U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

FHA

FEDERAL HOUSING ADMINISTRATION



Fiscal Year 2015

ANNUAL MANAGEMENT REPORT

FHA'S MISSION

To contribute to sustainable communities by facilitating the financing of homes, rental housing and healthcare facilities and providing quality affordable housing options in a manner that mitigates taxpayer risks and protects consumers.

Your Door to FHA HOMEOWNERSHIP

This Annual Management Report (AMR) for the fiscal year ended September 30, 2015 provides the Federal Housing Administration's financial and summary performance information in accordance with OMB Circular A-136, Financial Reporting Requirements.

The Agency's AMR is available on the website below. FHA welcomes feedback on the form and content of this report. http://portal.hud.gov/hudportal/documents/huddoc?id=fhafy15annualmgmntrpt.pdf.

This report is divided into four sections:

- ***A Message from the Principal Deputy Assistant Secretary for Housing*** is a letter that highlights FHA's mission, vision, achievements for the year and communicates the direction and priorities of the Agency.

- ***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 financial management legislation.

- ***Principal Financial Statements*** includes Financial Statements and Notes to the Financial Statements.

- ***Auditor's Report*** on the Federal Housing Administration's (FHA) fiscal year 2015 financial statements, internal controls and compliance with laws and regulations.

A MESSAGE FROM THE PRINCIPAL DEPUTY ASSISTANT SECRETARY

November 16, 2015

TO THE CONGRESS OF THE UNITED STATES, MEMBERS OF THE HOUSING INDUSTRY AND THE AMERICAN PUBLIC:

In its 81 year history, FHA has helped more than 44 million families purchase a home, produced and preserved tens of thousands of units of affordable rental housing, and created access to critical healthcare facilities. This work has been a necessary part of creating and maintaining pathways to the middle class, as well as ensuring that everyone has access to appropriate housing of their choosing.

Fiscal Year 2015 proved to be a strong year for FHA; a number of important initiatives from previous years are completed or well underway – contributing to the housing market's continued recovery in a significant way. This report outlines many of FHA's accomplishments including:

MMI Fund Capital Ratio

Throughout the crisis and recovery, FHA undertook a number of actions to protect and strengthen the value of the Fund. As a result, this fiscal year the Mutual Mortgage Insurance (MMI) Fund's economic net worth improved by $19 billion, increasing from $4.8 billion in fiscal year 2014 to $23.8 billion in fiscal year 2015. This year's economic net worth exceeds what was projected in last year's study by approximately $8.7 billion. Overall, the Fund has improved by $40 billion dollars since fiscal year 2012. As a result, the Capital Ratio reached the 2 percent statutory minimum, one year ahead of the actuary's fiscal year 2014 projection. Improvements were present both in portfolio performance and value. This significant recovery in a relatively short period of time is indicative of FHA's strong fundamentals as a program and of the Agency's commitment to serving the market well.

MIP Reduction Impact

In January, FHA reduced the Single Family Annual Mortgage Insurance Premium (MIP) from 1.35 percent to .85 percent; balancing pricing for risk while helping everyday Americans get access to affordable mortgage credit. Reducing the MIP had a number of positive effects: saving new borrowers an average of $900 annually; allowing existing borrowers to refinances at today's low rates; and growing the housing market as a whole.

Compared to fiscal year 2014, the number of purchase endorsements increased by 27 percent, reaching 753,389 loans in fiscal year 2015, and refinance activity grew by 90 percent, reaching 362,843 loans in fiscal year 2015. The MIP reduction also made it possible for over 75,000 new creditworthy borrowers to purchase homes in the first eight months after the MIP reduction went into place. The increase in forward endorsements over the prior fiscal year has been driven by FHA's premium reduction. The modest reduction has provided a path to responsible homeownership for hardworking Americans – particularly for those with less than perfect credit.

Blueprint for Access Update

In May of fiscal year 2014, FHA released its *Blueprint for Access*, which outlined a number of initiatives that FHA is already implementing to make it easier for qualified borrowers to get a loan. FHA has now finished work on a number of these initiatives, or will do so shortly. The Handbook update is now mostly complete, and many critical sections went into effect at the end of fiscal year 2015. The Supplemental Performance Metric is live and shown in Neighborhood Watch alongside the Compare Ratio. The Loan Review System – which implements the published defect taxonomy – is currently under construction. By outlining our expectations and regulations in a more clear and user-friendly way, we are providing the much sought after certainty that the housing market needs.

RAD Update

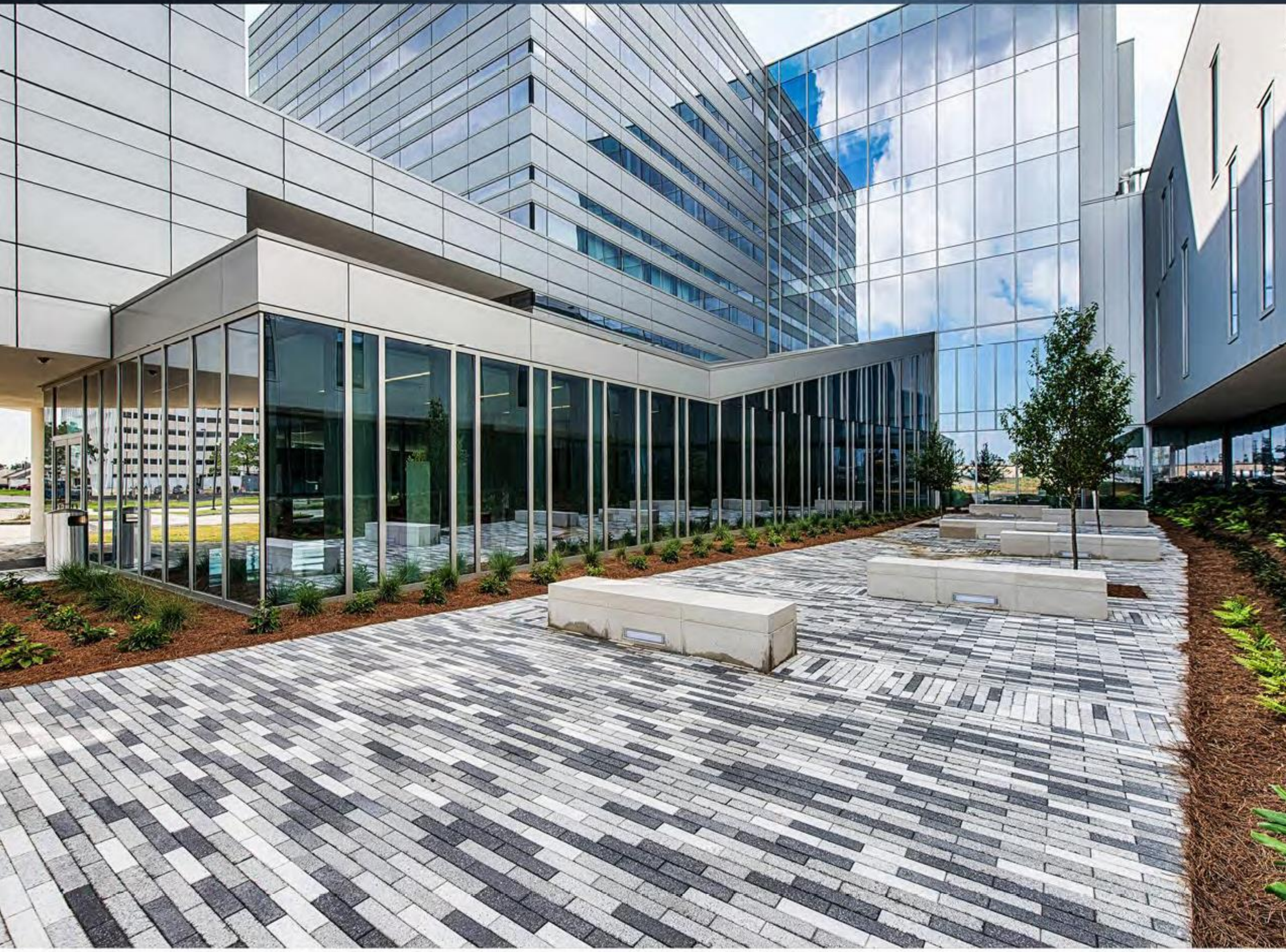
Multifamily's Rental Assistance Demonstration program continues to be very strongly subscribed. Multifamily has made great strides implementing and managing RAD, publishing updated guidance and converting and preserving over 31,000 units as of September 2015. The program has leveraged over $1.2 billion of hard cost investment into former public housing as of September 2015. RAD continues to allow HUD the opportunity to creatively apply proven tools to solve new problems – preserving public and HUD supported housing across the country.

Housing Counseling

The Office of Housing Counseling focused on fulfilling the statutory requirements of the Dodd-Frank bill that required the creation of a certification process for individual counselors. During fiscal year 2015, the Office of Housing Counseling Evaluated continued work on the final Counselor Certification rule, while also producing significant preparatory materials for counselors anticipating the exam. This included launching www.hudhousingcounselors.com – a crucial resource that was well received by the housing counseling community. OHC also introduced new processes that greatly reduced the administrative burden for agencies applying for grants while ensuring that funds are spent effectively and appropriately.

Across the board, FHA remains committed and prepared to provide everyday Americans with access to homeownership opportunities, affordable rental housing, and critical healthcare facilities throughout the country.

Edward Golding
Principal Deputy Assistant Secretary for Housing



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MANAGEMENT'S DISCUSSION AND ANALYSIS

FEDERAL HOUSING ADMINISTRATION AT A GLANCE

The Federal Housing Administration (FHA) was established by 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 provides mortgage insurance for Single Family, Multifamily, and Healthcare loans made by FHA approved lenders throughout the United States and its territories, and is the largest issuer of mortgage insurance in the world. FHA mortgage insurance provides lenders with protection against losses as a result of property owners defaulting on their mortgage loans. Lenders assume less risk because FHA pays a claim to a lender in the event of a default. Since its inception in 1934, FHA has insured over 44 million single family homes and 46 thousand multifamily and healthcare project mortgages.

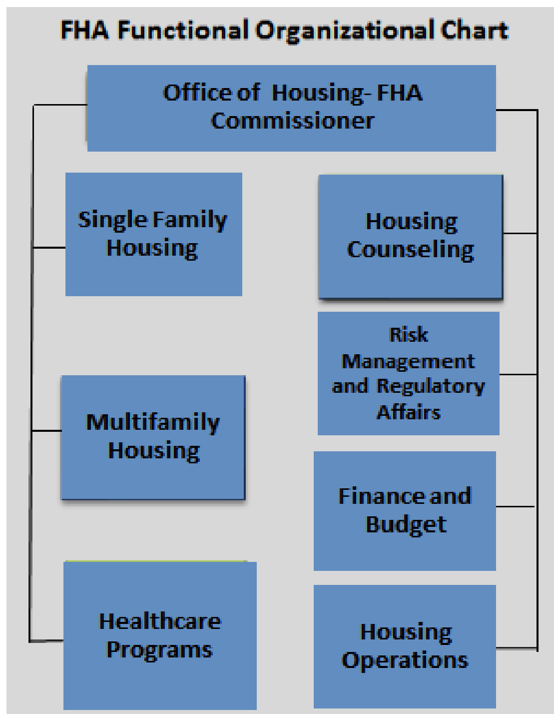
FHA's original purpose was to stimulate recovery in the economy during the Great Depression by improving housing standards and conditions while encouraging construction and mortgage lending. By providing mortgage insurance, FHA was able to stabilize the housing market; thereby, setting the stage for a robust economic recovery.

Over the course of its history, FHA has provided essential benefits to the U.S. housing market including: disaster relief, countercyclical stabilization, building household and intergenerational wealth, and providing product innovation and standardization, which have transformed the housing finance system and changed the demographics of America's mortgage demand. More recently, FHA has implemented valuable foreclosure prevention and refinance programs designed to prevent qualified homeowners from defaulting on their loans by refinancing into affordable, fixed-rate mortgages. Additionally, FHA continues to originate loans, ensuring that low and moderate income families can still buy a home and that multifamily and hospital production can meet communities' needs.

Today, FHA continues to serve the nation by stabilizing the housing market; insuring mortgage loans backed by the full faith and credit of the U.S. government; promoting sound, sustainable and affordable housing; assisting homeowners at risk of foreclosure to stay in their homes; ensuring that affordable rental housing is preserved and produced; and providing critical healthcare facilities with access to capital.

MISSION AND ORGANIZATIONAL STRUCTURE

FHA's mission is to contribute to sustainable communities, in support of the housing market and broader economy, by facilitating the finance of single family and multifamily housing, healthcare facilities, and providing quality affordable housing options in a manner that mitigates taxpayers' risks and protects consumers. FHA achieves its mission through a variety of paths, including insuring loans, consumer education, and legislative rulemaking. Through its multifaceted programs, FHA has served its public mission well, and has acted as a catalyst for healthy communities and economic development throughout our nation. The Assistant Secretary for Housing-FHA Commissioner leads the agency in ensuring effective execution of its mission. Currently, the position is held by the Principal Deputy Assistant Secretary, Edward Golding. The adjacent organizational chart depicts the Office of Housing-FHA's functional areas.



FHA's mortgage insurance programs are administered through its Single Family, Multifamily and Healthcare Program Offices and are supported by several core functional departments within the Office of Housing. For each of its insurance programs, FHA assesses risks, collects insurance premiums, pays claims and predicts future liabilities. Working collaboratively with FHA, the Office of Housing Counseling provides counseling to tenants and homeowners seeking to address their housing goals. The Office of Risk Management and Regulatory Affairs leads FHA in measuring and managing risk and promotes a risk conscious climate that is consistent with the mission of the Office of Housing-FHA. The Office of Finance and Budget is responsible for Housing-FHA's budget formulation and execution activities, the sale and disposition of FHA's mortgage assets, timely and accurate financial management reporting, and preparation of the FHA annual audit. Additionally, the Office of Housing Operations supports all divisions with a variety of services, including contracting and procurement.

Through its concentrated efforts, FHA continues to reemphasize its mission of servicing its target population by providing mortgage insurance programs to a variety of homebuyers including minorities, low-income families and residents of underserved communities. FHA remains an access point for homeownership for first-time homebuyers and others that would not otherwise be served. FHA continues to work with the President and Congress to provide effective programs that support its mission and mitigate taxpayer risk.

AGENCY PRIORITY GOALS

This year, while the broader economy is in recovery and the housing market is on firmer footing, credit availability has still troubled the overall mortgage market, keeping thousands of first-time and lower creditworthy borrowers on the sidelines. With these challenges in mind, the Agency continues to provide support and credit access to a wide range of FHA-eligible borrowers who benefit from obtaining mortgages with low down payments and FHA insurance.

In fiscal year 2014, FHA unveiled its new Strategic Plan that spans five years, through 2018. Under the new multi-year strategic plan, the Agency emphasized three core priorities centered on sustainable growth, stabilizing housing markets and increasing availability of funding. This year, FHA has made significant progress by implementing policies towards achieving its three priority goals:

FHA Fiscal Year 2015 Priorities		
Establishing a Sustainable Housing Finance System	Ensuring Access to Sustainable Housing Finance	Restoring FHA's Fiscal Health

ESTABLISHING A SUSTAINABLE HOUSING FINANCE SYSTEM

FHA is committed to establishing a sustainable housing finance system that provides support during market disruptions, with a properly defined role for the U.S. government. FHA continues to support the passage of housing finance reform legislation, which is critical to protecting taxpayers and homeowners from another crisis like the Great Recession; and has taken appropriate measures to complement private credit enhancements while still maintaining its countercyclical role. Additionally, FHA is working to shape the regulatory landscape through rulemaking, to enhance access to financing for creditworthy borrowers and promote the revival of the private label mortgage sector, while enhancing safety mechanisms for both consumers and investors.

FHA will continue to engage with stakeholders and policymakers to consider housing finance reform legislation that meets the administration's housing policy priorities. As we wait for the necessary legislative action, FHA continues to use its regulatory and rulemaking authorities to pursue a finance system that is more safe, accessible, and fair.

ENSURE ACCESS TO SUSTAINABLE HOUSING FINANCE

In fiscal year 2015, FHA implemented several initiatives to ensure equal access to sustainable housing financing and achieve a more balanced housing market in underserved communities. FHA lowered the single family annual mortgage insurance premium by 50 basis points, and is close to full implementation of the *Blueprint for Access* initiatives, which outlined a number of quality assurance efforts that provide clarity and transparency to FHA-approved lenders. These initiatives include:

- Publication of critical sections of the Single Family Handbook, the definitive guide for doing business with FHA,
- Implementation of the Supplemental Lender Performance Metric, which provides valuable information about lender performance and FHA risk tolerance by credit band, and
- Introduction of the Single Family Loan Quality Assessment Methodology, which will increase defects transparency and give lenders greater confidence in interacting with FHA and lending to borrowers.

The Office of Multifamily Housing published a final Federal Register Notice that permits Community Development Financial Institutions who meet Federal Home Loan Bank qualifications, and other high-capacity, mission-oriented lenders, to use the Risk Sharing Program for Small Building (five to forty-nine unit project) financing. Additionally, the Office of Multifamily and the Office of Healthcare programs implemented the Treasury's Pay.gov system, which allows lenders to make online payments of program fees – increasing efficiency while reducing paperwork and collection risk.

Finally, FHA is continuing to build on existing reforms that support safe, responsible lending practices, and is taking steps to establish clear quality assurance policies that help safeguard lenders from unanticipated consequences when making loans. These initiatives will help increase access to credit for first-time homebuyers underserved by the current mortgage market.

RESTORE FHA's FINANCIAL HEALTH

While the housing market recovery has slowed and credit is still constrained – FHA's performance and financial health have continued to improve as a result of enhanced risk management, major programmatic adjustments, continued strong underwriting practices, and increased volume. Additionally, in fiscal year 2015, FHA continued its focus on aggressive loss mitigation and recovery actions to minimize legacy losses, expanded use of REO alternatives, and refined the utilization of its disposition strategies. As a result, these changes have increased home retention, reduced the number of claims against the Mutual Mortgage Insurance Fund (MMI), and fostered a turnaround in the fundamental health of the Agency.

Today, the fiscal health of FHA is stronger; FHA's Capital Reserve Ratio continues to rebound and reached the mandated 2 percent level. However, FHA must still respond to challenges presented by legacy books-of-business and market volatility that have impacted the MMI Fund and the FHA Capital Reserve Ratio. FHA is actively working to address these challenges to ensure the agency remains a champion for future generations of homeowners.

MMI Capital Ratio

In the National Affordable Housing Act of 1990, Congress introduced a capital-ratio requirement for gauging the financial status of FHA's Mutual Mortgage Insurance (MMI) Fund (12 USC 1711(f)(4)). Today, the MMI Fund encompasses nearly all of FHA's single family business including, since 2009, reverse mortgages insured through FHA's Home Equity Conversion Mortgage (HECM) program. The capital ratio compares the "economic net worth" of the MMI Fund to the dollar balance of active, insured loans, at a point in time. Economic net worth is defined as a net asset position, where 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 Fund's actual capital resources as of September 30, 2015, with the net present value of future cash flows from outstanding books of business as calculated in the Annual Actuarial Review.

Capital resources of the MMI Fund are in two types of accounts: Financing Accounts and a Capital Reserve account. Funds in the Financing Accounts cover expected losses over the life of each insurance cohort, while Capital Reserve balances are accumulated for unanticipated losses.

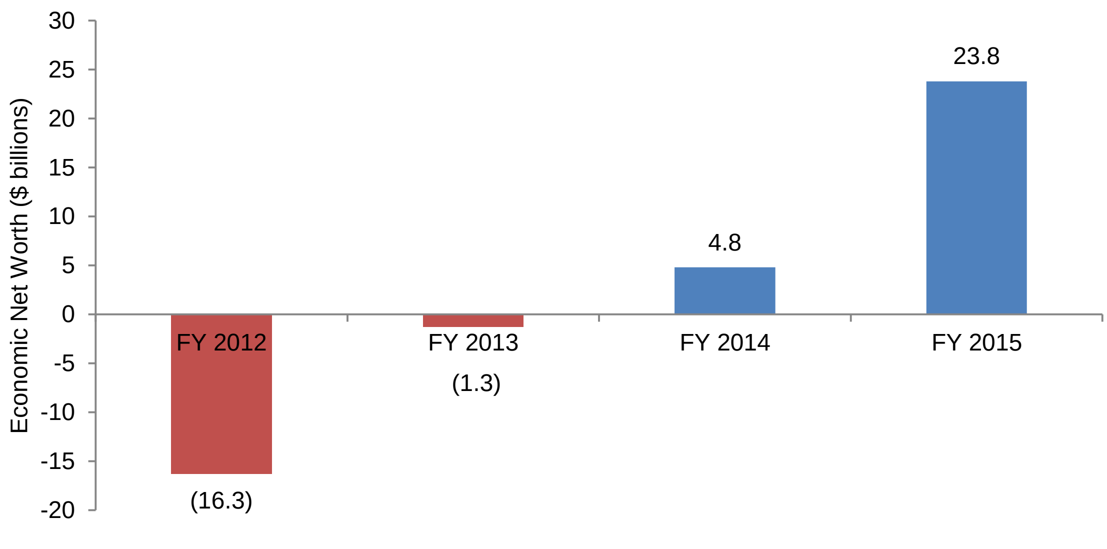
The financial crisis and economic recession that began in 2008 strained the Fund – resulting in a negative economic net worth in 2012. Throughout the crisis and recovery FHA undertook a number of actions to protect and strengthen the value of the Fund. As a result, this fiscal year the MMI Fund's economic net worth improved by $19 billion, increasing from $4.8 billion in fiscal year 2014 to $23.8 billion in fiscal year 2015. This year's economic net worth exceeds what was projected in last year's independent study by approximately $8.7 billion. Overall, the Fund has improved by $40 billion dollars since fiscal year 2012. As a result, the Capital Ratio reached the 2 percent statutory minimum, one year ahead of the independent actuary's fiscal year 2014 projection.

