments to Technical Release No. 3 Preparing and Auditing Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act,* states that agencies must accumulate sufficient, relevant and reliable data on which to base cash flow projections. It is important to note that the agencies should prepare all estimates and reestimates based upon the best available data at the time the estimates are made. Agencies should prepare and report reestimates of the credit subsidies in accordance with SFFAS No. 2, 18, and 19 to reflect the most recent data available as discussed in the reestimate section of this technical release.

The GAO *Standards for Internal Control in the Federal Government* states that effective documentation assists in management's design of internal control by establishing and communicating the who, what, when, where, and why of internal control execution to personnel. Documentation also provides a means to retain organizational knowledge and mitigate the risk of having that knowledge limited to a few personnel, as well as a means to communicate that knowledge as needed to external parties, such as external auditors.

Cause:

FHA management believes the current data inputs used for each of the models provide the best available data, and are reliable and complete for estimation purposes. Further, FHA management's position is that the data inputs are consistently executed within the models and achieve the agency's modeling objectives for estimating future cash flows and financial reporting purposes. In certain instances, management did not have a documented process in place which provides evidence that certain control activities, such as training, periodic reviews, or management decisions support the current modeling practices, are performed.

Effect:

The use of inappropriate or inaccurate data inputs may impact reliability of estimates and result in errors or a less precise estimated LGL.

Recommendations:

All recommendations for Model Inputs are provided at the end of Exhibit B.

B. <u>Model Documentation</u>

Background:

FHA management is responsible for establishing a process to prepare the LGL estimate and maintain adequate documentation to support its current econometric modeling control activities. The established process should include control activities that assist management in mitigating modeling risks in order to meet the specific estimation and financial reporting objectives. Some examples of control activities include actions such as approvals, reconciliations, performance reviews, verification reviews as well documented policies and procedures. These activities are preventive or detective in nature and should be performed at all levels of the agency. The econometric models used by FHA produce an estimate that is reported as the largest component of the LGL in FHA's balance sheet.

Condition:

The econometric modeling documentation includes various types of documents, such as flowcharts, policy and procedure manuals, narrative descriptions and PowerPoint presentations. The importance of the documentation is paramount to ensuring that a specific process is followed or executed in a consistent manner. In addition, the details within these documents can help users understand the nuances or rationale used to modify or update a current practice. Further, the modeling activities require sufficient and descriptive documentation that is clear and consistent to ensure that appropriate steps are followed to achieve FHA management's intended objective. During our examination of FHA econometric models, we found that:

- A MF loan valued at approximately $7.7 million was excluded from the cash flow results file. FHA management could not provide sufficient evidence that documented the rationale or justification used to exclude the loan.

- Model documentation contained obsolete and inaccurate information, or omitted information. The errors were noted in the following documents:

  - Single Family Budget Model Technical Note
  - Single Family Budget Model User Guide
  - HECM Budget Model Technical Note
  - HECM Single Family Data Warehouse Datamart Dictionaries
  - RMCAP Platform Data Dictionary
  - Multifamily FY 2021 Commercial LLG and LLR Regression Analysis Memo

The consistent application of the appropriate econometric model inputs and the use of the most current documentation are critical to ensuring a more precise estimation of FHA's future cash flows is achieved for its loan guarantee programs.

Criteria:

Federal Financial Accounting and Auditing Technical Release 6: *Preparing Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act – Amendments to Technical Release No. 3 Preparing and Auditing Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act states* that documentation must be provided to support the assumptions used by the agency in the subsidy calculations. This documentation will not only facilitate the agency's review of the assumptions, a key internal control, it will also facilitate the auditor's review. Documentation should be complete and stand on its own, i.e., a knowledgeable independent person could perform the same steps and replicate the same results with little or no outside explanation or assistance. If the documentation were from a source that would normally be destroyed, then copies should be maintained in the file for the purposes of reconstructing the estimate.

EXHIBIT B
Significant Deficiency

Cause:

In certain instances, management did not have a documented process in place that provides evidence that certain control activities, such as periodic reviews or management decisions that support the current modeling practices, are performed. Also, FHA management does not regularly update its documentation to reflect the current practices used for its modeling activities.