The value of the Forward portfolio has continued to improve by more than $30 billion since fiscal year 2012 increasing from negative 1.4 percent to positive 1.6 percent over that time. The HECM portfolio contributed most of the relative increase in performance ($7.9 billion). This raised the HECM capital ratio from negative 1.2 percent in fiscal year 2014 to positive 6.4 percent in fiscal year 2015. It should be noted that the actuarial value of HECM capital has swung dramatically over the last four years, causing HECMs to have an outsized impact on the value of the MMI Fund relative to volume.

The portfolio valuation underlying the statutory capital ratio calculation is performed by an independent contractor, using FHA data and applying an independent economic forecast. 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. The particular portfolio value used for the capital ratio estimate is a statistical (arithmetic) mean across 100 potential economic paths.

Using the mean value provides some measure of reserving against adverse outcomes. This approach creates a higher threshold of required net income from FHA loan guarantee operations before reaching the two percent capital ratio target.

Overall Results of the Independent Actuarial Study, Fiscal Year 2015



Capital Ratio (%)	(1.44)	(0.11)	.41	2.07

SOURCE: FY 2012–FY 2015 Actuarial Reviews of the MMI Fund; analysis by U.S. Department of HUD/FHA.

FHA has aggressively continued a number of initiatives to reduce losses from legacy loans, effectively manage and mitigate risk, and improve recoveries to the Fund. The positive effects of strategically deploying alternative disposition strategies, responsibly expanding access to credit through the *Blueprint for Access*, and reducing volatility of certain programs have been a critical part of the MMI Fund's recovery. These initiatives have laid the groundwork for FHA to be even better equipped to ensure affordable access to credit for future generations of borrowers.

FHA will continue to look for ways to reduce overall risk to the MMI Fund capital position to ensure that the Fund's economic net worth remains positive and portfolio performance remains strong.

PERFORMANCE GOALS AND OBJECTIVES

HUD Strategic Plan

The Government Performance and Results Act (GPRA) require that Federal agencies develop multi-year, strategic plans that include program goals and performance measures, the results of which are reported to the public. In April 2014, HUD released its new strategic plan for fiscal years 2014 through 2018, which both defines and expands HUD's strategy for the future. This ambitious plan is the roadmap for HUD to achieve specific, measureable goals. In addition, it defines areas of accountability and actions needed to transform HUD and reemphasize its mission "***to create strong, sustainable, inclusive communities and quality, affordable homes for all.***" FHA is responsible for achieving substantial portions of the multi-year strategic plan and will contribute to achieving each of the goals and sub-goals listed below.

FHA's Strategic and Performance Goals

Fiscal Year 2015 Agency Priority Goals

From the outcome measures that support HUD's strategic goals and sub-goals, the Secretary identified three Agency Priority Goals (APGs) to focus on during fiscal years 2015. These APGs were identified by their respective outcomes measured in the HUD Strategic Plan. FHA is the key supporting office for Strategic Goal 1, sub-goal 1A, Establishing a Sustainable Housing Finance System; sub-goal 1B, Ensuring Equal Credit Access to Sustainable Housing Finance; and sub-goal 1C, Restoring FHA's Financial Health.

FHA programs facilitate the development and preservation of affordable housing to support the Department's Rental Assistance, Strategic Goal 2, sub-goal 2A and 2B. The Rental Assistance Demonstration Program (RAD) leverages FHA-insured financing and strengthens public and other HUD-assisted housing. Through fiscal year 2015, the program has brought nearly a billion dollars of investment into public and assisted rental housing while preserving over 31,000 deeply affordable units. FHA's multifamily program also expanded the supply of affordable rental homes as the nation struggles with a rental housing affordability crisis.

Additionally, FHA is also responsible for managing the progress towards Strategic Goal 3, sub-goal 3C to promote the health and housing stability of vulnerable populations through quality insured nursing homes. Finally, FHA contributes to the Department's Energy Efficiency goal by increasing the health and safety of homes, embedding comprehensive housing energy efficiency and healthy housing criteria across all programs through Strategic Goal 4, sub-goal 4B.

Performance Reporting

FHA developed a comprehensive Management Action Plan to address a substantial number of the strategic goals and sub goals. The significant targets and achievements for each of FHA's program goals are presented in the following sections. Actual achievements for each goal are reported as of June 30, 2015. Targets and actual achievements as of September 30, 2015 will be reported in HUD's Annual Performance Report (APR), published in February 2016. Additional performance and volume data are presented as of September 30, 2015.

Note on Forward-Looking Information Presented

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." 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.

FHA PROGRAMS

Office of Single Family Housing

> *"The mission of the Office of Single Family Housing is to provide opportunities for first-time and underserved homebuyers to achieve affordable homeownership through purchase or refinance, while, at the same time, we manage the long-term viability of the Mutual Mortgage Insurance Fund. This year, more than a million households—more than 3,000 every day—purchased or refinanced their homes through FHA."*
>
> Kathleen Zadareky, Deputy Assistant Secretary
> Office of Single Family Housing

FHA supports affordable homeownership by making loans more readily available through its Single Family Housing mortgage insurance programs. These programs insure mortgage lenders against losses from default, enabling those lenders to provide mortgage financing on favorable terms to homebuyers. FHA's Single Family mortgage insurance programs make substantial contributions to the rate of sustainable homeownership nationwide. These programs are the most visible evidence of FHA's success in providing homeownership and refinancing opportunities for all Americans.

FHA works to strengthen the nation's housing market, which in turn bolsters the economy. In fiscal year 2015, FHA endorsed 1,116,232 single family forward (non-HECM) mortgages totaling $213.1 billion. FHA's purchase business continues to primarily support first-time homebuyers. In fiscal year 2015, 81.5 percent of FHA purchase-loan endorsements were for first-time homebuyers.

FHA has the authority to establish and collect a single up-front mortgage insurance premium, as well as annual premiums. The up-front premium may be financed into the mortgage. In January 2015, FHA reduced the annual Mortgage Insurance Premium 50 basis points on most FHA loan products with a term period greater than 15 years. The effect of this reduction is evidenced by a 42.6 percent increase in endorsed Section 203(b) loans during the fiscal year.

The maximum mortgage amount that FHA will insure is based on the median home prices for the county or Metropolitan Statistical Area (MSA) in which the property is located, as well as certain minimum and maximum amounts set by the Agency. The current basic standard mortgage limit for a forward FHA-insured one unit loan in a low cost area is $271,050 and in a high cost area the limit is $625,500. Higher maximum limits exist for one-to-four unit properties in Alaska, Hawaii, Guam and the Virgin Islands. The area loan limits change annually based on median home prices and may go up or down. These limits apply to all forward mortgage programs insured by FHA under Section 203. In fiscal year 2015, there were slight upward adjusments in certain counties experiencing market increases and no area limits were decreased.

Single Family Forward Insurance Profile

The following table reflects FHA's Single Family Forward insurance profile in fiscal years 2015 and 2014:

Table 1: SF Forward Insurance

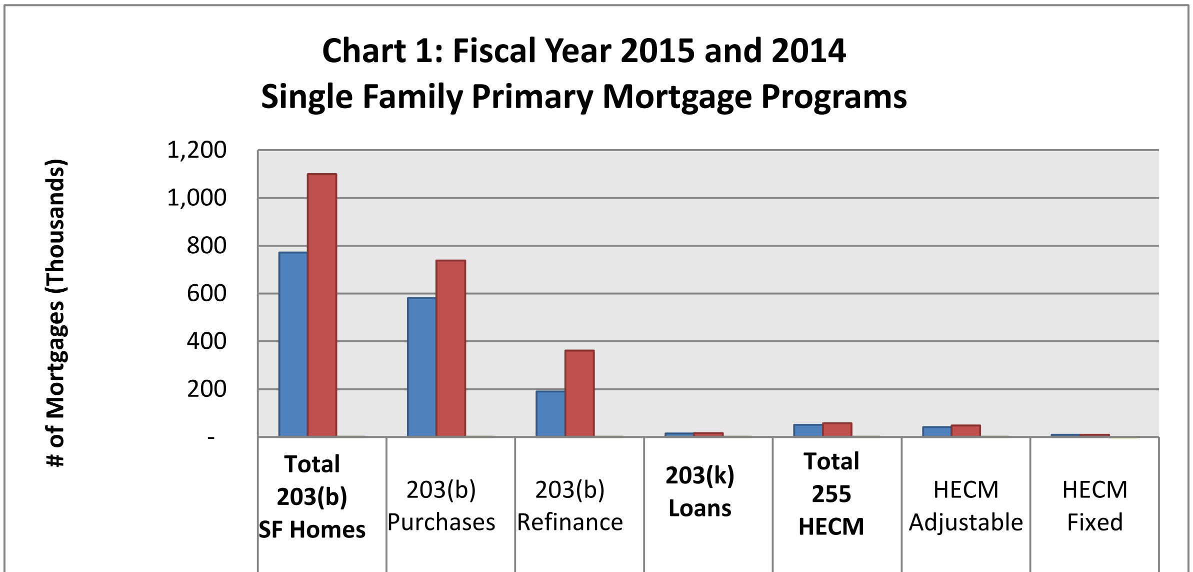
	FY 2015		FY 2014		Percentage
	Number	Percent	Number	Percent	Change
Total Insurance-In-Force	7,742,143		7,787,092		(0.6%)
Total Forward Endorsements	1,116,232		786,353		42.0%
Average Loan Amount	$190,928		$171,954		11.0%
First-Time Home Buyers	614,309	81.5%	483,050	81.2%	27.2%
Minority Borrowers	287,019	32.5%	216,738	32.3%	32.4%
Low/Moderate Income	518,414	58.7%	389,391	57.8%	33.1%
Average FICO Score	679		682		(0.4%)

Note: Data reflects number of endorsements (not dollar amount), unless preceded by a dollar sign. The first-time home buyers' percentage is based on the total purchase loans for the year; the minority borrowers' percentage is based on the total of all FHA loans for the year; the Low/Moderate Income percentage is based on all FHA fully-underwritten loans.

Single Family Housing Programs

FHA offers a variety of loan programs to meet a wide range of borrower needs. FHA mortgages are attractive to investors because they can be packaged into mortgage-backed securities, which are guaranteed by the Government National Mortgage Association and backed by the full faith and credit of the United States Government.

The following chart shows Single Family's Primary Mortgage Programs loan volume for fiscal years 2015 and 2014.



	Total 203(b) SF Homes	203(b) Purchases	203(b) Refinance	203(k) Loans	Total 255 HECM	HECM Adjustable	HECM Fixed
2014	771,773	581,387	190,346	14,620	51,617	41,979	9,638
2015	1,100,228	738,480	361,748	16,004	57,990	48,852	9,138
Percent Change	42.6	27	90	9.5	12.3	16.4	(5.2)

Note: Data reflects number of loans (not dollar amount)

Additional details on these and other Single Family FHA insured mortgage programs are available on HUD's website at ***http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh***

A more in-depth discussion of the programs highlighted below illustrates the important role FHA plays in providing options to meet a variety of borrower needs.

Section 203(b): Mortgage Insurance for One-to-Four Family Homes

FHA insures loans made by private financial institutions with terms for up to 30 years. The Section 203(b) is FHA's primary program for insuring the financing of new or existing one-to-four family dwellings, including manufactured homes and individual condominium units. Section 203(b) is the largest of FHA's Single Family programs, covering 97.7 percent of total Single Family Insurance-in-Force and 98.6 percent of fiscal year 2015 insurance issued, excluding HECM.

Homebuyers may obtain FHA-insured mortgages from FHA-approved lenders to purchase homes, including condominium units, with low down payments. The borrower's down payment requirement may be as little as 3.5 percent for purchases. By insuring approved lenders against losses, FHA encourages them to provide affordable access to capital in the home mortgage market. The program is open to home purchasers who meet FHA eligibility criteria such as residency requirements; down payment (equity) requirements, including mortgage debt-to-income and total debt-to-income requirements; credit history eligibility; and property and appraisal requirements. Although the program is generally limited to primary residences, under certain circumstances, a borrower may use Section 203(b) financing for a secondary residence. The program is also available for use on a limited basis by approved non-profits and governmental entities.

Section 203(k): Rehabilitation Loan

Section 203(k) is FHA's Single Family program designed to finance both acquisition costs and the cost of property improvements into a combined mortgage loan. The program offers purchase and refinance options that may be utilized to make repairs necessary to meet minimum property standards or to increase functional utility. It is available in both Standard and Limited forms based on the amount necessary to make the desired improvements and the complexity of improvements to be financed. FHA endorsed 16,004 Section 203(k) loans in fiscal year 2015, and the program remains a vital tool in the revitalization of aging housing stock.

Section 203 (K) Rehabilitation Loan Success

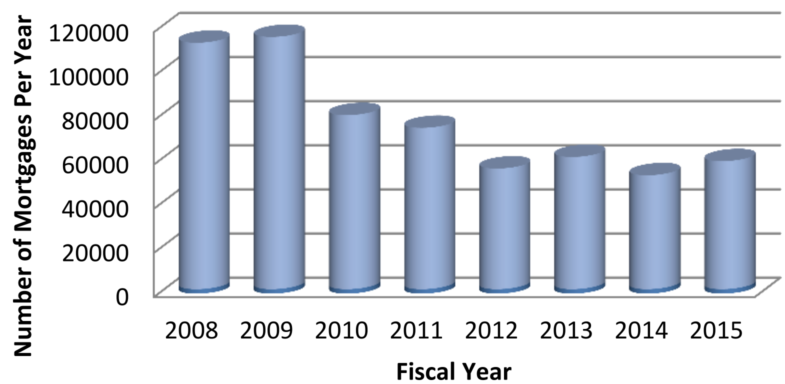
In Philadelphia, PA, a family was able to create the home of their dreams through the FHA 203(k) program. The couple could not find any suitable homes in their price range in their community. That's when they learned about FHA's 203(k) insured mortgage program, which covers purchase and renovation costs in the same long term affordable loan for up to 110 percent of as-rehabilitated value. Working with a 203(k) consultant and an experienced FHA lender, they bought a three-story fixer-upper for $140,000 and invested $130,000 in renovations to create their dream home in the city with a market value justifying the total cost. The couple closed in October 2014 and welcomed their first child in December.

Section 255: Home Equity Conversion Mortgages (HECM)

FHA was the first entity to promote and insure reverse mortgages on a national scale. The Home Equity Conversion Mortgages (HECM) program provides eligible homeowners, 62 years of age and older, access to the equity in their homes. The program fills a special niche in the national mortgage market and offers critical opportunities for the nation's seniors to utilize their own assets and resources to support their financial and housing needs as they age. The program provides homeowners with a number of payment options including lump sum payment of mortgage proceeds, term or tenure monthly payments, line of credit, or a combination thereof.

Since the program's inception, FHA has endorsed over 948 thousand HECM loans. The number of reverse mortgages insured by FHA increased over the fiscal years 2004 through 2009. However, as the chart below shows, the number of endorsements has fluctuated over the past six years, always reflecting a significant drop from the fiscal year 2009 level. FHA attributes the volatility during recent years to market pressures and FHA policy changes that better manage risk and ensure that the program is sustainable for seniors.

Chart 2: HECM Endorsements



In recent years, the HECM program has been a source of increased risk to the MMI Fund as a result of the program design and volatility of home prices. Leveraging the Reverse Mortgage Stabilization Act of 2013, which amended Section 255(h) of the National Housing Act, as well as its other authorities, FHA has continued to address risk issues related to the HECM program. In fiscal year 2015, policy changes included:

- **Updated and implemented Financial Assessment and Property Charge Set Aside policies** that were originally published in November 2014, reflecting comments received in response to the Federal Register Notice, and implemented system enhancements to effect these policy changes.
- **Released additional policy announcements** related to Non-Borrowing Spouses, HECM Due and Payable, and Loss Mitigation for Tax and Insurance Defaults. Also implemented significant servicing system enhancements to effect changes related to loss mitigation and due-and-payable policies.

FHA will continue to develop and implement origination and servicing policies that will reduce risks to the Mutual Mortgage Insurance (MMI) Fund and support the continued availability of this important product to seniors.

Title I & Title II: Manufactured Housing and Property Improvement

FHA offers mortgage insurance and loan programs for manufactured housing under both Title I and Title II sections of the National Housing Act. Title I loans are available for financing manufactured homes that are to be secured solely by the dwelling, also referred to as "chattel" loans, and are classified as personal property. Title I loans are also available for property improvements and can be either first or second lien mortgages, as well as unsecured loans, to finance the cost of the improvements. Title II loans are available for manufactured homes placed on a permanent foundation that are classified as real estate under Section 203.

Historically, manufactured housing has not performed as well as conventional construction housing, especially as it relates to the retained value of the collateral. Due to the ongoing decline in the housing market, many lenders have implemented more restrictive credit guidelines in an effort to help manage and mitigate risk; thereby, limiting the availability of financing for manufactured housing. While FHA is aware of the contraction of available financing for homebuyers wishing to purchase manufactured homes, FHA does not have the authority to mandate loan products a lender may offer.

The Title I and II products have experienced increased utility overall in fiscal year 2015 over the preceding year. Volumes by fiscal year are as shown in the table below:

Table 2: Title I and Title II Endorsements Counts			
Loan Type	**FY 2015**	**FY 2014**	**FY 2013**
Title I Manufactured Homes	645	464	612
Title I Property Improvement	4,951	5,548	6,097
Title I Total	**5,596**	**6,012**	**6,709**
Title II Manufactured Housing	24,796	19,323	24,191

Single Family Energy Efficiency Strategy

FHA is exploring how the integration of energy efficiency measures into existing FHA programs can support FHA's affordability mission; in addition to the current FHA-insured financing options that make it easier for consumers to undertake energy efficiency improvements in their homes.

Section 513: Energy Efficient Mortgages (EEM) (First-trust mortgages only)

FHA's Energy Efficient Mortgages (EEM) program helps homeowners save money on utility bills by enabling them to finance the cost of adding energy efficient features to new or existing housing, as part of their FHA insured home purchase or refinancing mortgage. During fiscal year 2015, FHA insured 335

Energy Efficient Mortgages, totaling $75.9 million. The volume of EEM loans has declined in recent years and the program is being reviewed to determine if improvements can be made to expand originations as part of the Department's commitment to energy efficient initiatives.

Home Energy Score

FHA has partnered with the Department of Energy (DOE) to help borrowers using Single Family FHA's Energy Efficient Home (EEH) program take advantage of energy cost savings when measured by DOE's Home Energy Score. FHA's EEH program allows consumers to qualify for a higher loan amount due to cost savings associated with energy efficiency improvements. FHA will provide flexible underwriting to recognize the reduced costs of utilities when those costs are established through the use of DOE's Home Energy Score—a low-cost, reliable method for estimating the energy use of a home and recommending improvements.

FHA PowerSaver

FHA's PowerSaver program insures low-cost loans that finance energy-saving home improvements. PowerSaver was implemented in fiscal year 2011 as a two-year Title I pilot. The pilot was later extended for a second two years, and included the addition of a Title II Section 2013(k) product. The program expired on May 4, 2015. In fiscal year 2015, FHA endorsed 311 new PowerSaver Title I loans, bringing the total since inception to 952 loans valued at $9.3 million. Also in fiscal year 2015, FHA endorsed 109 new PowerSaver 203(k) loans, bringing the total since inception to 270 loans valued at $38.2 million.

While the PowerSaver program did not live up to its early expectations, there were positive attributes that FHA is currently leveraging to develop PowerSaver 2.0. This subsequent pilot program is expected to launch in calendar year 2016, and will be limited to Title I lenders. The new pilot will include: flexible underwriting in the form of a stretch ratio that will recognize the reduced cost of utilities, an increased flexibility for homeowners to control disbursement of loan funds, and an increased flexibility to permit contributions to lower out-of-pocket expenses or reduced borrower interest rates.

Property Assessed Clean Energy (PACE) Guidance

FHA will allow homeowners to benefit from energy efficiency improvements while preserving the marketability of properties with PACE loans. FHA initiated work to issue guidance that will allow borrowers to use FHA financing for single family homes with existing subordinated PACE loans that meet certain conditions. The guidance will address the impact of PACE assessments on purchases, refinance and loan modification options available to borrowers experiencing distress, and will require the subordination of PACE financing to the first-lien FHA mortgage.

Performance Goals and Objectives

A strong FHA is critical to the recovery of the housing market and the health of our economy at large. The mortgage insurance provided by FHA has made financing available to individuals and families not adequately served by the conventional private mortgage market.

The Office of Single Family Housing is responsible for critical activities within the HUD Strategic Plan to restore FHA's Financial Health and support the housing recovery market. Listed below are the Management Action Plan target activities that address the Office of Single Family Housing's Sub-Goals, along with fiscal year 2015 achievements.

Strategic Goal (G1) Strengthen the Nation's Housing Market to Bolster the Economy and Protect Consumers			
G1 Sub-Goal 1C Restore the Federal Housing Administration's financial health, while supporting the housing market recovery and access to mortgage financing.			
Performance Goals and Objectives	FY 2015 Target	**FY 2015 Achievements	2015 Status
Achieve greater than 46% Single Family Recovery Rate for All Dispositions (Note sales, Pre-Foreclosure sales, REO conveyances and other third-party sales).	46%	50.8%	✓
Achieve greater than 20% of permanent loss mitigation actions for loans delinquent 90 days or more.	>20%	41.2%	✓
Reduce the re-default rate of modification recipients (within the first 3 months) to 10% or less.	<10%	6.81%	✓
Strategic Goal (G4) Build Strong, Resilient and Inclusive Communities			
G4 Sub-Goal 4B Increase the health and safety of homes and embed comprehensive housing energy efficiency and healthy housing criteria across HUD programs.			
Performance Goals and Objectives	FY 2015 Target	**FY 2015 Achievements	FY 2015 Status
Endorse 225 Energy Efficient Mortgages	225	231	✓
G4 Sub-Goal 4D Strengthen the communities' economic health, resilience and access to opportunity.			
Performance Goals and Objectives	FY 2015 Target	**FY 2015 Achievements	FY 2015 Status
Conduct 21 Single Family REO workshops/meetings in Neighborhood Stabilization Program (NSP) areas for fiscal year 14-15.	21	293	✓

****Achievements are presented as of June 30, 2015** ✓ **Target met** ✗ **Target not met**

Management Initiatives and Program Improvements

FHA continues to advance policies and implement initiatives to ensure that its programs serve target communities while maintaining strong financial viability. These initiatives include:

- **Updated Single Family Handbook.** FHA is developing a new Single Family Housing Policy Handbook to serve as the single source for all Single Family Housing policy. The goal of the new Handbook 4000.1 is to create a single authoritative source of policy that uses clear, consistent and more direct language that aligns the flow of the Handbook to the mortgage process and makes it easier to understand and implement policy change. It is replacing dozens of FHA Handbooks, hundreds of mortgagee letters and housing notices, as well as other sources of policy information. The new Handbook is being published in sections. Sections that have already been published include “Doing Business with FHA”, “Origination Through Post-Closing/Endorsement”, and “Quality Control, Oversight and Compliance”. These sections have an effective date of September 14, 2015. “Servicing and Loss Mitigation” sections were published on June 15, 2015 with an effective date of March 14, 2016. Additional sections such as “Claims and Disposition”, “Title I” and “Home Equity Conversion Mortgages” are well underway.

- **Mortgage Insurance for Condominiums**. Condominium purchases provide affordable home ownership opportunities for first-time homebuyers and individuals who may not otherwise be able to secure financing. FHA monitors the performance of the condominium portfolio to determine if the current policy guidelines are effective in reducing risk to the MMI Fund. The performance of the insured condominium portfolio remains consistent; while it is a small percentage of the total FHA-insured portfolio, its performance is better than other property types. In fiscal year 2015, the condominium home ownership market represented 2.9 percent of all 203(b) endorsements and 2.8 percent of all HECM endorsements. Also in fiscal year 2015, FHA continued work on a number of improvements to condominium policy that are targeted for release in 2016.

- **FHA Support for Refinancing Options.** FHA continues to support policies to enable borrowers to refinance during this period of low interest rates, obtaining more financial security and reducing risk to FHA.

    - **FHA Short Refinance Program.** In 2010, HUD initiated a refinance program for borrowers in a negative equity position. The program was designed for those who owe more on their conventional mortgages than the value of their homes, giving them an opportunity to refinance into affordable FHA loans. This program requires the lender or investor to write-off the unpaid principal balance of the original first lien mortgage by at least ten percent. Participation is not mandatory and its adoption by mortgagees has been limited because of restrictions investors place on principal forgiveness. The program was set to expire on

December 31, 2014, but was extended through December 31, 2016. Since the inception of this program, FHA endorsed 6,638 Short Refinance mortgages valued at $955 million.

- **FHA Streamline Refinance Program.** FHA's Streamline Refinance program, which has been available since 1986, provides an existing FHA borrower with the opportunity to refinance a current loan while requiring limited documentation. In fiscal year 2015, FHA endorsed 232,813 mortgages valued at $48.1 million under the Streamline Refinance Program.

Single Family Loss Mitigation and Portfolio Management

Expansion of Single Family Loss Mitigation Tools

As a result of FHA's updated loss mitigation guidance published via Mortgagee Letter 2012-22, thousands of additional FHA homeowners facing financial difficulties were able to remain in their homes and FHA's losses to the Mutual Mortgage Insurance Fund were substantially reduced. Specifically, in fiscal year 2015, 300,768 struggling FHA borrowers received early loss mitigation intervention to keep them in their homes; and 142,682 borrowers received an FHA Home Affordable Modification loan, which targets a 20 percent payment reduction. In circumstances in which retention of homeownership was not viable, during the same period, 15,623 distressed borrowers were offered a graceful exit from their homes through FHA's Streamlined or Standard Pre-Foreclosure Sales and Deed-in-Lieu of Foreclosure Programs that were updated via the publication of Mortgagee Letter 2013-23.

Single Family Notes Inventory

Single Family notes are assigned to the Secretary when FHA pays a claim to a lender, prior to foreclosure, and takes possession of the mortgage note for servicing. As of September 30, 2015, Secretary-held notes totaled $130.7 billion. This total includes the principal limit of HECM insured loans outstanding, for which HUD holds a second note and mortgage; assigned HECM first mortgages, partial claim notes on FHA-insured forward mortgages; and other notes held by HUD in connection with various forward mortgage programs. Of the aforementioned notes, HECM assigned notes as of September 30, 2015 represent $7.81 billion.

Partial claim notes are created when a lender advances funds on behalf of FHA-insured homeowners for an amount necessary to reinstate a delinquent loan. Upon acceptance of the advance, the borrower executes a promissory note creating a secondary mortgage payable to FHA. This promissory note or "partial claim" is not due and payable until the borrower pays off the first mortgage or no longer owns the property. The balance of Single Family partial claim notes increased by 19 percent, from 321,532 notes at the end of fiscal year 2014, to 382,166 at the close of fiscal year 2015. The increase is primarily due to the FHA Home Affordable Modification Program (HAMP), which combines a partial claim with a loan modification.

Single Family Real Estate Owned Disposition Activity

FHA acquires single family properties through conveyance claims and utilizes its third generation of Management and Marketing (M&M III) Contractors to sell its Single Family Real Estate Owned (REO) properties to nonprofits, local governments, new owners, and investors. The M&M III disposition construct, which streamlines operations to capitalize on the expertise of M&M contractors, provides flexibility to meet changing market conditions impacting REO sales transactions. The performance measurements for M&M III contracts, which became effective in fiscal year 2011, have helped to significantly reduce risk to FHA, reduce losses to the MMI Fund, and decrease holding times. For example, in fiscal year 2015, FHA experienced an average decrease of 5.56 percent days a REO property remained in inventory. Moreover, the average days to list a REO property remained at 22 days in fiscal year 2015.

Single Family Loan Sales

FHA continued Single Family loan sales under the Distressed Asset Stabilization Program (DASP), which sells defaulted FHA-insured loans through a competitive auction to qualified bidders. The goal of the program is to maximize returns to the MMI Fund while providing another disposition alternative for defaulted single family mortgages, rather than having these assets conveyed to FHA as foreclosed properties. By developing the infrastructure to market and sell these non-performing loans in bulk, the agency is positioned to benefit from today's unique market dynamics where investor demand is very high.

The DASP sales are part of a broader effort to reduce losses and increase recoveries to the MMI Fund. By reducing claim expenses and improving recoveries, FHA is able to rebuild its reserves at a time when the MMI Fund is still recovering from the impact of the mortgage crisis. Since 2012, due in part to the DASP program, overall losses on defaulted assets has declined. As FHA has worked to improve the recovery on these pools, loan sales bids have improved from an average of approximately 50 percent of the collateral's value to more than 67 percent. In fiscal year 2015, FHA conducted two sales of defaulted Secretary-held loans. In these sales, HUD offered 13,122 loans with an unpaid principal balance of $2.34 billion. DASP sales have reduced claims losses by $2.2 billion or approximately $22,000 per unit.

Risk Management

FHA continues to enhance its risk management framework and strengthen its lender network by implementing new policies, refining existing processes, and developing additional technological capacity. These enhancements will protect the health of the FHA insurance fund as well as make FHA more efficient and effective in serving its mission.

- **Supplemental Performance Metric Implemented in Neighborhood Watch Early Warning System.** On August 17, 2015, FHA introduced its Supplemental Performance Metric (SPM) score available to FHA-approved mortgagees through its Neighborhood Watch Early Warning System. The SPM compares mortgagee performance to a targeted risk mix and default rate, weighting defaults within three different credit bands. As part of FHA's *Blueprint for Access* strategy, the SPM provides a more transparent picture and a broader analysis of a mortgagee's performance on its FHA-insured book of business. This new metric provides additional information about a mortgagee's performance and can be used in the context of FHA's Credit Watch Termination Initiative as an additional compensating factor *after* the Compare Ratio is calculated in accordance with current FHA policy.

- **Post Endorsement Technical Review – eFindings Initiative.** On April 27, 2015, FHA deployed a new automated delivery notice of unacceptable findings (eFindings Letter) that is the result of a review of mortgages selected for Post Endorsement Technical Review (PETR). Prior to this release, FHA's Homeownership Center Processing and Underwriting staff used a manual process to prepare and mail a Findings Letter to mortgagees as part of the PETR process. The new eFindings delivery process automates the initial letter and follow-up email process; leverages existing technology through the FHA Connection (FHAC) Underwriting Review System; streamlines and expedites communication with mortgagees; delivers information using a consistent format (including Finding citations); provides an online service to retrieve current and past eFindings Letters; and provides the status of each file for which FHA sent an eFindings Letter. This is a significant initiative that will make it easier for mortgagees to do business with FHA and eliminates the more than 11,000 manually prepared findings letters sent through the United States Postal Service.

- **Loan Quality Assessment Methodology ("Defect Taxonomy").** On June 15, 2015, FHA posted its Single Family Loan Quality Assessment Methodology, also known as "Defect Taxonomy", which explains how FHA intends to categorize loan defects found in Single Family FHA-endorsed loans. The Defect Taxonomy is part of FHA's effort to provide greater clarity and transparency to Single Family FHA-approved lenders and to encourage lending to qualified borrowers across the credit spectrum. Currently, FHA uses 99 different codes to describe defects in loans. The taxonomy, once implemented, will reduce this to nine distinct defects, supported by codes that will identify the source and cause of the defect, while at the same time offering some new insight into the significance of a given deficiency within each category.

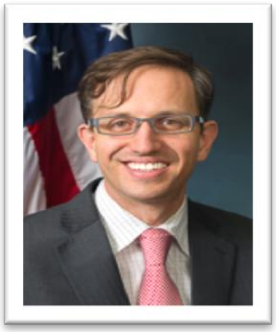
This new approach will give lenders additional information that helps identify where their challenges are in originating FHA loans and allows them to make changes to reduce errors. Full implementation of the Loan Quality Assessment Methodology will be dependent on technology enhancements planned for fiscal year 2016.

- **Lender Insight Quarterly Newsletter**. June 2015 marked the two-year anniversary of "Lender Insight" and the publication of its ninth issue. The newsletter was created to offer insight to lenders about what FHA is seeing in lender approval, recertification, monitoring and compliance, and enforcement actions. Each issue contains core information designed to help lenders better understand the trends FHA is observing; and is intended for lenders to use in order to improve quality control and risk management practices and alleviate many of the common problems FHA encounters early on in the process before FHA intervention is necessary. In fiscal year 2015, the newsletters highlighted FHA's lender and loan review processes, recertification requirements, and the PETR eFindings Initiative.

- **Quality Assurance Loan Review Findings Reports.** On September 30, 2015, FHA began issuing lender-specific Quarterly Loan Review Findings Reports to FHA's top 50 lenders. The reports provide a quarter-by-quarter snapshot of the results of FHA's quality control review of a specific company's loan production over the last 24 months.

- **Mortgagee Review Board: Administrative Actions Posted in Federal Register.** On April 6, 2015, FHA published all completed administrative actions taken by the Mortgagee Review Board during the period from October 1, 2013 to September 30, 2014. The Federal Register Notice (Docket No. FR-5864-N-01) identified the cause and provided a description of the administrative actions taken by HUD's Mortgagee Review Board against HUD mortgagees in 17 fact-based cases and 79 mortgagee recertification violations.

Office of Multifamily Housing



> *"The mission of the Office of Multifamily Housing is to produce and preserve affordable rental housing while providing liquidity in countercyclical Real Estate finance markets."*
>
> Benjamin T. Metcalf, Deputy Assistant Secretary
> Office of Multifamily Housing Programs

FHA's Office of Multifamily Housing Programs (MHP) provides insurance to approved lenders to facilitate the construction, rehabilitation, repair, refinancing, and purchase of multifamily housing projects such as apartments and cooperatives. FHA also offers risk sharing on loans originated by state Housing Finance Agencies (HFAs), Freddie Mac and Fannie Mae for multifamily rental properties. During fiscal year 2015, FHA initially endorsed 861 multifamily apartment loans totaling $9.3 billion and 31 Risk Sharing loans totaling $197.3 million (Table 1). In fiscal year 2015, FHA also continued the Green Preservation Plus initiative, a partnership with Fannie Mae and Government Sponsored Entities (GSEs) to increase energy efficient upgrades in older affordable properties; and started a partnership with Treasury's Federal Finance Bank to help increase the number of affordable units created.

FHA Multifamily insurance programs offer non-recourse financing with high loan-to-value ratios and favorable debt service coverage for a variety of housing loans. FHA's broad range of programs and loan terms induce developers to produce needed housing and provide consumers with a wide array of options for all life stages. These programs are generally administered through the FHA General Insurance (GI) and Special Risk Insurance (SRI) Funds. Multifamily's most popular programs are described briefly below.

Sections 213, 220, 221(d) (4) and 231: New Construction and Substantial Rehabilitation Programs

FHA provides mortgage insurance on loans to facilitate new construction or substantial rehabilitation of rental housing apartments and cooperatives. The principal difference between these programs is the type of housing being developed. Section 213 supports cooperatives while Section 220 aids rental housing in urban renewal or concentrated revitalization areas. The Section 221(d)(4) program supports standard rental apartments for moderate-income families while Section 231 is for the creation of housing for seniors age 62 or older. Although all these programs offer market-rate loans, they can also be combined with federal and state housing initiatives such as Low Income Housing Tax Credits (LIHTC), tax exempt bonds, and rental subsidies for low and moderate income families.

Sections 223(f) and 223(a) (7): Purchase/ Refinancing Program of Existing Multifamily Housing Projects

Section 223(f) is FHA's Multifamily program that insures loans for the purchase or refinancing of existing rental properties financed with conventional or FHA loans. The program allows for the financing of long-term mortgages by Government National Mortgage Association ("Ginnie Mae") Mortgage Backed Securities. The flexibility for purchase in the secondary mortgage market improves the availability of loan funds and permits more favorable interest rates. The Section 223(a)(7) mortgage insurance program offers a streamlined refinancing option for multifamily properties already insured by FHA. In addition to expedited processing, the Section 223(a)(7) program can reduce debt service and free up operating income to property owners for other project needs.

Section 542(b) and 542(c): Multifamily Mortgage Risk-Sharing Program

Under these programs, FHA shares risk on loans originated, underwritten and serviced by Fannie Mae and Freddie Mac in the case of 542(b) or state Housing Finance Agencies under 542(c). FHA assumes a loss percentage on these loans and pays the agencies when they dispose of the defaulted loans. Most often FHA assumes a 50 percent loss risk, but the actual percentage varies depending on the terms of each risk sharing arrangement. By absorbing part of the loss, FHA provides an incentive for these agencies to fund multifamily housing, all of which must be affordable per the definition given for LIHTCs - 20 percent of units are affordable at 50 percent of Area Median Income (AMI) or 40 percent of units are affordable at 60 percent of AMI.

Table 1: Multifamily Endorsements by Program

Section of the Act	Endorsements for Fiscal Year 2015		
	Dollars (millions)	**Percentage**	**# of Mortgages**
Section 221(d)(4):New Construction and Substantial Rehabilitation Program	$2,963	31%	201
Sections 223(f) and 223(a)(7): Purchase/Refinancing Program of Existing MHP Projects	$6,400	67%	660
Section 542(b) and 542(c): Risk-Sharing with QPEs & HFAs	$197	2%	31
Totals	**$9,560**	**100%**	**892**

***Percentages are based on the total mortgages endorsed.**

The Multifamily endorsements shown in Table 1 are based on available data for initially endorsed projects in the Development Application Processing (DAP) system. DAP is used to track and monitor Multifamily basic FHA and Risk Share loan applications. ***Additional details on these and other Multifamily loan programs are available at*** ***http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/mfh***

Performance Goals and Objectives

FHA is responsible for completing critical activities under the HUD Strategic Plan. The Office of Multifamily Housing Programs (MHP) has adopted Multifamily Performance Goals (MPGs), a set of sub-goals to assist in meeting the strategic plan and other MHP objectives. The MPGs align directly with the HUD Strategic Plan, specifically with its four strategic goals and its strategic management objectives. MHP sets these performance goals every two years and designates targets for the goals annually. Listed below are the Management Action Plan goals, along with fiscal year 2015 achievements.

Strategic Goal 2 (G2): *Meet the Need for Quality Affordable Rental Homes*			
G2 Sub-Goals 2A Ensure sustainable investments in affordable rental housing.			
Performance Goals and Objectives	FY 2015 Target	**FY 2015 Achievements	FY 2015 Status
Ensure 25% of multifamily housing projects that go through foreclosure emerge with an affordability component via - a long-term Use Agreement or Deed Restriction - that restricts income and rents to moderate, low and very-low income tenants/families for all or a portion of the units.	25%	48%	✓
Strategic Goal 2 (G2): *Meet the Need for Quality Affordable Rental Homes*			
G2 Sub-Goals 2B Preserve quality affordable rental housing, where it is needed most, by simplifying and aligning the delivery of rental housing programs.			
Performance Goals and Objectives	FY 2015 Target	**FY 2015 Achievements	FY 2015 Status
Ensure 75% of properties rated troubled during the fiscal year have an active action plan developed.	75%	62%	✗
Ensure 25% of properties rated troubled at the start of the fiscal will no longer be rated troubled.	25%	48%	✓
Preserve 25% of all Section 236 and 202 Direct Loan properties (that have mortgages maturing this fiscal year) with a 20-year HAP contract or a 20-year use agreement.	25%	26%	✓
Ensure 40,784 units with firm commitments issued during the fiscal year will be restricted through new or existing LIHTC or TE bonds.	40,784	25,082	✗

** **Achievements are presented as of June 30, 2015** ✓ Target met ✗ Target not met

✗ **Explanation of Performance Measure not meeting target:** While two of the above targets were not achieved by June 30, 2015, Multifamily Housing was on track to meet the annual targets by September 30, 2015, the intended achievement timeline.

Office of Production

FHA's Multifamily Office of Production provides direction and oversight for FHA mortgage insurance and risk sharing loan origination. During fiscal year 2015, the Office of Production endorsed 892 loans. The initial endorsements of FHA-insured and Risk Sharing Apartment loans totaled $9.6 billion and covered 132,360 units, which continues to support thousands of private sector jobs in the construction, property management, service provision, and administrative fields.

Demand for FHA multifamily programs remains strong, reflective of the countercyclical role the Agency plays in the market; however, demand is at a lower level of volume this year than during the peak impact of the credit crisis from 2010 to 2013. During fiscal years 2014 and 2015, pricing by the GSEs and recovery of the conventional real estate financing markets offset the peak FHA volumes. FHA has increased its focus on mission driven affordable lending and energy efficient design, while continuing to provide financing for borrowers who want the stability of long-term, fully-amortizing debt.

Additionally, FHA supports special initiatives directed towards the elderly and underserved areas with high concentrations of low-income families. For instance, in fiscal year 2015, the Office of Production issued a notice that would expand the Risk Share Program to allow Community Development Financial Institutions (CDFIs) and other mission-oriented lenders to utilize the program. This should increase the flow of credit to small multifamily properties, and demonstrate the effectiveness of providing Federal credit enhancement for refinancing and rehabilitation of such housing. Additionally, in partnership with the Department of Treasury, HUD implemented a funding mechanism through the Federal Financing Bank (FFB) that will make risk sharing pricing comparable to Ginnie Mae executions. This should increase affordable housing volume in fiscal year 2016.

Highlighted: MF Risk Sharing Program—Arverne View Apartments

Arverne View Apartments is a 1,093 unit community for families located in Far Rockaway, NY. In October 2012, Hurricane Sandy devastated the beach communities of New York City, including Arverne View. Approximately 350 apartments were uninhabitable due to water damage and/or mold. On June 26, 2014, HUD and the Treasury Department's Federal Financing Bank (FFB) announced a new interagency partnership under which FFB will provide capital for multifamily loans insured under FHA's Risk Sharing Program. The initiative builds on the success of the program to significantly reduce the interest rate for affordable multifamily apartment buildings compared to the cost of tax-exempt bonds under current market conditions, and will increase supply and preservation of affordable housing.

Arverne View Apartments Far Rockaway, NY

In October 2014, Arverne View Apartments was the first transaction utilizing the FFB Risk Sharing Initiative in which FFB provided funding for the permanent loan in the amount of $72 million insured under the Risk Sharing program by HUD and the New York City Housing Development Corporation (NYCHDC). Arverne View also converted assistance under the second component of the Rental Assistance Demonstration (RAD) Program. Currently, Arverne View Apartments is approximately 100 percent occupied. The comprehensive rehabilitation is a product of coordinated inter-agency partnerships and public/private investment through the utilization of tax exempt bonds, debt restructuring, and private funding coupled with the valuable rental subsidy generated through Section 236 Decoupling and the RAD program. Additionally, rehabilitation of a 1,093 unit property in an area devastated in fiscal year 2012 provides stability to the residents and to the community as a whole.