Effect:

The lack of documented procedures, management's rationale, or justification used for specific events creates the risk that the execution of modeling activities will be performed inconsistently and lead to errors or misstatements in FHA's LGL and related accounts.

Recommendations:

We recommend that the FHA Director of the Office of Evaluation:

2A. Perform a comprehensive analysis for all cohort years and assess the impact that the use of the scheduled UPB instead of the current UPB has on the LGL. If significant based on a quantitative threshold, update the SF cash flow model to incorporate the current UPB data.

2B. Develop and implement a new process to require the annual validation of the fourth quarter endorsement volume estimation method for the SF Forward model. The process should include a management review and approval control component. The process should be documented and should demonstrate that management's estimate is based on the analysis of past experiences, current policy, and market considerations, and, if necessary, incorporate improvement recommendations.

2C. Perform a comprehensive review of the SF and HECM model documentation and update the specific sections with the current practices and procedures required to execute the model activities.

2D. Establish a process that requires the timely review and update of model documentation. The process should include tracking the dates and nature of the revisions.

We recommend that the FHA Director of the Office of MF Production:

2E. Provide training and periodic reminders to field staff and management to ensure that the data fields in DAP and on the final Form HUD-290 are accurate and consistent.

We recommend that the FHA Director of the Office of Risk Management:

2F. Develop and implement written procedures that provide guidance or best practices that should be followed to address data anomalies. At a minimum, these written procedures should include the following: (1) a process for identifying key data attributes that significantly impact the results, (2) the determination of preset thresholds for analyst and management attention, (3) the treatment of data anomalies, such as null values or values that exceed preset thresholds, (4) a process for providing feedback to the upstream data provider(s) for corrective and preventive actions when data integrity issues are detected and management concludes the issue is significant, and (5) a process for preparing documentation to support management decisions.

EXHIBIT C
Status of Prior Year Findings and Recommendations

The Independent Auditors' Report dated November 12, 2020, identified three unimplemented recommendations from the prior-year report 2019-FO-0002, *Federal Housing Administration's Fiscal Years 2018 and 2017 Financial Statements Audit*, and report 2018-FO-0003, *Federal Housing Administration's Fiscal Years 2017 and 2016 Financial Statements Audit*. The Office of Inspector General (OIG) – prior independent auditors – 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 OIG concluded that the deficiencies in internal control no longer met the definition of a material weakness or significant deficiency individually or in combination in fiscal year 2020. Therefore, the OIG recommended that FHA should continue to track and resolve the recommendations under the prior-year report numbers in the Audit Resolution and Corrective Action Tracking System (ARCATS) in accordance with departmental procedures.

Our assessment of the status of the findings and recommendations related to the prior year audits is presented below:

Prior Audits' Findings and Recommendations	***Tracking***	***Fiscal Year 2021 Status***
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, the OIG 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.	ARCATS 2019-FO-0002-002-I (Final action target date was October 31, 2019)	Repeat. We issued a similar finding as a management letter comment.
With respect to FHA's weaknesses in processing recorded HECM [home equity conversion mortgage] assignments, the OIG 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.	ARCATS 2019-FO-0002-002-M (Final action target date was December 31, 2019)	Closed
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, the OIG 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.	ARCATS 2018-FO-0003-002-A (Final action target date was August 31, 2018)	Repeat. We issued a similar finding as a management letter comment.

EXHIBIT D
FHA's Response to Audit Findings and Recommendations

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

OFFICE OF HOUSING

December 6, 2021

MEMORANDUM FOR: CliftonLarsonAllen, LLP

FROM: Susan A. Betts, Housing, Deputy Assistant Secretary for Finance and Budget, 14W

SUBJECT: Response to Draft Audit Report on FHA's Fiscal Years 2021 and 2020 Financial Statements

On behalf of the Federal Housing Administration (FHA), thank you for the opportunity to respond to FHA's Independent Auditors' Report. We are pleased to have obtained an unmodified opinion on our financial statements and appreciate the efforts of the independent auditors in conjunction with the Office of the inspector General (OIG) to provide us with actionable recommendations. FHA is committed to making the changes necessary to strengthen controls over financial reporting and modeling activities and has prioritized this work amongst our staff. Working collaboratively with the auditors, we will continue to identify improvements and implement changes needed to address the internal control findings identified.