Management Initiatives and Tools for Multifamily Production

The Office of Production has enhanced policies and implemented initiatives in an effort to continue serving the community while maintaining financial viability. The initiatives include:

- **Multifamily Accelerated Processing (MAP).** MAP is the primary tool used by the Office of Production to expedite and manage the development process. MAP allows approved lenders to perform most of the underwriting activities that were once performed by HUD staff and submit an underwriting summary and recommendation to HUD. Currently, more than 88 lenders are approved to process loans under MAP. Participating MAP lenders are required to perform yearly internal control reviews of a sampling of the MAP loans endorsed by HUD. If the reviews disclose weaknesses in processing procedures, FHA's Multifamily Asset Counterparty Oversight Division (MACOD) works with the lender to improve internal control procedures and ensures that lender's staff receives training on the new processes. In addition, MACOD ensures lenders obtain independent, third party in-depth reviews of loans processed by MAP lenders to provide assurance on the general loan quality. The MAP Guide implements various underwriting changes and updates to relevant processing standards. The updates incorporate all Mortgagee Letters, housing notices, administrative guidance and changes based on operation experience.

- **Credit Risk Management.** FHA created a loan committee approval structure for the purpose of aligning Hub and Program Center loan commitment authority with the management of credit risks and to ensure the integrity and stability of the GI/SRI Fund. This credit risk process provides a method to ensure oversight of Hub and Program Center commitment authority and to ensure consistency in underwriting throughout the nation, as well as to provide a platform to share best practices.

- **Management Initiatives and Program Improvements.** Office of Production initiated a process to review and streamline application processing to be more efficient and to better handle an increased loan volume. This process includes a partial electronic delivery of loan applications and an effort to reengineer MHP's entire business process and update the information technology platform to better manage the insurance fund and meet the future needs of the industry.

Office of Recapitalization

The Office of Recapitalization (Recap) is responsible for the recapitalization and long-term preservation of federally-assisted affordable housing units. Recap processes financial transactions that ensure the long-term physical and financial viability of these affordable rental housing units. Long-term Rental Use Agreements and Project Based Rental Assistance contracts ensure the housing will remain affordable to those most in need. In conducting the business of preservation of affordable housing, Recap is responsible for ensuring compliance with relevant laws and statutes. The following programs are administered by Recap.

Mark-to-Market (M2M) preserves affordability and availability of low-income rental Multifamily properties with federally-insured programs. The purpose of M2M is to reduce rents to market levels by restructuring existing debt to levels supportable by these rents.

- **Post Mark-to-Market (Post M2M).** Post M2M addresses the processing of an owner's request to refinance or to sell a property that has received the benefits of a debt restructuring under the M2M Program or M2M's predecessor program, the Portfolio Reengineering Demonstration Program. This also applies to applications for either debt assumption or forgiveness for a non-profit qualified by HUD for such benefits. The Green Initiative, which encourages owners and purchasers of affordable, multifamily properties to rehabilitate and operate their properties using Sustainable Green Building principles, is also available through this program. In fiscal year 2015, Recap processed 28 projects in M2M; 12 of these properties, with 1,014 units, were full debt restructurings; 13 projects, with 1,283 units, were completed as rent restructurings. Additionally, 12 projects with 1,160 units elected to participate in M2M's Green Initiative program.

Rental Assistance Demonstration (RAD) allows proven financing tools to be applied to at-risk public and assisted housing. RAD is a central part of the Department's rental housing preservation strategy.

- **RAD First Component.** RAD First Component allows public housing agencies to leverage public and private debt and equity in order to reinvest in public housing stock. Through September 2015, 188 RAD first component applications were closed, covering 19,570 units and representing $3.7 billion in new investment.

- **RAD Second Component.** RAD Second Component gives owners of multifamily housing properties with Rent Supplement (Rent Supp) and Rental Assistance Payments (RAP) project-based rental assistance contracts, Section 8 Moderate Rehabilitation (Mod Rehab), and Section 8 Moderate Rehabilitation Single Room Occupancy (Mod Rehab SRO) properties the opportunity to enter into long-term project based rental assistance contracts that facilitate the financing of improvements. A total of 14,127 units representing 128 projects have been converted through RAD Second Component as of September 30, 2015.

Table 2: Rental Assistance Demonstration

RAD Second Component Programs	Number of Units
Rent Supplement	9,710
Rental Assistance Payments	3,735
Section 8 Moderate Rehabilitation	682

Highlighted: MF RAD Project- Landsman Gardens

Southern Nevada Regional Housing Authority's (SNRHA) Al Landsman Gardens development consists of 100 units of family housing in Henderson, Nevada, was developed in 1971. The property is located in a neighborhood where residents have access to on-site services including a community learning center, a subsidized childcare center, and a Women, Infants, and Children (WIC) nutrition program. In 2012, dangerous levels of mold and the presence of asbestos and lead-based paint forced SNRHA to vacate the property, while the agency searched for a way to cover remediation costs. RAD allowed the housing authority to combine several sources of funds including Low-Income Housing Tax Credits, an FHA-insured mortgage, and other soft debts and grants, to raise the capital needed to preserve Landsman Gardens. The total development costs for this project was nearly $23.6 million. Landsman Gardens was the first RAD transaction to use FHA mortgage insurance, making the housing authority and its team trailblazers in this financing design.

Southern Nevada Regional Housing Authority

Section 236 Preservation allows project owners and purchasers to submit applications for prepayment approval, regulatory waivers, and Continuation of Interest Reduction Payments after refinancing directly to Recap through its centralized processing application system. As of September 30, 2015, Recap has preserved 151 projects representing 20,757 units of affordable rental housing. Recap, in conjunction with the Office of Asset Management and Portfolio Oversight (OAMPO), began conducting one day "mini-clinics" to encourage HUD-assisted (Section 236 and Section 202) multifamily project owners to begin a path towards developing and implementing a preservation and recapitalization strategy for their affordable multifamily project prior to mortgage loan maturity. As of September 2015, mini-clinics have been held in Portland, Oregon; New York, New York; and Boston, Massachusetts.

Senior Preservation Rental Assistance Contract (SPRAC) is a 20-year project-based rental assistance contract that prevents displacement of income-eligible elderly residents who reside in Section 202 Direct Loan projects with original interest rates of six percent or less in the case of refinancing or recapitalization of the project. SPRAC is an important preservation tool for affordable multifamily properties for the elderly. In the Section 202 Supportive Housing for the Elderly Act of 2010, $16 million was made available for SPRAC funding. As of September 2015, ten projects representing 1,438 units have been preserved with a SPRAC.

Highlighted: MF SPRAC Project-Lakewoods Apartments

The Lakewoods is an unsubsidized Section 202 elderly property located in Dayton, Ohio, with 417 one-bedroom units that were constructed in two phases in 1964 and 1968. Due to the age and physical needs of the property and the maturing HUD mortgage, Eternal Housing Fund and Millennia Companies partnered to purchase the property and take advantage of the opportunity to preserve the affordable housing through the SPRAC program. SPRAC allowed the project to pay-off the existing Section 202 mortgage and make capital improvements without displacing the 392 low-income elderly residents that qualified for the SPRAC project-based rental assistance. The owner leveraged the $2.1 million SPRAC award by securing Low-Income Housing Tax Credits, Tax Exempt Bonds, and a Freddie Mac direct tax exempt loan. In addition, the Ohio Department of Development provided funding through its weatherization program to replace windows, boilers and other energy efficient components. Construction is underway and is anticipated to be complete in December 2015.

The Lakewoods in Dayton, Ohio

Office of Asset Management and Portfolio Oversight

The Office of Asset Management and Portfolio Oversight (OAMPO) is responsible for the portfolio of multifamily project assets after the development phase. The core roles are to develop supporting policies and to provide interpretation of policy, control participation in the multifamily asset programs, provide oversight of lender and field asset servicing activities, monitor the physical and financial health of FHA-insured and assisted stock of 2.5 million units, and manage relationships with internal and external partners.

As of September 30, 2015, FHA's Multifamily insured portfolio totaled 14,024 mortgages with a total outstanding principal balance of approximately $104.8 billion.

OAMPO Divisions

- Asset and Counterparty Oversight
- Assisted Housing Oversight
- Business Relationships and Support Contracts
- Field Asset Management and Program Administration
- Property Disposition

Management Initiatives and Tools for Asset Management and Portfolio Oversight

OAMPO has significantly improved the accuracy and timeliness of its processes in recent years through automation and workload streamlining. Better management information and updated systems have allowed FHA to make improvements in the physical condition of its Multifamily portfolio and the lives of residents. The following highlights some of the achievements made during the year:

- **Portfolio Assessment.** OAMPO established a risk rating methodology for the assessment of the insured and non-insured properties in the Multifamily portfolio. All properties have been rated and those properties that have a risk rating that indicates "troubled" or "potentially troubled" have been evaluated multiple times. Over the past two years, project managers and account executives have become more familiar with the methodology for risk rating and consistently apply it in asset management activities.

- **Counterparty Oversight (CO).** CO oversees the MAP and Healthcare LEAN process. This includes approval of MAP and LEAN lenders, underwriters and construction loan administrators. CO administers the Quality Control Review (QCR) processes, including third party audits, and processes all delegation (DNCR and DR4R) approval requests. Counterparty Oversight's most recent initiative is the Chief Underwriter/Underwriter Approval Delegation initiative. HUD is realigning the underwriter approval process which will result in eligible MAP and LEAN Lenders designating a Chief Underwriter, and through their Chief Underwriter, approve and designate MAP and LEAN underwriters. For participating lenders, HUD will not undertake such reviews, and will instead rely upon the certifications from the MAP/LEAN Lender and its Chief Underwriter that the individual MAP/LEAN Underwriter is a qualified underwriter per MAP Guide and/or LEAN Processing Guide requirements. The MAP/LEAN Lender and Chief Underwriter will evaluate the prospective underwriter and ensure underwriters have completed the lender's approved training plan and HUD's requirements.

- **Housing Notice 2015-02 Implementing Section 230 of the 2014 Appropriations Act.** Section 230 of the Consolidated Appropriations Act of 2014 and Section 226 of FHA's Fiscal Year 2015 Appropriations Act, requires the Department to take action when a multifamily housing property receives a score of 59 or below on a Real Estate Assessment Center (REAC) physical inspection report. The Department must notify owners, residents, local government, Performance-Based Contract Administrators and mortgagees (if any) when HUD develops a Compliance, Disposition and Enforcement (CDE) Plan. In cases where an owner fails to comply with a CDE plan, the Department would require the owner of a property that only has project-based Section 8 assistance to change management; provide new management acceptable to HUD; and use Civil Money Penalties (CMPs) as an enforcement tool when appropriate. This Notice provides guidance to ensure compliance and identifies changes to the current physical inspection protocol. Notice H 2012-16, "Extension of Housing Notice H 2011-24: Reissuance of Revised Protocol for Placing a Flag in the Active Partners Performance System (APPS) when a Property Receives a Physical Inspection Score below 60 but above 30."

- **Improved Counterparty Involvement**. OAMPO , in conjunction with the Office of Production, released a Mortgagee Letter allowing lender and servicers to voluntarily administer the non-critical repair escrow accounts for new Sections 223(a)(7) and 223(f) transactions. Several lenders and servicers have already applied and been granted delegation authority regarding non-critical repair escrow account administration.

- **Property Disposition (PD)**. In fiscal year 2015, FHA sold seven multifamily properties to successful bidders. Gross proceeds on the closed properties totaled $6 million which represent a 73.4 percent rate of return for FHA based upon the unpaid principal balance. Moreover, in fiscal year 2015, FHA addressed multiple incidents at more than 285 properties with owners/developers who purchased, refinanced, redeveloped or revitalized previously sold properties with active Foreclosure Sale Use Agreement/Deeds. The Agency collected more than $5 million in equity participation which was returned to the U.S. Treasury and increased the overall PD rate of return. FHA also administered over $57 million in active Upfront Grants on redevelopment or rehabilitation activities, creating or restoring affordable housing assets for six post-sale properties. These actions demonstrate FHA's property disposition program's success and commitment to preserving the long-term viability of affordable multifamily housing assets.

Office of Field Support and Operations

The Office of Field Support and Operations (OFSO) was created to provide dedicated support to the field and their external customers and stakeholders, while eliminating redundancy within the Office of Multifamily Housing. The office provides management direction, guidance, and technical support to Multifamily Regional Directors and staff on a wide variety of program management and operational matters. In addition, the office develops and implements plans for allocation of staff resources necessary to carry out Multifamily's programs and functions

Office of Multifamily Housing Transformation Initiative

The Office of Multifamily Housing continues to move forward with the Multifamily for Tomorrow (MFT) transformation initiative. Through this initiative, the Office of Multifamily Housing is modernizing and improving its business model for partners and stakeholders, cultivating an exceptional environment for employees and realizing savings.

Significant improvements were made through *Breaking Ground* in Production and *Sustaining our Investments* in OAMPO. These initiatives helped to increase efficiencies and minimize risk by eliminating inefficient practices, providing employees with new tools, and promoting employee engagement. However, challenges remained across the country, including geographic fragmentation, workload imbalances, inconsistent customer service, and operational practices that did not effectively manage risk or utilize the talent of employees.

MFT was announced in April of 2013 and includes the following five components below designed to meet ongoing challenges; including increasing volumes, staff attrition, an increasing focus on risk management, and the need for efficiency in the current budgetary environment:

- **Streamlining** the organizational structure in headquarters and the field to enhance communication, consistency, and accountability, while consolidating the decision-making process.
  - In Headquarters, Multifamily Programs realigned its organizational structure into four offices: the Office of Production, the Office of Asset Management and Portfolio Oversight, the Office of Recapitalization, and the Office of Field Support and Operations. These changes will reduce duplication while providing better support and service to the field and external stakeholders.
  - In the field, Multifamily Programs is moving from 17 Hubs to a five-region field structure. Over the next two years, MFT will be implemented through five separate waves that correspond with each of the following new regions, plus an additional wave for headquarters. The completion of each wave will result in the establishment of a new Multifamily region functioning with all elements of the new Multifamily business model. Based on directives received from Congress, OAMPO employees will continue to operate in existing locations nationwide.

- **The Multifamily Scanning Initiative** was revamped after complications in its first year and was put on track to be a major success. To capture the experience and efficiencies learned, staff from OAMPO worked with experienced field staff to redesign the process and protocols related to scanning. Also, OAMPO changed course and retained a new contractor to image documents, providing a new system to search and view FHA documents. The new system is one of the most state-of-the-art electronic document retrieval systems in the entire department and is currently one of the only systems in FHA to provide for optical character recognition searching, allowing staff to search the entire text of documents. The new process has resulted in wave two and three having finished imaging of their documents with an extremely high document capture rate – 100 percent for wave three and 95 percent for wave two. The team is aggressively working with staff from waves four, five, and Headquarters to mirror the same successes and ensure the entire repository of critical Multifamily documents are correctly imaged and searchable, in order to create one of the most advanced collections of imaged documents in all of FHA.

- **National Workload Sharing** provides workload relief for offices that are over their recommended asset allocation in both Production and OAMPO across the country. This will mitigate pressure on staff, increase efficiency by balancing assets evenly across all Multifamily offices, and reduce wait time and backlogs for customers.

- **The Underwriter Model in Production** increases the efficiency of processing applications, provides improved customer service, and better manages risk. Applications will be segmented according to risk and complexity and assigned to the appropriate underwriter. The underwriter will manage the end-to-end review of the application, drawing in technical experts, such as Construction Analysts and Appraisers.

- **The Account Executive Model in Asset Management** improves risk management and increases efficiency through alignment of the portfolio based on staff expertise. Three specialized roles were created. Account Executives will manage non-troubled assets, Senior Account Executives will manage more complex and potentially troubled assets, and Asset Resolution Specialists will manage the most complex, risky, or troubled assets.

The Office of Multifamily Housing has successfully implemented Multifamily for Tomorrow in Headquarters and in two of its five regions. The Southwest Region's transformation was accomplished in December of 2014 and the Midwest Region was completed in June of 2015.

The transformation of Multifamily's Southeast and Northeast Regions are progressing. The Southeast Region was fully implemented by the end of fiscal year 2015 and the Northeast Region will be completed by May 2016. Multifamily expects to finalize implementation in the West Region during the summer of 2016.

Risk Management

Risk management is imbedded in all Office of Multifamily Housing programs and processes. Borrower mortgage credit analysis became central to FHA's underwriting standards. MHP revised program underwriting standards, created both National and Hub loan committees to review and approve loans, and produced new loan closing documents. Working with risk management staff, they developed new credit policies and held monthly reviews of the portfolio performance and of the new production data. In an effort to improve its overall risk management, the Office of MHP is revising lender/underwriter qualifications to further minimize the Department's risk. During fiscal year 2015, Multifamily continued to introduce initiatives with a goal of better managing risk within its programs. The improvements from this issuance increased the net worth requirements for FHA-approved lenders, thereby ensuring that FHA lenders are sufficiently capitalized.

Finally, Multifamily uses a Multifamily Risk of Claim (MROC) scoring algorithm to measure credit risk and the probability of a loan "claiming". A risk management assessment is conducted monthly to review portfolio performance by lender and by loan, for each geographic area, in an effort to determine trends in defaults and delinquency, application sharing, and areas of concerns.

Office of Healthcare Programs

"FHA's Healthcare Programs encourage private lending for modernizing healthcare facilities. By reducing the cost of capital through mortgage insurance, our programs decrease healthcare costs, increase access to quality care, improve the delivery of healthcare, and build healthy communities."

Roger Miller, Deputy Assistant Secretary
Office of Healthcare Programs

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 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 the capital financing for urgently needed hospitals.

FHA's programs help private lenders serve the healthcare market. Without FHA, private lenders would be less likely to lend capital to facilities that have FHA loans, or would only do so at prohibitively high interest rates. By reducing the cost of capital required to finance healthcare projects, FHA facilitates the construction and refinancing of needed facilities, which ultimately improves access to quality healthcare and reduces cost of care. Healthcare facilities are also major employers within their communities and support trillions of dollars in economic activity, making these programs integral to the agency's community development mission.

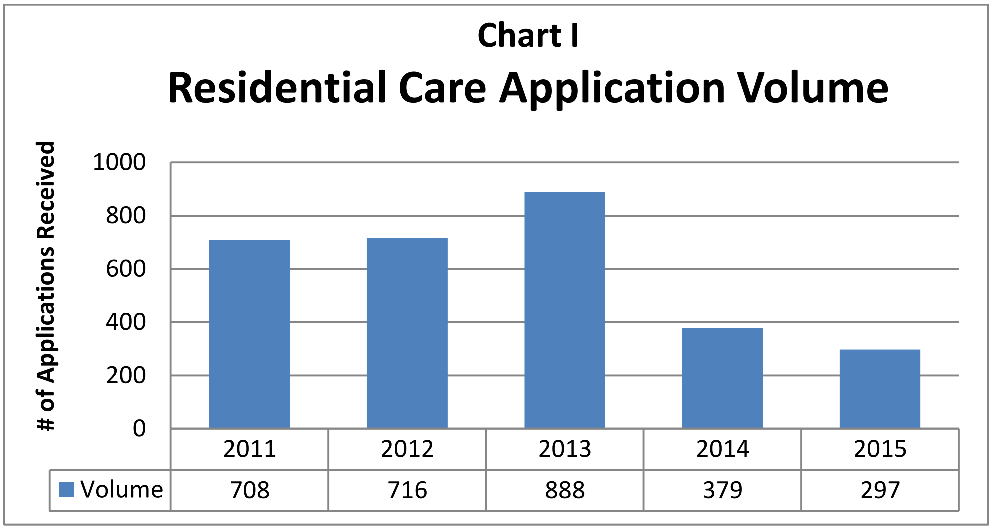
OHP's hallmark is to continuously improve business practices and processes, while preventing claims. Risk management starts at origination and continues throughout the life of every loan. Lean Processing redesign has cut processing time, improved customer service, and strengthened risk analysis.

As of the end of fiscal year 2015, OHP manages a total portfolio for both programs of 3,303 loans with an unpaid principal balance of $31.2 billion. The programs maintain low claim rates below two percent, operate at no cost to the taxpayers, and contribute credit subsidy receipts to the General Insurance Fund.

Section 232: Mortgage Insurance for Residential Care Facilities

The Residential Care Facilities program insures loans to finance the construction, substantial rehabilitation, acquisition or refinancing of healthcare facilities. Eligible facilities include nursing homes, intermediate care facilities, board and care homes, and assisted living facilities. During fiscal year 2015, OHP issued 298 commitments totaling $2.8 billion for 33,247 units. At the end of fiscal year 2015, the Section 232 portfolio contained 3,194 loans with an unpaid principal balance of $23.9 billion. Additionally a total of 297 applications were received in fiscal year 2015.

The chart below presents OHP's Residential Care volume over time.



In addition to providing important healthcare facilities, FHA construction and rehabilitation projects have a significant economic impact on local communities, including a substantial impact on employment. In fiscal year 2015, the Section 232 Program insured 32 projects in 14 states, creating over 2,741 full-time equivalent construction jobs with a total economic impact of $886.4 million. Once the projects are fully built, the residential healthcare facilities will create over 3,190 full-time equivalent jobs in healthcare and related fields and provide a total annual economic benefit of $404.2 million to the local communities.

Highlighted: Section 232 - Grand Oaks Assisted Living Facility

Grand Oaks of Jensen Beach is a state of the art assisted living facility located in Jensen Beach, Florida, approximately 30 miles south of Vero Beach. The facility is proximate to medical facilities (St. Lucie Medical Center and Martin Memorial Medical Center), as well as churches, schools, shopping, banks and restaurants. This facility was newly constructed with FHA Section 232 insured loan proceeds. Upon construction completion the loan was endorsed on July 13, 2015 with a mortgage of $7 million.

Grand Oaks of Jensen Beach, FL

The Key West style facility consists of 66 units including 14 memory care studio units. The units are generally located on the sides of the interior wall, as the design provides an interior walking trail for use by all residents. Resident amenities include an ice cream parlor, activity room, library, theatre, beauty shop and wellness center.

Highlighted: Section 232 - Orchard Hill Assisted Living Facility

Orchard Hill at Sudbury, located in Sudbury, MA is an assisted living facility which was refinanced under the Section 232/223(f) program in January 2015 for $6 million. Low income tax credits were used for construction financing of the 45 unit facility; as a result, nine units must be reserved for occupancy by low or moderate income residents until 2046.

Orchard Hill at Sudbury

The facility, constructed in 1999, was the 2000 national winner of the Senior Living Design Magazine award for the best Assisted Living Architectural Design. The exterior design emulates a traditional New England Farmhouse, while the interior design promotes a feeling of openness. The assisted living facility is located on the upper two floors with an additional 5,600 square foot commercial unit occupied by a day care center at the basement. The child day care center is considered an integral part of the project and contributes to the high morale of facility residents. The facilities common areas include a dining room with a fireplace and screened porch (located off of a commercial kitchen), a private dining room, library, parlor, activity room, country kitchen, outdoor patios, a whirlpool spa room, small store, and beauty salon. In addition, each floor has a billiards room, theatre, a game room and a laundry room.

Section 232 Office of Residential Care Facilities (ORCF) Accomplishments

In fiscal year 2015 the Office of Residential Care Facilities worked to update and streamline its Section 232 production loan application policies.

- **Proposed an update on the Section 232 Program Handbook.** The Section 232 Handbook was published in May 2014; it covered all aspects of production and asset management. ORCF began a review and subsequent update of the Handbook in fiscal year 2015 to ensure it was consistent with all ongoing policies. ORCF intends to publish a revised Handbook in early fiscal year 2016.

- **Issued a final rule on Fire Safety Equipment.** This final rule streamlines the loan application process for the purchase and installation of fire safety equipment for facilities insured under the Section 232 program. The rule "Updating Regulations Governing HUD Fees and the Financing of the Purchase and Installation of Fire Safety Equipment in FHA-Insured Healthcare Facilities," eliminates unnecessary requirements, adapts needed requirements to current industry practices, and allows for FHA to centralize the loan application process. Additionally, the rule gives FHA flexibility in raising or lowering program fees**.**

- **Developed a Section 232 Portal to collect operator financial statements electronically.** As of September 30, 2015, the portal had collected over 4,800 financial records and can calculate the five key financial ratios of: debt service coverage, days cash on hand, account receivable, accounts payable, and working capital. The process is fully automated and communications tools are built within the Portal.

- **Made improvements to the Decision Circuit - An appraisal review tool**, including:
  - Expanding the data collected to include all the summary tables in the appraisal section of the Lender Narrative; thus allowing for a more thorough risk check and the collection of more data for the comparable library,
  - Creating Decision Circuits for the New Construction and Section 241(a) SubRehab programs, and
  - Releasing the Decision Circuit to lenders, this allows them to evaluate underwriting issues prior to submitting an application and to proactively address the risks.

Section 242: Mortgage Insurance for Hospitals

Mortgage insurance for hospitals provides access to affordable financing for capital projects, including new construction or modernization. Additionally, the Section 223(f) program provides mortgage insurance for hospitals wishing to refinance loans without new construction or major rehabilitation. Clients range from small rural hospitals to major medical centers. Hospitals with FHA-insured loans serve as community anchors, providing jobs as well as healthcare services. FHA currently has 109 active hospital loans with unpaid principal balances totaling $7.3 billion. In fiscal year 2015, FHA issued or approved six insurance commitments totaling $109 million. In addition, the Office of Hospital Facilities approved 10 loan interest rate modifications.

Highlighted: San Luis Valley Regional Medical Center

San Luis Valley Regional Medical Center (RMC) located in Alamosa, CO was granted a $21.5 million loan under the 223(f) program. San Luis Valley Hospital, which includes RMC, and Conejos County Hospital in Alamosa and Conejos counties, respectively, are essential providers in the San Luis Valley.

San Luis Valley Regional Medical Center

The valley is geographically isolated by the Colorado Rocky Mountains, where inclement weather in the winter months can make the roadways dangerous to navigate. The closest non-CAH acute care facilities are located over 165 miles from Colorado Springs and 120 miles from Pueblo. RMC is the only provider of surgical care and deliveries (approximately 520 babies delivered per year) in the region making it a necessary provider of emergency care for its residents.

Section 242 Hospital Accomplishments

- **Loan Servicing Requirements.** Mortgagee Letter 2015-19 published on September 3, 2015, set forth requirements for lenders servicing Section 242 hospital loans. The Mortgagee Letter delineated the responsibilities of servicers from the initial endorsement of the loan, through any construction period, final endorsement and the ongoing servicing over the life of the loan.

- **Revised Section 242 Program Documents.** OHP in conjunction with the Office of General Counsel reviewed all Section 242 program documents and prepared an information collection of 41 closing and transactional forms required for administration of the Section 242 Hospital Mortgage Insurance Program. The proposed collection corrects, revises, and updates documents currently used by the program, to make them consistent with current regulations and policy (Handbook 4615.1), and to reflect the specific terms of FHA's Section 242 mortgage insurance program for hospitals. Consolidated forms were also created to improve and streamline data collection that previously required multiple documents.

Performance Goals and Objectives

FHA's Office of Healthcare Programs is responsible for critical activities within the FHA Strategic Plan. Listed below are the Management Action Plan goals, along with fiscal year 2015 achievements.

Strategic Goal (G2) ***Meet the Need for Quality, Affordable Rental Homes***			
G2 Sub-Goal 2B Preserve quality, affordable rental housing where it is needed most by simplifying and aligning the delivery of rental housing programs.			
Performance Goals and Objectives	FY 2015 Target	**FY 2015 Achievements	FY 2015 Status
Achieve enough initially endorsed Section 232 Residential Care Facility mortgages to preserve 750 occupied affordable assisted living facility dwelling units for Medicaid-eligible tenants.	750	952	✓
Strategic Goal (G3) ***Use Housing As a Platform To Improve Quality of Life***			
G3 Sub-Goal 3C Promote the health and housing stability of vulnerable populations.			
Performance Goals and Objectives	FY 2015 Target	FY 2015 Achievements	FY 2015 Status
Maintain the average Centers for Medicare/Medicaid Services (CMS) STAR quality rating of the FHA residential care facility portfolio by issuing skilled nursing home commitments with an average CMS rating of 2.8 or higher to monitor the quality of FHA's insured facilities and promote health of residents.	2.8	3.3	✓

****Achievements are as of June 30, 2015** ✓ **Target met** ✗ **Target not met**

Management Initiatives and Program Improvements

Implementation of Pay.gov

Treasury's Pay.gov system is a web-based application that allows individuals to make secure electronic payments to Federal Government Agencies. In fiscal year 2015, OHP successfully implemented the U.S. Department of Treasury's Pay.gov platform, to allow lenders to make online payments of Section 232 and Section 242 program fees. Use of this application allows for better funds control and provides automated processing for FHA and its lender partners. Prior to implementation, paper checks along with paper receipts, were received and processed. Implementing Pay.gov allows for improved financial controls, reporting, and reconciliations of financial accounts. Additionally, it enables OHP to utilize staff more effectively in other high-risk mitigation activities.

Risk Management

With an outstanding portfolio balance of over $31 billion, managing risk is an important focus of the OHP programs. OHP mitigates risk upfront during the underwriting process, after loan closing, through the identification and monitoring of troubled properties, and through actions to reduce claim payments. As a result, in fiscal year 2015 there was a zero claim rate.

OHP continues working to improve underwriting standards and to ensure consistent applications while reducing processing time. Utilization of Lean Processing in the Section 232 program has improved business practices by standardizing nationwide submission and underwriting. This process has allowed for greater focus on the creditworthiness of the operator and its principals.

Proactive asset management also plays an important role in risk management and loss prevention. In 2015, OHP issued a Mortgagee Letter outlining the minimum servicing requirements for the Section 242 program. The servicer is in a position to monitor the borrower's financial well-being and to share critical information and concerns with the lender and HUD. Improving the quality of loan servicing helps OHP strengthen asset management and avoid insurance claims.

Other approaches to loss prevention include working with state agencies on early notification of potential adverse action; expediting refinancing; working with lenders who have identified potential owners, operators or equity providers; 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.

Finally, OHP is implementing improved information technology solutions to better manage portfolio risks and monitor healthcare facilities. In the Section 242 program, Moody's Risk Analyst software is being deployed to capture portfolio financial data and provide enhanced analytics support for risk management. In the Section 232 program, a Web Portal has been developed to collect financial data from portfolio facilities. This information is essential for monitoring financial performance of facilities to manage risks and prevent claims.

Office of Housing Counseling

"The mission of HUD's Office of Housing Counseling is to provide individuals and families with the knowledge they need to obtain, sustain, and improve their housing. We will accomplish this mission by supporting a strong national network of HUD-approved housing counseling agencies and counselors."

Sarah Gerecke, Deputy Assistant Secretary
Office of Housing Counseling

The Housing Counseling Program is authorized by Section 106 of the Housing and Urban Development Act of 1968, as amended by the Dodd-Frank Act, to provide or contract with organizations to offer counseling to tenants and homeowners seeking to improve their housing conditions. The Office of Housing Counseling (OHC) supports a nationwide network of nearly 2,100 housing counseling agencies that are trained and approved to provide tools to current and prospective homeowners and renters so they can make responsible choices to address their housing needs. Although Housing Counseling activities are not funded through FHA resources, they have a significant impact on FHA programs.

OHC supports FHA's mission by supporting and monitoring a nationwide network of counseling agencies that provide consumers the information they need to make wise housing decisions. Through HUD's housing counseling program, families improve their financial situation, address their current housing needs, and pursue their housing and financial goals over time. Housing counseling ranges from addressing the crises of homelessness or foreclosure, to planning for the first-time home purchase or setting up a matched savings account. Housing counseling serves an important role in the success of other HUD initiatives as well as state, local and federal priorities.

Housing counselors are a gateway to legitimate state, local, federal and private housing assistance programs; and housing counselors provide an important safeguard against discrimination, scams and fraud. By teaching consumers basic principles of housing and money management, housing counselors help them to increase their residual income and savings, improve their housing conditions, provide access to credit, and give them greater stability and confidence. This is especially true for those affected by unemployment, poor credit, inappropriate mortgage choices, and high debt during the years following the recession.

Chart 1: Housing Counseling

HUD awards grants annually to HUD-approved housing counseling agencies through a competitive process. In fiscal year 2015, HUD awarded over $42 million in housing counseling grants to 307 agencies. More than $40 million in grants were allocated to support the full spectrum of housing counseling services, including homeless, rental, pre-purchase, post-purchase, reverse mortgage, and foreclosure prevention counseling. The remaining $2 million was awarded to provide counselors with training to effectively assist families with their housing needs. Most of these grants were awarded through a new two-year Notice of Funding Availability (NOFA) process, which meant the majority of grantees did not have to reapply in order to receive fiscal year 2015 funding. This greatly reduced the administrative burden for housing counseling agencies, saving time they could dedicate to providing critical services to consumers.

Housing Counseling Partnerships

The Office of Housing Counseling is proud to work with federal colleagues not only within HUD but also at other agencies to make sure that housing counseling addresses the needs of our constituents. The Office of Housing Counseling has assisted the Consumer Financial Protection Bureau in its outreach efforts and worked closely with the Treasury Department to incorporate housing counseling into the foreclosure prevention efforts of the Administration's Make Home Affordable program.

Performance Goals and Objectives

As we recover from the recent downturn in the housing market, equal access to housing financing for creditworthy borrowers in underserved communities continues to be difficult to obtain. These challenges have disproportionately affected first-time, minority, and low-to-moderate income homebuyers and homeowners. The Office of Housing Counseling is responsible for critical activities within the HUD Strategic Plan to address these challenges.

To help achieve these goals, OHC implemented several initiatives in fiscal year 2015, including launching a revised reporting tool to track housing counseling impacts, establishing a new Housing Counseling Federal Advisory Committee to help the Department provide consumers with the knowledge they need to find and sustain decent housing, and unveiling a new website offering free online training designed to help prepare housing counselors for the upcoming, mandatory HUD-certified counselor examination. The Management Action Plan target activities that address OHC's Sub-Goals are listed below.

Strategic Goal (G1) Strengthen the Nation's Housing Market to Bolster the Economy and Protect Consumers			
G1 Sub-Goals 1B Ensure equal access to sustainable housing financing and achieve a more balanced housing market, particularly in underserved communities.			
Performance Goals and Objectives	FY 2015 Target	**FY 2015 Achievements	FY 2015 Status
Track the number of clients counseled through the HUD Housing Counseling program. The target for FY 2015 is 1,566,000 clients.	1,566,000	960,627	✘
Track the percentage of housing counseling clients who gain access to resources to improve their housing situation.	Establish Baseline	17%	✓
Track the percentage of housing counseling clients with whom a counselor developed a sustainable household budget.	Establish Baseline	34%	✓

****Achievements are as of June 30, 2015** ✓ **Target met** ✘ **Target not met**

✘ **Explanation of Performance Measure not meeting target:** As of June 30, 2015, 960,627 households have received counseling through HUD's Housing Counseling Program. The OHC is not currently on target to meet the ambitious goal of reaching 1,566,000 because funding for the industry from major sources such as the National Foreclosure Mitigation Counseling program have declined significantly in recent years. This decline in funding, accompanied by increases in costs, limits the capacity of housing counseling agencies and has caused numerous counseling agencies to go out of business.

Highlighted: Housing Counseling Services in Santa Ana, CA

A mother of five first met the non-profit Orange County Housing Opportunities Collaborative (OC HOC) while working at the Delhi Community Center in Santa Ana, CA. OC HOC's Program Manager invited the client and her husband to attend a free Home Buyer Orientation Workshop to learn about the home buying process, down payment programs and the benefits of working with a HUD-approved housing counselor. The client thought that she would never save enough money to afford a home in the high priced housing market of Orange County. Little did she know that OC HOC's Home Buyer Workshop would change her life.

Client and extended family in the kitchen of their new home

It has been a little over two years since she and her husband attended that workshop and there have been many challenges along the way. They have experienced health scares with family members, job changes, and even being the victim of a rental scam - losing $1,800 to a fraudulent online transaction. But through it all, they worked with OC HOC and its collaborative non-profit partners to overcome the obstacles. They were frustrated but stayed motivated and determined to improve their financial situation. After viewing approximately 15 homes and making four offers, they finally found the house of their dreams, and in September 2015, purchased their very first home in Santa Ana! It truly took a village to make this dream a reality. This success story would not be possible without the collaboration and dedication of all of OC HOC's partners.

Office of Risk Management and Regulatory Affairs

"The role of risk management is to ensure that FHA continues to deliver on its mission with strategies that support the long-term financial health of the insurance funds."

Frank Vetrano, Deputy Assistant Secretary
Office of Risk Management and Regulatory Affairs

The Office of Risk Management and Regulatory Affairs (ORMRA) measures, monitors and manages credit and operational risk related to each program area as part of a comprehensive enterprise risk management strategy across the entire Office of Housing. Since its inception, ORMRA has initiated strategies, governance and partnerships across all program areas to support the Agency's mission goals in Single Family, Multifamily and Healthcare programs.

ORMRA manages risk through conducting analyses and making risk management recommendations based on independent research as well as collaboration with program areas. Formal credit committees within each program area, comprised of senior level ORMRA and program area leadership, are forums where recommendations are presented, discussed and debated in a transparent manner. Strategies are often developed by incorporating various risk and mission perspectives and partnering with the program offices to support enhanced risk management elements of program policies and practices. Examples include evaluating "best execution" asset management transactions to strengthen the portfolio risk profiles; governance related to underwriting policy and economic modeling to provide quantitative, data-driven solutions to support recommendations related to risk appetite and impact of program policy objectives.

One area of particular focus has been ORMRA's role in advancing policies to address the unprecedented economic challenges facing the Single Family portfolio, while concurrently supporting continued access to mortgage credit for American families. One component of the strategy was to align pricing and credit policies to promote sustainable lending by systematically contributing a capital cushion to support the FHA mission.

Another core strategy was to increase the value of poorly performing legacy loans by diversifying FHA's asset management approach. Use of REO alternatives, such as Note Sales and Claims Without Conveyance of Title (CWCOT), has expanded to approximately 50 percent of FHA's disposition volume; and this overall disposition strategy has significantly reduced losses on distressed assets. FHA is positioned to increase focus on access to credit as a result of these key strategic credit initiatives in the aftermath of the recent crisis.

Although ORMRA has successfully mitigated many of the risks inherent to the MMI Fund, many risk factors remain. The Single Family portfolio delinquency rate is at a pre-crisis low but still has a delinquent balance of approximately $60 billion. The movement of lending partners in the Single Family Program from well-capitalized banks to smaller non-banking institutions increases FHA's counterparty risk exposure. The HECM portfolio continues to present volatility within the MMI Fund. The FHA Multifamily and Healthcare portfolio contains large loans with concentration risk among lenders. ORMRA is working with the program areas to identify and mitigate these emerging risks.

ANALYSIS OF FINANCIAL STATEMENTS

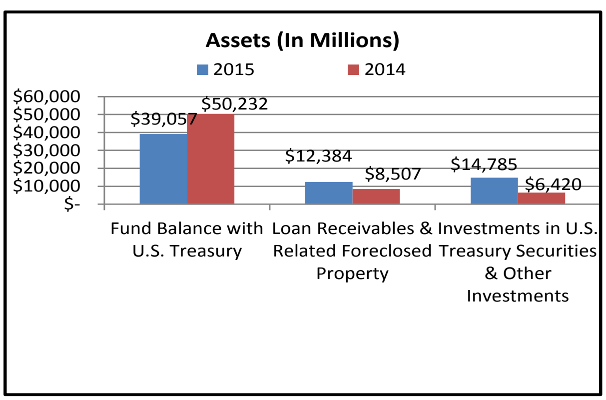
This section presents a summary analysis of FHA's financial statements. The financial statements in this report were prepared using General Accepted Accounting Principles (GAAP) in the United States for Federal entities, the Federal Credit Reform Act of 1990 and in accordance with the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements.* FHA's management is responsible for the integrity and objectivity of the financial information presented in the financial statements. This is the 23rd consecutive year FHA has received an unmodified audit opinion on its financial statements.

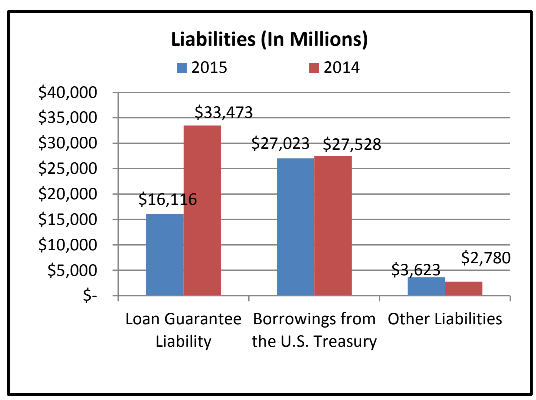
Overview of Financial Position

A summary of FHA's change in financial position from fiscal year 2014 to fiscal year 2015 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. The nature of FHA's business requires it to carry, or acquire through borrowing, the fund balance necessary to pay estimated claim payments on defaulted guaranteed loans. Additionally, FHA must meet credit reform requirements of transferring subsidy expense and credit subsidy re-estimates. The subsidy expense and re-estimate calculations are based on assumptions of premium collections, prepayments, claims, and recoveries on credit program assets. Accordingly, FHA's net assets can fluctuate significantly depending largely on economic and market conditions and customer demand.





During fiscal year 2015, there was an $11,175 million decrease in fund balance with U.S. Treasury primarily attributable to an increase in MMI/CMHI investments in U.S. Treasury securities. Also, overall assets decreased due to disbursements exceeding collections (i.e., claim payments exceeding premium collections and proceeds from the sale of assets).

Loan Guarantee Liability

The loan guarantee liability (LGL) is comprised of two components, the liability for loan guarantee (LLG) for post-1991 loan guarantees and the loan loss reserves (LLR) for pre-1992 loan guarantees.

Post-1991 LLG

The LLG related to Credit Reform loans (made after September 30, 1991), is comprised of the present value of anticipated cash outflows, such as claim payments, premiums refunds, property expense for on-hand properties and sales expense for sold properties; less anticipated cash inflows, such as premium receipts, proceeds from property and note sales, and principal and interest on Secretary-held notes.