Report on Internal Control — Material Weakness

Finding 1: Weaknesses in Controls over Financial Accounting and Reporting

FHA agrees with this finding and recommendations. FHA has already begun implementing several of the recommendations identified in the finding and will continue to implement the changes necessary to address the remaining recommendations in FY 2022. To address control weaknesses surrounding financial reporting, FHA will:

- Finalize communications with HUD's Appropriation Law Division
- Review and update standard operating procedures, with a particular focus on systems and reconciliations identified during the financial statement audit.
- Enhance training for new and existing personnel as well as improve management's review and monitoring processes.
- Review error thresholds that require follow up and communicate the process for elevating errors to supervisors, managers, and senior leadership. We have issued preliminary error thresholds and communication protocols, when those errors are discovered. These preliminary thresholds and protocols will be further reviewed and updated as necessary.

vnvw.hud.gov espanol.hud.gov

- Provide additional training and review sessions to all staff and managers involved in HECM-related reconciliations, reviews, and oversight to ensure understanding of analytical procedures and financial tie points as they relate to accounting and reporting as well as enhance their understanding of the programs and systems involved in the HECM process and its impact on the general ledger.
- Implement additional variance analyses at lower levels of the organization, in addition to existing FHA-wide quarterly variance analysis and OFAR's General Ledger Division quarterly variance analysis.
- Implement a compliance matrix and formal review process of new and existing financial accounting and reporting guidance, and its impacts on FHA's financial reporting.

Report on Internal Control — Significant Deficiency

Finding 2: Weaknesses in Controls over Econometric Modeling Activities

FHA agrees with the findings and associated recommendations. To address control weaknesses surrounding the model inputs and documentation, FHA will:

- Perform a comprehensive analysis for all cohort years and assess the impact of the use of the scheduled UPB instead of the current UPB has on the LGL. We will document management's determination of significance and materiality of the differences and, subsequently have FHA's Model Risk Governance Board decide on the use of current UPB data to update the SF cash flow model or approve the use of scheduled UPB data.
- Update the annual Single Family Model Risk Governance model assumption review process and documentation to include the Fiscal Year fourth quarter endorsement volume estimate methodology.
- Perform a comprehensive review of the SF and HECM model documentation and update the specific sections with the current practices and procedures required to execute the model activities.
- Proceed with the timely review and update of model documentation to include date tracking and capture revision descriptions.
- Implement the written procedure developed to address data anomalies.

FHA

ORGANIZATIONAL CHART

- Assistant Secretary for Housing and Federal Housing Commissioner
  - Deputy Asst. Secretary for Finance & Budget
    - Office of the Housing - FHA Comptroller
    - Office of Asset Sales
    - Office of Budget & Field Resources
  - Deputy Asst. Secretary for Multifamily Housing Programs
    - Office of Program Systems Management
    - Office of Multifamily Production
    - Office of Asset Management & Portfolio
    - Office of Recapitalization
    - Office of Field Support & Operations
  - Deputy Asst. Secretary for Housing Counseling
    - Office of Policy & Grant Administration
    - Office of Outreach & Capacity Building
    - Office of Oversight & Accountability
  - Deputy Asst. Secretary for Single Family Housing
    - Office of Single Family Program Development
    - Office of Single Family Asset Management
    - Office of Lender Activities & Program Compliance
    - Atlanta Homeownership Center
    - Denver Homeownership Center
    - Philadelphia Homeownership Center
    - Santa Ana Homeownership Center
  - Deputy Asst. Secretary for Healthcare Programs
    - Office of Hospital Facilities
    - Office of Residential Care Facilities
    - Office of Architecture & Engineering
  - Deputy Asst. Secretary for Risk Management & Regulatory Affairs
    - Office of Risk Management
    - Office of Evaluation
    - Office of Manufactured Housing Programs
  - Deputy Asst. Secretary for Operations
    - Office of FHA Transformation
    - Office of Management
    - Office of Business Development

https://www.hud.gov/sites/dfiles/Housing/documents/FHAFY2021ANNUALMGMNTRPT.PDF

FHA