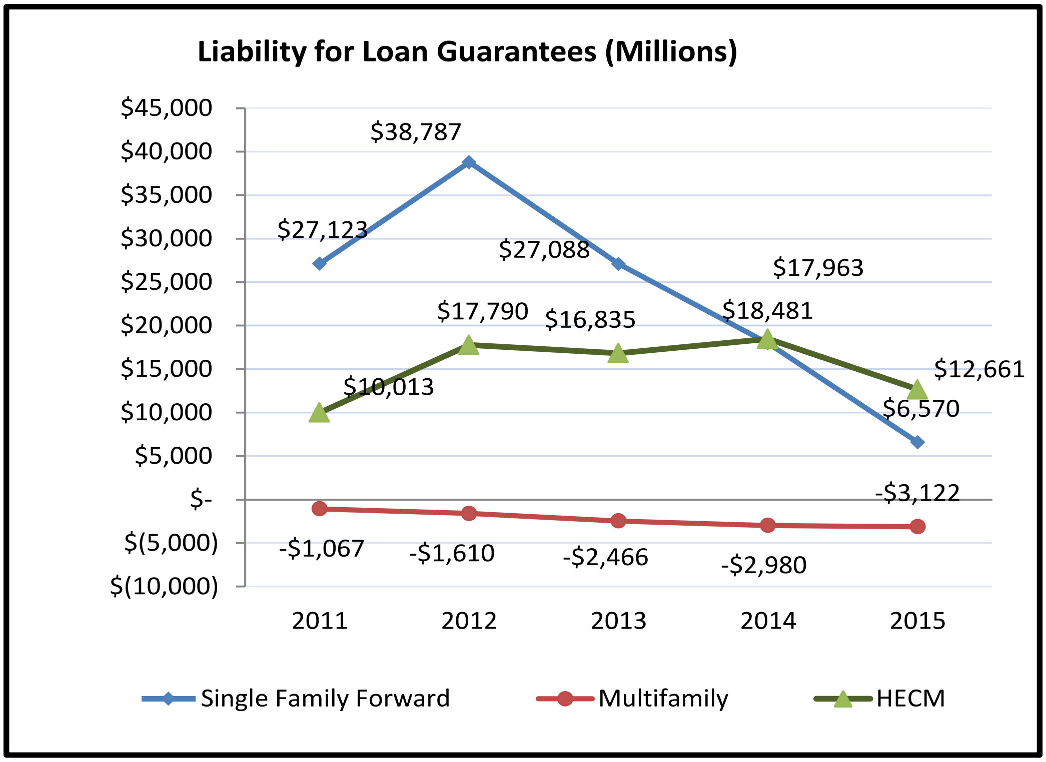
Schedule of Liability for Loan Guarantees
(Dollars in Millions)

	FY 2015	FY 2014	Difference	% Change
Single Family Forward	$ 6,570	$ 17,963	$ (11,393)	-63%
HECM	12,661	18,481	(5,820)	-31%
Multifamily	(3,122)	(2,980)	(142)	5%
Total	**$ 16,109**	**$ 33,464**	**$ (17,355)**	**-52%**

The ($11,393) million single family forward LLG decrease is mainly due to the inclusion of the 2015 book-of-business which is forecasted to add a little over $7 billion in negative liability to the MMI fund. The second major factor is the leveling-off of interest rates from the downward trend seen in the past few years. This leads to lower prepayment rates, since there is little incentive for homeowners to refinance.

The ($5,820) million HECM LLG decrease is primarily due to the continued housing market stabilization. This increases the recovery rates and thus, decreases the liability to the Fund. HECM endorsements from fiscal years 1990-2008 remain in the GI/SRI Fund. The liability for these loans decreased from $11,034 million at the end of fiscal year 2014 to $8,161 million at the end of fiscal year 2015. This liability is driven more by long term house price appreciation forecasts rather than short term forecasts.

The ($142) million multifamily LLG decrease can be attributed to decreases in several multifamily programs. (The Section 223(f) liability decreased this year by $140 million due to lower prepayment expectations as well as increased insurance-in-force. The Section 221(d)(4) liability decreased by $26 million due to lower claims and prepayments being predicted. The Section 232 Refinance liability decreased by $34 million due to a decrease in claims expectations).



Pre-1992 Loan Loss Reserve (LLR)

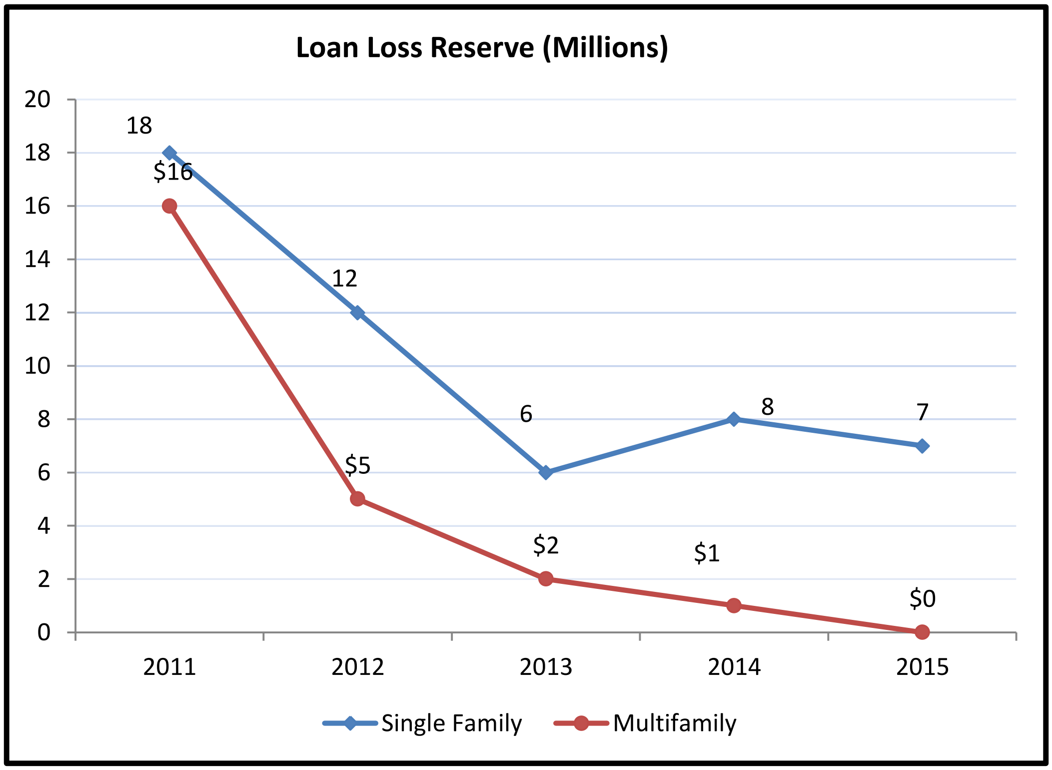
FHA maintains loss reserves for the estimated costs of future mortgage insurance claims resulting from defaults that have occurred or are likely to occur among insured Single Family, Multifamily and Title I loan guarantees made prior to September 30, 1991. FHA records a loss reserve for its pre-Credit Reform insured mortgages to provide for anticipated losses which may occur on claims for defaults that have taken place but have not yet been filed.

Schedule of Loan Loss Reserve
(Dollars in Millions)

	FY 2015	FY 2014	Difference	% Change
Single Family	$ 7	$ 8	$ (1)	-13%
Multifamily	-	1	(1)	-100%
Total	**$ 7**	**$ 9**	**$ (2)**	**-22%**

The LLR is computed using 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 sales and principal and interest on Secretary-held notes.

Overall, loss reserve decreased by $2 million; from $9 million in fiscal year 2014, to $7 million in fiscal year 2015. The majority of the decrease can be attributed to a decrease in pre-credit reform single family loans outstanding.



Net Cost/ (Surplus)

In fiscal year 2015, FHA reported a net profit (surplus). The most important facet of FHA's cost and revenue activity is the treatment of loan guarantee subsidy cost. Loan guarantee subsidy cost is the estimated long-term cost to FHA of a loan guarantee calculated on a net present value basis, excluding administrative costs. The cost of a loan guarantee is the net present value of the estimated cash flows paid by FHA to cover claims, interest subsidies, and other requirements as well as payments made to FHA, including premiums, penalties, and recoveries also included in the calculation.

Schedule of Net Cost (Surplus) (Dollars in Millions)				
	FY 2015	FY 2014	Difference	% Change
Program Cost	$ (16,201)	$ (3,108)	$ (13,093)	421%
Less: Program Revenues	1,849	2,181	(332)	-15%
Net Cost (Surplus)	**$ (18,050)**	**$ (5,289)**	**$ (12,761)**	**241%**

FHA had a net program surplus in 2015. The program cost difference is primarily due to the decreases in the re-estimates, an increase in the negative subsidy, and decrease in interest expense in the Single Family, HECM, and Healthcare gross costs with the public in the MMI and GI/SRI funds. At the time of endorsement, future cash flows for single family guaranteed loans are projected to have positive cash flows over the life of the loans, which results in a negative subsidy. This is a primary driver for the over-all program cost decrease in fiscal year 2015, compared to fiscal year 2014; an increase in the negative subsidy expense. In addition, program costs decreased due to an increase in the downward re-estimate in GI/SRI fund.

Budgetary Resources

FHA finances its operations primarily through appropriations, borrowings from the U.S. Treasury, spending authority from offsetting collections, and prior year unobligated balances carried forward.

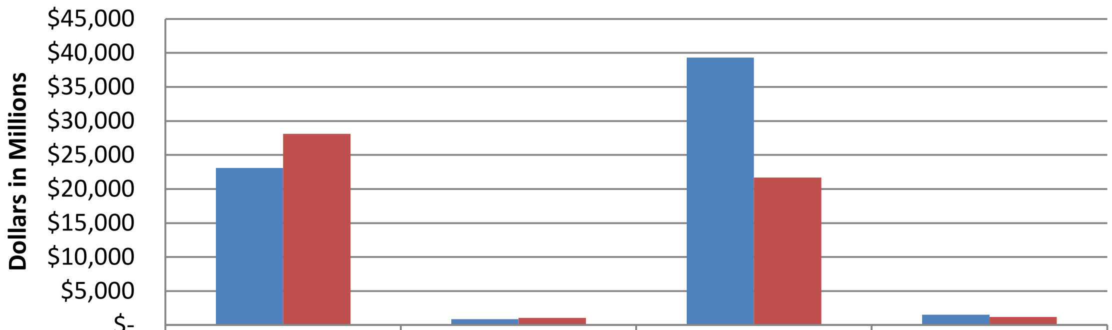
Offsetting collections include collections of premiums, fees, sales proceeds of credit program assets and credit subsidy transferred between different FHA accounts. FHA's budgetary resources are reduced by repayments of borrowings, the return of the unobligated GI/SRI liquidating account balances to Treasury, the return of cancelled program funds, and non-expenditure transfers for working capital fund expenses.

Budgetary Resources
(Dollars in millions)

	FY 2015	FY 2014	Difference	% Change
Offsetting Collections	$ 47,279	$ 37,319	$ 9,960	27%
Unobligated Balance Carried Forward	53,721	58,692	(4,971)	-8%
Appropriations	2,225	367	1,858	506%
Borrowing Authority	12,146	8,769	3,377	39%
Recoveries, Transfers, and Other	191	563	(372)	-66%
Total Budgetary Resources	**$ 115,562**	**$ 105,710**	**$ 9,852**	**9%**

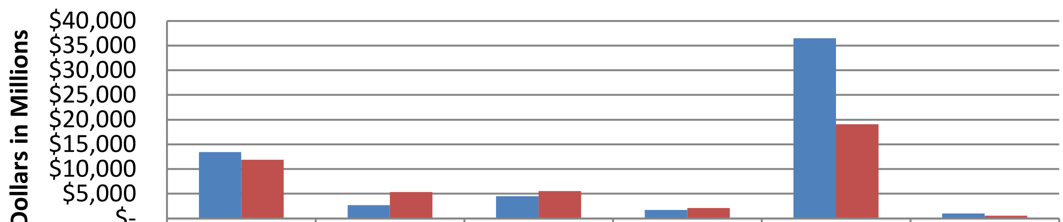
These resources were used to cover the fiscal year 2015 obligations totaling ($64,843) million. These obligations included: subsidy/re-estimate costs, claim payments on defaulted guaranteed loans, the cost of acquiring, maintaining and disposing of foreclosed properties, and other. FHA collections totaled ($59,923) million and included: premiums, notes, property, interest earned, subsidy/re-estimate, and other.

Obligations



	Claims	Property Expenses	Subsidy and Reestimate	Other
FY 2015	$23,096	881	39,329	1,537
FY 2014	28,103	1,048	21,664	1,174

Collections



	Premiums	Notes	Property	Interest Earned	Subsidy and Reestimate	Other
FY2015	$13,453	2,701	4,513	1,741	36,493	1,022
FY 2014	$11,885	5,319	5,572	2,111	19,078	528

SYSTEMS, CONTROLS, AND 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 Internal Control

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 prepares an Internal Control Assurance Statement. This statement attests that 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 and Appendix III of OMB's Circular A-130, "Management of Federal Information Resources."

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 provides reasonable assurance that its internal controls over financial reporting were operating effectively as of June 30, 2015. No material weaknesses were found in the design or operation of the internal control is over financial reporting.

Fiscal Year 2015

Annual Assurance Statement on Internal Control over Financial Reporting

The Federal Housing Administration's (FHA) management is responsible for establishing and maintaining effective internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations. FHA conducted its assessment of the effectiveness of the FHA internal control over financial reporting in accordance with OMB Circular A-123, Management's Responsibility for Internal Control, Appendix A. Based on the results of this evaluation, FHA provides a reasonable assurance that internal controls over financial reporting were operating effectively as of June 30, 2015. No material weaknesses were found in the design or operation of the internal controls over financial reporting.

Edward Golding
Principal Deputy Assistant Secretary
for Housing

FHA Compliance with OMB Circular A-123, Financial Management Systems

FHA's management has reviewed FHA's core financial system and seventeen financial and mixed financial systems for compliance with the OMB Circular A-123 "Management's Responsibility for Internal Controls," 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 implements the U.S. Standard General Ledger at the transaction level. FHA's seventeen 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's multi-year strategic plan: sustainable growth, stabilizing housing markets and increasing availability of funding.

FHA management considers the existing systems capable of sustaining operation of the FHA insurance programs for the foreseeable future. FHA management also recognizes that its systems must continue to meet advancing standards and new expectations for efficiency and flexibility of operation. In fiscal year 2015 FHA reduced the cost of system operation, enhanced system security, modernized software, and implemented critical new data processing capabilities to better manage risk to the FHA insurance portfolio.

- FHA reduced system operating costs by negotiating reduced prices on existing contracts, emphasizing price reduction for new contracts, and relying on shared services to meet new Treasury requirements.
- FHA enhanced security and modernized infrastructure by completing upgrades to commercial-off-the-shelf (COTS) products operating within several systems, including upgrading FHA's core financial system.
- FHA supported a departmental initiative to centralize interfaces with Treasury, avoiding separate FHA investments in four systems that currently rely upon Treasury's Open Collection Interface service, which Treasury plans to replace with a new Trusted Collection Service.
- FHA completed the integration of automated lender certification and recertification processes to improve services while enhancing oversight of lender performance and risk.
- FHA implemented new capabilities for electronic processing of Single Family property appraisals and the use of industry standard appraisal information to better manage risks in Single Family underwriting.

FHA continues to develop a new Multifamily automated underwriting system that will better manage risks and support more efficient operations for Multifamily and Healthcare financing and mortgage insurance underwriting.

Fiscal Year 2015 Financial Statement Audit Findings

Status of Fiscal Year 2014 Financial Statement Audit Findings

The status of the one material weakness and two significant deficiencies identified in the fiscal year 2014 financial statement audit is presented below:

A. *Establish receivables for legal settlements and partial claims notes*

This material weakness resulted because FHA could not provide promissory notes to support \$1.5 billion net loans receivable balances and did not accrue for legal settlement agreements. During fiscal year 2015, FHA initiated steps to comply with the Office of the Inspector General (OIG) noted recommendations and aggressively worked to immediately address the backlog of unprocessed documents related to promissory notes and ensured that the system accurately reflected the status of the second notes and second mortgages. As of September 2015, processing of the backlog was completed. The loan amount on outstanding missing documents associated with this finding has been significantly reduced to \$116 million. FHA will initiate the debt collection process for the outstanding partial claim documents in the first quarter of fiscal year 2016. Additionally, FHA has established a routine process to continually ensure all second notes are received timely and for those where the documentation was not received timely, FHA will pursue debt collection.

To address the legal settlements, FHA began recording legal settlements receivables effective September 30, 2014. Processes and procedures have been implemented to track and record settlements due FHA. FHA will continue to report the status of settlement receivables on the balance sheet of the financial statements.

As a result of FHA's efforts, this material weakness was reduced to a significant deficiency.

B. *Recognize liabilities for unearned premium collection or unpaid supplemental claims*

FHA developed processes and procedures to recognize the identified liabilities and resolved this significant deficiency during fiscal year 2015.

C. *Weaknesses in selected FHA information technology systems*

FHA has corrected the information system control weaknesses identified in its core financial system, the FHA Subsidiary Ledger. The corrections included improvements in FHA's existing procedures for managing user access, auditing system and data changes, and protecting sensitive information. In addition FHA updated documentation for interfaces and configuration management.

FHA continues to address weaknesses identified for the Single Family Data Warehouse. FHA is developing policies, procedures and system changes for better user access management; reconciling business-critical interfaces; and ensuring software products are updated with the latest security protections.

Fiscal Year 2015 Financial Statement Audit Findings

The Office of the Inspector General (OIG) has identified three significant deficiencies in the Internal Control Report for FHA's 2015 financial statement audit. The first finding relates to the downgraded fiscal year 2014 material weakness, as discussed above. The second finding relates to FHA's internal control over financial reporting; and the third finding, relates to application controls of selected FHA Information Technology systems. Management has already taken steps to resolve these findings, and will continue working to address the remaining auditor recommendations in the coming fiscal year.

Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA)

In accordance with the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA) and the OMB Memorandum M-15-02 dated October 20, 2014. FHA complied with the requirements and determined which of its program activities required review this year. Pursuant to the Act, FHA has analyzed the dollar volumes of each disbursement program for the period between May 1, 2014 and April 30, 2015. Based on a HUD threshold of $40 million, the following disbursements programs exceeded the threshold:

- Single Family Insurance Claims System (SFIC)
- Home Equity Conversion Mortgage (HECM) Notes
- Multifamily Insurance Claims (MFIC)
- Multifamily Notes
- Single Family Acquired Asset Management System (SAMS) Disbursement Program
- Contracts and Grants

During fiscal year 2015, limited risk assessments were conducted on all programs to determine whether the programs are of low risk. Our risk assessment revealed that there were no significant changes to processes by which the disbursements were processed, leading us to conclude that systems are not susceptible to improper payments. We conducted the Risk Assessment Survey of all disbursement programs. The findings of the survey revealed that FHA disbursements programs are of low risk. We also analyzed Do Not Pay initiatives and found no significant incidence of erroneous payments. In addition, we conducted limited review of OIG audit findings and GAO audit recommendations in fiscal year 2015 to assess their impacts on improper payments. We have performed random statistical sampling and analyses of HECM, MFIC and SAMS case files and statistical testing of SFIC disbursements in fiscal year 2015. The findings from case files reviewed, have confirmed that programs are not susceptible to significant risk of improper payments for the fiscal year 2015. In addition, FHA's internal control review required by OMB Circular A-123, Appendix A, concluded that each of these programs has adequate internal controls that are fully documented and implemented to control fraud, waste and abuse.

IPERIA requires agencies that enter into contracts worth more than $1 million in a fiscal year to complete a cost-effective program for identifying errors made in paying contracts and grants and recovering any improper payments. In fiscal year 2015, we estimated total contract disbursements of $123 million.

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 to implementing the controls established by the FHA, programs have 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. It has an extensive debt collection program to recover overpayments.

Limitations of Financial Statements

The following limitations apply to the preparation of the fiscal year 2015 financial statements:

- The financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C.3515 (b).
- While the statements have been prepared from the books and records of the entity in accordance with the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.
- The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

PRINCIPAL FINANCIAL STATEMENTS

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MESSAGE FROM THE DEPUTY ASSISTANT SECRETARY FOR FINANCE AND BUDGET

November 16, 2015

Federal Housing Administration (FHA) is pleased to receive its 23rd consecutive unmodified audit opinion on its fiscal year (FY) 2015 Financial Statements. FHA has achieved this through a continued effort of strengthening internal controls, improving risk management practices, and focusing on process improvement and automation. FHA's financial practices have contributed to FHA's overall success in strengthening the nation's housing market, bolstering the economy, and providing quality affordable housing opportunities, as well as healthcare and residential care facilities.

FHA continued to strengthen the Mutual Mortgage Insurance (MMI) Fund and improve its capital reserve ratio by continuing to promote programs that mitigate FHA's losses and assist distressed homeowners. During FY 2015, FHA reduced its annual Mortgage Insurance Premium (MIP) rates for most single family forward mortgages by 50 basis points. As a result, single family forward mortgage endorsements increased by 42%, from less than 787 thousand cases in FY 2014, to more than 1.1 million cases in FY 2015. Single family forward endorsements rose from approximately $135 billion in FY 2014 to over $213 billion in FY 2015. This increase in volume resulted in an increase of $1.5 billion in premiums collected from FY 2014 to FY 2015.

FHA conducted two single family asset sales of 13,122 loans with an Unpaid Principal Balance (UPB) of $2.34 billion as part of its Distressed Asset Stabilization Program (DASP), resulting in recoveries of $1.4 billion. FHA also conducted a loan sale on a hospital note with a UPB of $164 million which resulted in $50 million in recoveries.

FHA's Multifamily and Healthcare programs continued to thrive. Multifamily commitments exceeded $9.5 billion and healthcare commitments exceeded $2.9 billion. In FY 2015, FHA oversaw a roll-out of the new Federal Financing Bank (FFB) Risk Share program. Under this program, FHA, in a risk-sharing partnership with FFB and Housing Finance Authorities (HFAs), provides funding for multifamily mortgage loans insured by FHA. In its first year, the FFB Risk Share program provided $122 million in funds for multifamily projects and properties.

FHA continues to support improved financial management by implementing several Pay.gov initiatives. During the fiscal year, FHA implemented Pay.gov for multifamily notes collections and multifamily and healthcare fees and initial mortgage insurance premiums. As a result of these efforts, the lockboxes that were used to collect fees and premiums are now closed and FHA has better internal controls over its collections.

Resolving audit findings was a primary focus for FY 2015. During FY 2015, FHA developed and implemented a methodology to defer recognition of pre-endorsement premium collections and accrue for suspended supplemental claims; this successfully resolved a significant deficiency from the prior year. FHA also successfully resolved all information technology weaknesses surrounding the FHA Subsidiary Ledger (FHASL) system, FHA's core general ledger.

FHA made significant progress towards resolving its FY 2014 material weakness relating to the establishment of receivables for legal settlements and partial claim notes. FHA created formal policies and procedures to record amounts due as a result of legal settlements, implemented a reconciliation process for its partial claim receivables, and aligned its partial claim policies and documentation. Due to FHA's efforts, this material weakness was reduced to a significant deficiency in the FY 2015 financial statement audit. The only remaining corrective action is the initiation of a partial claim reimbursement process from lenders, which is set to occur in the first part of FY 2016.

In the FY 2015 financial statement audit, FHA was cited for no material weaknesses and just three significant deficiencies. The first finding relates to the downgraded FY 2014 material weakness, as discussed above. The second finding relates to FHA's internal control over financial reporting, and the third finding, relates to application controls of selected FHA Information Technology systems. Management has already taken steps to resolve these findings, and will continue working to address the remaining auditor recommendations in the coming fiscal year.

As the nation's housing market continues to improve, FHA's fiscal health continues to improve as well. FHA's Office of Finance and Budget will continue to strengthen its controls over financial reporting, in order to provide FHA's leadership with the tools necessary to ensure FHA's continued success in fulfilling its mission of providing affordable housing and bolstering the economy.

George John Rabil

George J. Rabil
Deputy Assistant Secretary for Finance and Budget

FEDERAL HOUSING ADMINISTRATION
(AN AGENCY OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT)
CONSOLIDATED BALANCE SHEETS
As of September 30, 2015 and 2014
(Dollars in Millions)

	FY 2015	FY 2014
ASSETS		
Intragovernmental		
Fund Balance with U.S. Treasury (Note 3)	$ 39,057	$ 50,232
Investments (Note 4)	14,754	6,379
Other Assets (Note 7)	1	1
Total Intragovernmental	$ 53,812	$ 56,612
Investments (Note 4)	$ 31	$ 41
Accounts Receivable, Net (Note 5)	407	1,459
Loans Receivable and Related Foreclosed Property, Net (Note 6)	12,384	8,507
Other Assets (Note 7)	45	47
TOTAL ASSETS	**$ 66,679**	**$ 66,666**
LIABILITIES		
Intragovernmental		
Accounts Payable (Note 8)	$ 1	$ 3
Borrowings (Note 9)	27,023	27,528
Other Liabilities (Note 10)	2,351	1,689
Total Intragovernmental	$ 29,375	$ 29,220
Accounts Payable (Note 8)	$ 545	$ 459
Loan Guarantee Liability (Note 6)	16,116	33,473
Other Liabilities (Note 10)	726	629
TOTAL LIABILITIES	**$ 46,762**	**$ 63,781**
NET POSITION		
Unexpended Appropriations (Note 16)	$ 871	$ 872
Cumulative Results of Operations	19,046	2,013
TOTAL NET POSITION	**$ 19,917**	**$ 2,885**
TOTAL LIABILITIES AND NET POSITION	**$ 66,679**	**$ 66,666**

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, 2015 and 2014
(Dollars in Millions)

	FY 2015	FY 2014
Single Family Forward		
Intragovernmental Gross Costs	$ 955	$ 736
Less: Intragovernmental Earned Revenue	1,133	1,340
Intragovernmental Net Costs	$ (178)	$ (604)
Gross Costs With the Public	$ (13,283)	$ (6,350)
Less: Earned Revenues	11	17
Net Costs With the Public	$ (13,294)	$ (6,367)
Single Family Forward Net Cost (Surplus)	$ (13,472)	$ (6,971)
HECM		
Intragovernmental Gross Costs	$ 59	$ 59
Less: Intragovernmental Earned Revenue	584	711
Intragovernmental Net Costs	$ (525)	$ (652)
Gross Costs With the Public	$ (3,992)	$ 2,673
Less: Earned Revenues	1	1
Net Costs With the Public	$ (3,993)	$ 2,672
HECM Net Cost (Surplus)	$ (4,518)	$ 2,020
Multifamily		
Intragovernmental Gross Costs	$ 104	$ 123
Less: Intragovernmental Earned Revenue	$ 58	51
Intragovernmental Net Costs	$ 46	$ 72
Gross Costs With the Public	$ (559)	$ (519)
Less: Earned Revenues	45	44
Net Costs With the Public	$ (604)	$ (563)
Multifamily Net Cost (Surplus)	$ (558)	$ (491)
Healthcare		
Intragovernmental Gross Costs	$ 73	$ 45
Less: Intragovernmental Earned Revenue	16	16
Intragovernmental Net Costs	$ 57	$ 29
Gross Costs With the Public	$ (140)	$ (505)
Less: Earned Revenues	$ 1	1
Net Costs With the Public	$ (141)	$ (506)
Healthcare Net Cost (Surplus)	$ (84)	$ (477)
Salaries and Administrative Expenses		
Intragovernmental Gross Costs	$ 15	$ 17
Less: Intragovernmental Earned Revenue	-	-
Intragovernmental Net Costs	$ 15	$ 17
Gross Costs With the Public	$ 567	$ 613
Less: Earned Revenues	-	-
Net Costs With the Public	$ 567	$ 613
Adminstrative and Contracts Net Cost (Surplus)	$ 582	$ 630
Net Cost of Operations	**$ (18,050)**	**$ (5,289)**

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 POSITION
For the Periods Ended September 30, 2015 and 2014
(Dollars in Millions)

	FY 2015 Cumulative Results of Operations	FY 2015 Unexpended Appropriations	FY 2014 Cumulative Results of Operations	FY 2014 Unexpended Appropriations
BEGINNING BALANCES	**$ 2,013**	**$ 872**	**$ (1,884)**	**$ 869**
Budgetary Financing Sources				
Appropriations Received (Note 16)	-	2,235	-	367
Other Adjustments (Note 16)	-	(30)	-	(37)
Appropriations Used (Note 16)	2,206	(2,206)	327	(327)
Other Financing Sources				
Transfers In/Out (Note 15)	442	-	497	-
Imputed Financing (Note 12)	15	-	15	-
Other	(3,680)	-	(2,231)	-
Total Financing Sources	**$ (1,017)**	**$ (1)**	**$ (1,392)**	**$ 3**
Net (Cost) Surplus of Operations	**18,050**	**-**	**5,289**	**-**
ENDING BALANCES	**$ 19,046**	**$ 871**	**$ 2,013**	**$ 872**

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, 2015
(Dollars in Millions)

	FY 2015 Budgetary	FY 2015 Non-Budgetary	FY 2015 Total
Budgetary Resources:			
Unobligated balance brought forward, October 1	$ 8,152	$ 45,569	$ 53,721
Unobligated balance brought forward, October 1, as adjusted	8,152	45,569	53,721
Recoveries of prior year unpaid obligations	50	382	432
Other changes in unobligated balance (+ or -)	(241)	-	(241)
Unobligated balance from prior year budget authority, net	7,961	45,951	53,912
Appropriations (discretionary and mandatory)	2,225	-	2,225
Borrowing authority (discretionary and mandatory)	-	12,146	12,146
Spending authority from offsetting collections (discretionary and mandatory)	21,716	25,563	47,279
Total budgetary resources	**$ 31,902**	**$ 83,660**	**$ 115,562**
Status of Budgetary Resources:			
Obligations incurred	$ 15,170	$ 49,673	$ 64,843
Unobligated balance, end of year:			
Apportioned	56	3,509	3,565
Unapportioned	16,676	30,478	47,154
Total unobligated balance, end of year	16,732	33,987	50,719
Total budgetary resources	**31,902**	**83,660**	**115,562**
Change in Obligated Balance:			
Unpaid obligations, brought forward, October 1 (gross)	$ 587	$ 2,229	$ 2,816
Uncollected customer payments from Fed sources, brought forward, October 1 (-)	(9)	-	(9)
Obligated balance, start of year (net), before adjustments (+ or -)	578	2,229	2,807
Obligated balance, start of year (net), as adjusted	578	2,229	2,807
Obligations incurred	15,170	49,673	64,843
Outlays (gross) (-)	(15,142)	(49,035)	(64,177)
Change in uncollected customer payments from Fed sources (+ or -)	(6)	-	(6)
Recoveries of prior year unpaid obligations (-)	(50)	(382)	(432)
Unpaid obligations, end of year (gross)	565	2,485	3,050
Uncollected customer payments from Federal sources, end of year	(15)	-	(15)
Obligated balance, end of year (net)	**$ 550**	**$ 2,485**	**$ 3,035**
Budget Authority and Outlays, Net:			
Budget authority, gross (discretionary and mandatory)	$ 23,941	$ 37,708	$ 61,649
Actual offsetting collections (discretionary and mandatory) (-)	(21,710)	(38,213)	(59,923)
Change in uncollected customer payments from Federal sources (discretionary	(6)	-	(6)
Budget authority, net (discretionary and mandatory)	2,225	(505)	1,720
Outlays, gross (discretionary and mandatory)	15,142	49,035	64,177
Actual offsetting collections (discretionary and mandatory) (-)	(21,710)	(38,213)	(59,923)
Outlays, net (discretionary and mandatory)	(6,568)	10,822	4,254
Less Distributed offsetting receipts (-)	2,797	-	2,797
Agency outlays, net (discretionary and mandatory)	**$ (9,365)**	**$ 10,822**	**$ 1,457**

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, 2014
(Dollars in Millions)

	FY 2014 Budgetary	FY 2014 Non-Budgetary	FY 2014 Total
Budgetary Resources:			
Unobligated balance brought forward, October 1	$ 837	$ 57,855	$ 58,692
Unobligated balance brought forward, October 1, as adjusted	837	57,855	58,692
Recoveries of prior year unpaid obligations	71	764	835
Other changes in unobligated balance (+ or -)	(271)	(1)	(272)
Unobligated balance from prior year budget authority, net	637	58,618	59,255
Appropriations (discretionary and mandatory)	367	-	367
Borrowing authority (discretionary and mandatory)	-	8,769	8,769
Spending authority from offsetting collections (discretionary and mandatory)	13,317	24,002	37,319
Total budgetary resources	**$ 14,321**	**$ 91,389**	**$ 105,710**
Status of Budgetary Resources:			
Obligations incurred	$ 6,169	$ 45,820	$ 51,989
Unobligated balance, end of year:			
Apportioned	85	13,494	13,579
Unapportioned	8,067	32,075	40,142
Total unobligated balance, end of year	8,152	45,569	53,721
Total budgetary resources	**$ 14,321**	**$ 91,389**	**$ 105,710**
Change in Obligated Balance:			
Unpaid obligations, brought forward, October 1 (gross)	$ 634	$ 2,539	$ 3,173
Uncollected customer payments from Fed sources, brought forward, Oct 1 (-)	(3)	-	(3)
Obligated balance, start of year (net), before adjustments (+ or -)	631	2,539	3,170
Obligated balance, start of year (net), as adjusted	631	2,539	3,170
Obligations incurred	6,169	45,820	51,989
Outlays (gross) (-)	(6,145)	(45,366)	(51,511)
Change in uncollected customer payments from Federal sources (+ or -)	(6)	-	(6)
Recoveries of prior year unpaid obligations (-)	(71)	(764)	(835)
Unpaid obligations, end of year (gross)	587	2,229	2,816
Uncollected customer payments from Federal sources, end of year	(9)	-	(9)
Obligated balance, end of year (net)	**$ 578**	**$ 2,229**	**$ 2,807**
Budget Authority and Outlays, Net:			
Budget authority, gross (discretionary and mandatory)	$ 13,684	$ 32,771	$ 46,455
Actual offsetting collections (discretionary and mandatory) (-)	(13,311)	(31,182)	(44,493)
Change in uncollected customer payments from Federal sources	(6)	-	(6)
Budget authority, net (discretionary and mandatory)	367	1,589	1,956
Outlays, gross (discretionary and mandatory)	6,145	45,366	51,511
Actual offsetting collections (discretionary and mandatory) (-)	(13,311)	(31,182)	(44,493)
Outlays, net (discretionary and mandatory)	(7,166)	14,184	7,018
Less Distributed offsetting receipts (-)	2,668	-	2,668
Agency outlays, net (discretionary and mandatory)	**$ (9,834)**	**$ 14,184**	**$ 4,350**

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2015

Note 1. Significant Accounting Policies

Entity and Mission

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

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

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

FHA supports its insurance operations through five funds. The Mutual Mortgage Insurance fund (MMI), FHA's largest fund, provides basic Single Family mortgage insurance and is a mutual insurance fund, whereby mortgagors, upon non-claim termination of their mortgages, share surplus premiums paid into the MMI fund that are not required for operating expenses and losses or to build equity. The Cooperative Management Housing Insurance fund (CMHI), another mutual fund, provides mortgage insurance for management-type cooperatives. The General Insurance fund (GI), provides a large number of specialized mortgage insurance activities, including insurance of loans for property improvements, cooperatives, condominiums, housing for the elderly, land development, group practice medical facilities, nonprofit hospitals, and reverse mortgages. The Special Risk Insurance fund (SRI) provides mortgage insurance on behalf of mortgagors eligible for interest reduction payments who otherwise would not be eligible for mortgage insurance. To comply with the FHA Modernization Act of 2008, activities related to most Single Family programs, including HECM, endorsed in Fiscal Year 2009 and going forward, are in the MMI fund. The Single Family activities in the GI fund from Fiscal Year 2008 and prior remain in the GI fund. The HOPE for Homeowners (H4H) program began on October 1, 2008 for Fiscal Year 2009 as a result of *The Housing and Economic Recovery Act of 2008*. This legislation required FHA to modify existing programs and initiated the H4H program and fund.

For the Loan Guarantee Program at FHA, in both the MMI/CMHI and GI/SRI funds there are Single Family and Multifamily activities. 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	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 is for combating mortgage fraud.

Basis of Accounting

The principal financial statements are presented in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to Federal agencies, as promulgated by the Federal Accounting Standards Advisory Board (FASAB). The recognition and measurement of budgetary resources and their status for purposes of preparing the Combined Statements of Budgetary Resources (SBR), is based on concepts and guidance provided by Office of Management and Budget (OMB) Circular A-11, *Preparation, Submission, and Execution of the Budget* and the Federal Credit Reform Act of 1990. The format of the SBR is based on the SF 133, *Report on Budget Execution and Budgetary Resources*.

Basis of Consolidation

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

Fund Balance with U.S. Treasury

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

Investments

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

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

Credit Reform Accounting

The Federal Credit Reform Act (FCRA) established the use of program, financing, general fund receipt and capital reserve accounts to separately account for transactions that are not controlled by the Congressional budget process. It also established the liquidating account for activity relating to any loan guarantees committed and direct loans obligated before October 1, 1991 (pre-Credit Reform). These accounts are classified as either Budgetary or Non-Budgetary in the Combined Statements of Budgetary Resources. The Budgetary accounts include the program, capital reserve and liquidating accounts. The Non-Budgetary accounts consist of the credit reform financing accounts.

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 of 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.

FHA has two general fund receipt accounts. FHA’s receipt accounts are general fund receipt accounts and amounts are not earmarked for the FHA’s credit programs. The first is used for the receipt of amounts paid from the GI/SRI financing account when there is negative subsidy from the original estimate or a downward reestimate. They are available for appropriations only in the sense that all general fund receipts are available for appropriations. Any assets in these accounts are non-entity assets and are offset by intragovernmental liabilities. At the end of the fiscal year, the fund balance in the general fund receipt account is transferred to the U.S. Treasury general fund.

The second general fund receipt account is used for the unobligated balance transferred from GI/SRI liquidating account and loan modifications. Similar to the general fund receipt account used for the GI/SRI negative subsidy and downward reestimates, the amounts in this account are not earmarked for FHA’s credit programs and are returned to Treasury at the end of the fiscal year. Any assets in this account are non-entity assets and are offset by intragovernmental liabilities. Negative subsidy and downward reestimates in the MMI/CMHI fund are transferred to the Capital Reserve account.

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

Loans Receivable and Related Foreclosed Property, Net

FHA’s loans receivable include mortgage notes assigned (MNA), also described as Secretary-held notes, purchase money mortgages (PMM), and notes related to partial claims. Under the requirements of the FCRA, PMM notes are considered to be direct loans while MNA notes are considered to be defaulted guaranteed loans. The PMM loans are generated from the sales on credit of FHA’s foreclosed properties to qualified non-profit organizations. The MNA notes are created when FHA pays the lenders for claims on defaulted guaranteed loans and takes assignment of the defaulted loans for direct collections. In addition, Multifamily 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 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 6).

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 sheets. As required by SFFAS No. 2, the Loan Guarantee Liability includes the Credit Reform related Liabilities for Loan Guarantees (LLG) and the pre-Credit Reform Loan Loss Reserve (LLR) (see Note 6).

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.

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.

To estimate the Allowance for Subsidy associated with loans receivable and related to foreclosed property and the liability for loan guarantees (LLG), FHA uses cash flow model assumptions associated with loan guarantee cases subject to the Federal Credit Reform Act of 1990 (FCRA), as described in Note 6, to estimate the cash flows associated with future loan performance. To make reasonable projections of future loan performance, FHA develops assumptions, as described in Note 6, based on historical data, current and forecasted program and economic assumptions.

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

General Property, Plant and Equipment

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

Current HUD policy concerning SFFAS No. 10, *Accounting for Internal Use Software,* indicates that HUD will either own the software or 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. FHA had several procurement actions in place and had incurred expenses for software development and transferred those expenses to HUD to comply with departmental policy.

Appropriations

FHA receives appropriations for certain operating expenses for its program activities, some of which are transferred to HUD. Additionally, FHA receives appropriations for GI/SRI positive subsidy, upward reestimates, and permanent indefinite authority to cover any shortage of resources in the liquidating account.

Full Cost Reporting

SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards* and SFFAS No. 30, *Inter-Entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts to account for costs assumed by other Federal organizations on their behalf*, require that Federal agencies 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 $15 million for fiscal year 2015 and $15 million for fiscal year 2014, and was included in FHA’s financial statements as an imputed cost in the Consolidated Statements of Net Cost, and an imputed financing in the Consolidated Statements of Changes in Net Position.

Distributive Shares

As mutual funds, 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. Thus, all of FHA’s liabilities are considered covered by budgetary resources.

Statement of Budgetary Resources

The Statement of Budgetary Resources has been prepared as a combined statement and as such, intra-entity transactions have not been eliminated. Budget authority is the authorization provided by law to enter into obligations to carry out the guaranteed and direct loan programs and their associated administrative costs, which would result in immediate or future outlays of federal funds. FHA's budgetary resources include current budgetary authority (i.e., appropriations and borrowing authority) and 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 obligation adjustments, but not for new obligations, until that account is canceled. When accounts are canceled, five years after they expire, amounts are not available for obligations or expenditure for any purpose.

FHA funds its programs through borrowings from the U.S. Treasury. These borrowings are authorized through a permanent indefinite authority at interest rates set each year by the U.S. Treasury.

Note 2. Non-entity Assets

Non-entity assets consist of assets 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, 2015 and 2014 are as follows:

(Dollars in millions)

	FY 2015	FY 2014
Intragovernmental:		
Fund Balance with Treasury	$ 26	$ 92
Total Intragovernmental	26	92
Other Assets	37	41
Total Non-Entity Assets	63	133
Total Entity Assets	66,616	66,533
Total Assets	**$ 66,679**	**$ 66,666**

FHA's non-entity assets consist of FHA's U.S. Treasury deposit of negative credit subsidy in the GI/SRI general fund receipt account and of escrow monies collected by FHA from the borrowers of its loans.

According to the FCRA, FHA transfers GI/SRI negative credit subsidy from new endorsements, downward credit subsidy re-estimates, loan modifications, and unobligated balances from the liquidating account to the GI/SRI general fund receipt accounts. At the end of each year, fund balances in the GI/SRI general fund receipt accounts are transferred into the U.S. Treasury's general fund.

Other assets consisting of escrow monies collected from FHA borrowers 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.

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, 2015 and 2014:

(Dollars in millions)	FY 2015	FY 2014
Fund Balances:		
Revolving Funds	$ 37,081	$ 48,448
Appropriated Funds	724	751
Other Funds	1,252	1,033
Total	**$ 39,057**	**$ 50,232**
Status of Fund Balance with U.S. Treasury:		
Unobligated Balance:		
Available	$ 3,565	$ 13,579
Unavailable	32,442	33,837
Obligated Balance Not Yet Disbursed	3,050	2,816
Total	**$ 39,057**	**$ 50,232**

Revolving Funds

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

Appropriated Funds

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

Other Funds

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

Status of Fund Balance with U.S. Treasury

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

the ordered goods or services have not been delivered or because FHA has not yet paid for goods or services received by the end of the fiscal year.

Note 4. 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. The cost, net amortized premium/discount, net investment, and market values of FHA's investments in U.S. Treasury securities as of September 30, 2015 were as follows:

(Dollars in millions)

FY 2015	Cost	Amortized (Premium) / Discount, Net	Investments, Net	Market Value
MMI/CMHI Investments	$ 14,731	$ 10	$ 14,741	$ 14,750
MMI/CMHI Accrued Interest			13	13
Total	**$ 14,731**	**$ 10**	**$ 14,754**	**$ 14,763**

The cost, net amortized premium/discount, net investment, and market values as of September 30, 2014 were as follows:

FY 2014	Cost	Amortized (Premium) / Discount, Net	Investments, Net	Market Value
MMI/CMHI Investments	$ 6,371	$ 1	$ 6,372	$ 6,372
MMI/CMHI Accrued Interest			7	7
Total	**$ 6,371**	**$ 1**	**$ 6,379**	**$ 6,379**

Investments in Private-Sector Entities

Investments Risk Sharing Debentures as of September 30, 2015 and 2014 were as follows:

(Dollars in millions)	Beginning Balance	New Acquisitions	Redeemed	Ending Balance
FY 2015				
Risk Sharing Debentures	$ 41	$ 19	$ (29)	31
Total	**$ 41**	**$ 19**	**$ (29)**	**$ 31**
FY 2014				
Risk Sharing Debentures	$ 56	$ -	$ (15)	41
Total	**$ 56**	**$ -**	**$ (15)**	**$ 41**

Note 5. Accounts Receivable, Net

Accounts receivable, net, as of September 30, 2015 and 2014 are as follows:

	Gross		Allowance		Net	
(Dollars in millions)	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014
With the Public:						
Receivables related to credit program assets	$ 9	$ 8	$ -	$ (1)	$ 9	$ 7
Premiums receivable	-	3	-	-	-	3
Partial Claims receivable	376	1,486	(124)	(783)	252	703
Generic Debt Receivables	117	85	(117)	(85)	-	-
Settlements receivable	114	725	-	-	114	725
Miscellaneous receivables	32	21	-	-	32	21
Total	**$ 648**	**$ 2,328**	**$ (241)**	**$ (869)**	**$ 407**	**$ 1,459**

Receivables Related to Credit Program Assets

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

Premium Receivables

These amounts consist of the premiums due to FHA from the mortgagors at the end of the reporting period. The details of FHA premium structure are discussed in Note 13 – Earned Revenue/Premium Revenue.

Partial Claim Receivables

Partial Claim receivables represents partial claims paid by FHA to mortgagees as part of its loss mitigation efforts to bring delinquent loans current for which FHA does not yet have the promissory note recorded.

Generic Debt Receivables

These amounts are mainly composed of receivables from various sources, the largest of which are Single Family Partial Claims, Single Family Indemnifications, and Single Family Restitutions.

Settlement Receivables

FHA receives signed consent judgments that are approved by the courts but which funds have not been received.

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 for these receivables is calculated based on FHA's historical loss experience and management's judgment concerning current economic factors.

Note 6. 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 three overall program areas: Single Family Forward mortgages, Multifamily/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)*, which became operational in fiscal year 2009 which contains minimal activity.

FHA encourages homeownership through its Single Family Forward programs (Section 203(b), which is the largest program, and Section 234) by making loans readily available with its mortgage insurance programs. These programs insure mortgage lenders against losses from default, enabling those lenders to provide mortgage financing on favorable terms to homebuyers. Multifamily Housing Programs (Section 213, Section 221(d)(4), Section 207/223(f), and Section223(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 health care 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.

FHA Direct Loan and Loan Guarantee Programs and the related loans receivable, foreclosed property, and Loan Guarantee Liability as of September 30, 2015 and 2014 are as follows:

Direct Loan Programs:

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

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

FHA's net direct loans receivable is not the same as the proceeds that would be anticipated from the sale of its direct loans.

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

	MMI/CMHI - Single Family	GI/SRI - Multifamily	Total
September 30, 2015			
Loan Receivables	$ -	$ 14	$ 14
Interest Receivables	-	12	12
Allowance	-	(6)	(6)
Total Value of Assets	$ -	$ 20	$ 20

September 30, 2014	MMI/CMHI - Single Family	GI/SRI - Multifamily	Total
Loan Receivables	$ -	$ 14	$ 14
Interest Receivables	-	13	13
Allowance	-	(7)	(7)
Total Value of Assets	$ -	$ 20	$ 20

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

	MMI/CMHI - Single Family	GI/SRI - Multifamily	Total
September 30, 2015			
Loan Receivables	$ -	$ 102	$ 102
Allowance	(3)	33	30
Total Value of Assets	$ (3)	$ 135	$ 132

September 30, 2014	MMI/CMHI - Single Family	GI/SRI - Multifamily	Total
Allowance	(5)	-	(5)
Total Value of Assets	$ (5)	$ -	$ (5)

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

Direct Loans Programs	FY 2015
MMI/CHMI	
Single Family Forward	$ 1
MMI/CHMI Subtotal	$ 1
GI/SRI	
Multifamily/Healthcare	$ 103
GI/SRI Subtotal	$ 103

Subsidy Expense for Direct Loans:

September 30, 2015	GI/SRI	Total
Multifamily/Healthcare		
FFB		
Financing	$ (5)	$ (5)
Fees and Other Collections	(3)	(3)
Other	(1)	(1)
Subtotal	$ (9)	$ (9)

Total Direct Loan Subsidy Expense:

Direct Loan Programs	FY 2015
GI/SRI	$ (9)
Total	$ (9)

Schedule for Reconciling Subsidy Cost Allowance Balances:

Beginning Balance, Changes, and Ending Balance	FY 2015	FY 2014
Beginning balance of the subsidy cost allowance	$ 5	$ 5
Add: subsidy expense for direct loans disbursed during the reporting years by component		
-Financing	(5)	
- Fees and other collections	(3)	
- Other subsidy costs	(1)	
Total of the above subsidy expense components	$ (9)	$ -
Adjustments:		
- Subsidy allowance amortization	1	
- Other	(4)	
Ending balance of the subsidy cost allowance before reestimates	$ (6)	$ -
Add or subtract subsidy reestimates by component:		
- Technical/default reestimate		
-Subsidy Expense Component	(24)	
-Interest Expense Component		
-Total of the above reetimate components	$ (24)	-
Adjustment of prior years' credit subsidy reestimates		
Total Technical/Default Reestimate	$ (24)	$ -
Ending balance of the subsidy cost allowance	**$ (30)**	**$ 5**

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

(Dollars in Millions)

FY 2015	MMI/CMHI	GI/SRI	Total
Guaranteed Loans			
Single Family Forward			
Loan Receivables	$ 22	$ -	$ 22
Allowance for Loan Losses	(7)	(4)	(11)
Foreclosed Property	7	9	16
Subtotal	**$ 22**	**$ 5**	**$ 27**
Multifamily/Healthcare			
Loan Receivables	$ -	$ 1,947	$ 1,947
Interest Receivables	-	233	233
Allowance for Loan Losses	-	(808)	(808)
Foreclosed Property	-	1	1
Subtotal	**$ -**	**$ 1,373**	**$ 1,373**
HECM			
Loan Receivables	$ -	$ 4	$ 4
Interest Receivables	-	2	2
Allowance for Loan Losses	-	(5)	(5)
Foreclosed Property	-	(2)	(2)
Subtotal	**$ -**	**$ (1)**	**$ (1)**
Total Guaranteed Loans	**$ 22**	**$ 1,377**	**$ 1,399**

(Dollars in Millions)

FY 2014	MMI/CMHI	GI/SRI	Total
Guaranteed Loans			
Single Family Forward			
Loan Receivables	$ 21	$ -	$ 21
Allowance for Loan Losses	(9)	(4)	(13)
Foreclosed Property	11	9	20
Subtotal	**$ 23**	**$ 5**	**$ 28**
Multifamily/Healthcare			
Loan Receivables	$ -	$ 2,078	$ 2,078
Interest Receivables	-	231	231
Allowance for Loan Losses	-	(857)	(857)
Foreclosed Property	-	1	1
Subtotal	**$ -**	**$ 1,453**	**$ 1,453**
HECM			
Loan Receivables	$ -	$ 4	$ 4
Interest Receivables	-	2	2
Allowance for Loan Losses	-	(2)	(2)
Foreclosed Property	-	(2)	(2)
Subtotal	**$ -**	**$ 2**	**$ 2**
Total Guaranteed Loans	**$ 23**	**$ 1,460**	**$ 1,483**

*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 2015	MMI/CMHI	GI/SRI	H4H	Total
Guaranteed Loans				
Single Family Forward				
Loan Receivables	$ 8,802	$ 292	$ 4	$ 9,098
Interest Receivables	-	1	-	1
Foreclosed Property	3,130	94	1	3,225
Allowance	(7,053)	(233)	2	(7,284)
Subtotal	**$ 4,879**	**$ 154**	**$ 7**	**$ 5,040**
Multifamily/Healthcare				
Loan Receivables	$ -	$ 656	$ -	$ 656
Foreclosed Property	-	1	-	1
Allowance	-	(272)	-	(272)
Subtotal	**$ -**	**$ 385**	**$ -**	**$ 385**
HECM				
Loan Receivables	$ 2,182	$ 3,107	$ -	$ 5,289
Interest Receivables	992	1,517	-	2,509
Foreclosed Property	11	101	-	112
Allowance	(1,007)	(1,495)	-	(2,502)
Subtotal	**$ 2,178**	**$ 3,230**	**$ -**	**$ 5,408**
Total Guaranteed Loans	**$ 7,057**	**$ 3,769**	**$ 7**	**$ 10,833**

(Dollars in Millions) FY 2014	MMI/CMHI	GI/SRI	H4H	Total
Guaranteed Loans				
Single Family Forward				
Loan Receivables	$ 5,244	$ 176	$ 2	$ 5,422
Foreclosed Property	2,437	73	1	2,511
Allowance	(4,195)	(139)	2	(4,332)
Subtotal	**$ 3,486**	**$ 110**	**$ 5**	**$ 3,601**
Multifamily/Healthcare				
Loan Receivables	$ -	$ 818	$ -	$ 818
Foreclosed Property	-	1	-	1
Allowance	-	(319)	-	(319)
Subtotal	**$ -**	**$ 500**	**$ -**	**$ 500**
HECM				
Loan Receivables	$ 996	$ 2,510	$ -	$ 3,506
Interest Receivables	371	1,192	-	1,563
Foreclosed Property	5	80	-	85
Allowance	(598)	(1,648)	-	(2,246)
Subtotal	**$ 774**	**$ 2,134**	**$ -**	**$ 2,908**
Total Guaranteed Loans	**$ 4,260**	**$ 2,744**	**$ 5**	**$ 7,009**

*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 2015):		
MMI/CMHI		
Single Family Forward	$ 1,168,002	$ 1,065,360
Multifamily/Healthcare	558	537
MMI/CMHI Subtotal	**$ 1,168,560**	**$ 1,065,897**
GI/SRI		
Single Family Forward	$ 10,716	$ 7,774
Multifamily/Healthcare	112,682	104,289
GI/SRI Subtotal	**$ 123,398**	**$ 112,063**
H4H		
Single Family - 257	$ 98	$ 92
H4H Subtotal	**$ 98**	**$ 92**
Total	**$ 1,292,056**	**$ 1,178,052**
Guaranteed Loans Outstanding (FY 2014):		
MMI/CMHI		
Single Family Forward	$ 1,168,427	$ 1,074,732
Multifamily/Healthcare	492	477
MMI/CMHI Subtotal	**$ 1,168,919**	**$ 1,075,209**
GI/SRI		
Single Family Forward	$ 12,301	$ 9,303
Multifamily/Healthcare	109,296	101,132
GI/SRI Subtotal	**$ 121,597**	**$ 110,435**
H4H		
Single Family - 257	$ 109	$ 104
H4H Subtotal	**$ 109**	**$ 104**
Total	**$ 1,290,625**	**$ 1,185,748**

New Guaranteed Loans Disbursed (FY 2015):

(Dollars in Millions)

	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
MMI/CMHI		
Single Family Forward	$ 213,056	$ 211,253
Multifamily/Healthcare	69	69
MMI/CMHI Subtotal	**$ 213,125**	**$ 211,322**
GI/SRI		
Single Family Forward	$ 116	$ 115
Multifamily/Healthcare	11,249	11,196
GI/SRI Subtotal	**$ 11,365**	**$ 11,311**
Total	**$ 224,490**	**$ 222,633**
New Guaranteed Loans Disbursed (FY 2014):		
MMI/CMHI		
Single Family Forward	$ 135,187	$ 133,907
Multifamily/Healthcare	48	48
MMI/CMHI Subtotal	**$ 135,235**	**$ 133,955**
GI/SRI		
Single Family Forward	$ 123	$ 122
Multifamily/Healthcare	14,104	14,026
GI/SRI Subtotal	**$ 14,227**	**$ 14,148**
Total	**$ 149,462**	**$ 148,103**

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 948,148 HECM loans with a maximum claim amount of $220 billion. Of these 948,148 HECM loans insured by FHA, 619,908 loans with a maximum claim amount of $150 billion are still active. As of September 30, 2015 the insurance-in-force (the outstanding balance of active loans) was $105 billion. The insurance in force includes balances drawn by the mortgagee; interest accrued on the balances drawn, service charges, and mortgage insurance premiums. The maximum claim amount is the dollar ceiling to which the outstanding loan balance can grow before being assigned to FHA.

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

(Dollars in Millions)

Loan Guarantee Programs		Current Year Endorsements	Cumulative: Current Outstanding Balance	Cumulative: Maximum Potential Liability
FY 2015	MMI/CMHI	$ 15,890	$ 67,739	$ 101,062
	GI/SRI	-	37,732	48,583
	Total	**$ 15,890**	**$ 105,471**	**$ 149,645**
FY 2014	MMI/CMHI	$ 13,473	$ 63,259	$ 94,466
	GI/SRI	-	42,264	55,419
	Total	**$ 13,473**	**$ 105,523**	**$ 149,885**

Loan Guarantee Liability, Net:

(Dollars in Millions)

FY 2015	MMI/CMHI	GI/SRI	H4H	Total
LLR				
Single Family Forward	$ 7	$ -	$ -	$ 7
Subtotal	**$ 7**	**$ -**	**$ -**	**$ 7**
LLG				
Single Family Forward	$ 5,937	$ 610	$ 23	$ 6,570
Multifamily/Healthcare	(21)	(3,101)	-	(3,122)
HECM	4,500	8,161	-	12,661
Subtotal	**$ 10,416**	**$ 5,670**	**$ 23**	**$ 16,109**
Loan Guarantee Liability Total	**$ 10,423**	**$ 5,670**	**$ 23**	**$ 16,116**

FY 2014	MMI/CMHI	GI/SRI	H4H	Total
LLR				
Single Family Forward	$ 7	$ 1	$ -	$ 8
Multifamily/Healthcare	-	1	-	1
Subtotal	**$ 7**	**$ 2**	**$ -**	**$ 9**
LLG				
Single Family Forward	$ 17,201	$ 740	$ 22	$ 17,963
Multifamily/Healthcare	(23)	(2,957)	-	(2,980)
HECM	7,447	11,034	-	18,481
Subtotal	**$ 24,625**	**$ 8,817**	**$ 22**	**$ 33,464**
Loan Guarantee Liability Total	**$ 24,632**	**$ 8,819**	**$ 22**	**$ 33,473**

Subsidy Expense for Loan Guarantees by Program and Component:

(Dollars in millions)

FY 2015	**MMI/CMHI**	**GI/SRI**	**Total**
Single Family Forward			
Defaults	$ 5,684	$ 5	$ 5,689
Fees and Other Collections	(18,700)	(7)	(18,707)
Subtotal	**$ (13,016)**	**$ (2)**	**$ (13,018)**
Multifamily/Healthcare			
Defaults	$ 2	$ 185	$ 187
Fees and Other Collections	(6)	(696)	(702)
Subtotal	**$ (4)**	**$ (511)**	**$ (515)**
HECM			
Defaults	$ 991	$ -	$ 991
Fees and Other Collections	(1,056)	-	(1,056)
Subtotal	**$ (65)**	**$ -**	**$ (65)**
Total	**$ (13,085)**	**$ (513)**	**$ (13,598)**

FY 2014	**MMI/CMHI**	**GI/SRI**	**Total**
Single Family Forward			
Defaults	$ 3,951	$ 4	$ 3,955
Fees and Other Collections	(13,741)	(5)	(13,746)
Subtotal	**$ (9,790)**	**$ (1)**	**$ (9,791)**
Multifamily/Healthcare			
Defaults	$ 2	$ 259	$ 261
Fees and Other Collections	(7)	(866)	(873)
Subtotal	**$ (5)**	**$ (607)**	**$ (612)**
HECM			
Defaults	$ 878	$ -	$ 878
Fees and Other Collections	(934)	-	(934)
Subtotal	**$ (56)**	**$ -**	**$ (56)**
Total	**$ (9,851)**	**$ (608)**	**$ (10,459)**

Subsidy Expense for Modification and Reestimates:

(Dollars in millions)

FY 2015	Technical Reestimate
MMI/CMHI	$ (2,248)
GI/SRI	(1,088)
Total	**$ (3,336)**

FY 2014	
MMI/CMHI	$ 3,380
GI/SRI	544
Total	**$ 3,924**

Total Loan Guarantee Subsidy Expense:

(Dollars in millions)

	FY 2015	FY 2014
MMI/CMHI	$ (15,333)	$ (6,470)
GI/SRI	(1,609)	(64)
Total	**$ (16,942)**	**$ (6,534)**

Subsidy Rates for Loan Guarantee Endorsements by Program and Component:

(Percentage)	Defaults	Fees and Other Collections	Total
Budget Subsidy Rates for FY 2015 Loan Guarantees:			
MMI/CMHI			
Single Family			
Forward -01/27/2015 - present	2.66	(11.69)	(9.03)
Forward -10/01/2014 - 01/26/2015	2.66	(8.01)	(5.35)
HECM	6.20	(6.60)	(0.40)
Short Refinance	10.06	(10.06)	-
GI/SRI			
Multifamily			
Apartments	2.52	(6.17)	(3.65)
Apartments Refinance	0.30	(4.99)	(4.69)
Healthcare			
Residential Care	3.79	(8.02)	(4.23)
Hospitals	2.61	(7.06)	(4.45)

(Percentage)	Defaults	Fees and Other Collections	Total
Budget Subsidy Rates for FY 2014 Loan Guarantees:			
MMI/CMHI			
Single Family			
Forward	2.91	(10.16)	(7.25)
HECM	6.49	(6.90)	(0.41)
Short Refinance	11.36	(11.36)	-
Multifamily			
Cooperatives	2.91	(10.16)	(7.25)
GI/SRI			
Multifamily			
Apartments	2.52	(6.10)	(3.58)
Apartments Refinance	0.43	(4.61)	(4.18)
Healthcare			
Residential Care	2.78	(6.82)	(4.04)
Hospitals	3.19	(7.28)	(4.09)

Schedule for Reconciling Loan Guarantee Liability Balances:

(Dollars in Millions)	FY 2015 LLR	FY 2015 LLG	FY 2014 LLR	FY 2014 LLG
Beginning Balance of the Loan Guarantee Liability	$ 9	$ 33,464	$ 8	$ 41,457
Add: Subsidy Expense for guaranteed loans disbursed during the reporting fiscal years by component:				
Default Costs (Net of Recoveries)	-	6,867	-	5,094
Fees and Other Collections	-	(20,465)	-	(15,553)
Total of the above subsidy expense components	**-**	**(13,598)**	**-**	**(10,459)**
Adjustments:				
Fees Received	$ -	$ 13,274	$ -	$ 12,227
Foreclosed Property and Loans Acquired	-	13,540	-	11,870
Claim Payments to Lenders	-	(26,614)	-	(27,944)
Interest Accumulation on the Liability Balance	-	564	-	1,149
Other	-	372	-	532
Ending Balance before Reestimates	**$ 9**	**$ 21,002**	**$ 8**	**$ 28,832**
Add or Subtract Subsidy Reestimates by Component:				
Technical/Default Reestimate				
Subsidy Expense Component	$ (2)	$ (4,660)	$ 1	$ 4,345
Interest Expense Component		799		946
Adjustment of prior years' credit subsidy reestimates	-	(1,032)	-	(659)
Total Technical/Default Reestimate	(2)	(4,893)	1	4,632
Ending Balance of the Loan Guarantee Liability	**$ 7**	**$ 16,109**	**$ 9**	**$ 33,464**

Administrative Expense:

(Dollars in Millions)	FY 2015	FY 2014
MMI/CMHI	$ 556	$ 576
GI/SRI	1	1
H4H	-	-
Total	**$ 557**	**$ 577**

Other Information on Foreclosed Property:

Additional information on FHA foreclosed property as of September 30, 2015 and 2014 is as follows:

	FY 2015	FY 2014
Average number of days in inventory for Sold Cases	122	129
End of Fiscal Year active inventory	25,109	18,945

The above chart references the average holding period for FHA foreclosed property, and the total number of foreclosed properties on-hand as September 30, 2015. Foreclosed properties are primarily Single Family properties.

Defaulted Guaranteed Loans (Pre-92 and Post-91)

Restrictions on the use/disposal of foreclosed property:

The balance relating to foreclosures as of September 30, 2015 is comprised of only Single Family properties. There are no Multi-family 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 LLG and related receivables from notes and property inventories at the net present value of their estimated future cash flows.

To apply the present value computations, FHA divides loans into cohorts and "risk" categories. Multifamily and Health Care cohorts are defined based on the 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. For activity related to fiscal years 1992-2008, the MMI Fund has one risk category and, 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 15 different multifamily risk categories and three healthcare categories.

The cash flow estimates that underlie present value calculations are determined using the significant assumptions detailed below.

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:

- <u>Conditional Termination Rates</u>: 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.

- <u>Claim Amount</u>: The estimated amount of the claim payment relative to the unpaid principal balance at the time the claim occurs.

- <u>Recovery Rates</u>: 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:

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

<u>Economic assumptions</u>: Independent forecasts of economic conditions are used in conjunction with loan-level data to generate Single Family, Multifamily, and Health Care claim and prepayment rates. Sources of forecast data include IHS Global Insight and Moody's Analytics. OMB provides other economic assumptions used, such as interest rates and the discount rates used against the cash flows.

<u>Actuarial Review</u>: An independent actuarial review of the MMI Fund each year produces conditional claim, prepayment, and loss severity rates that are used as inputs to the Single Family LLG calculation, both for forward and (post-2008) HECM loans.

<u>Reliance on historical performance</u>: 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. FHA assumes that its portfolio will continue to perform consistently with its

historical experience, respecting differences due to current loan characteristics and forecasted economic conditions.

Current legislation and regulatory structure: FHA's future plans allowed under current legislative authority have been taken into account in formulating assumptions when relevant. In contrast, future changes in legislative authority may affect the cash flows associated with FHA insurance programs. Such changes cannot be reflected in LLG calculations because of uncertainty over their nature and outcome.

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

Analysis of Change in the Liability for Loan Guarantees

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

Described below are the programs that comprise the majority of FHA's loan guarantee business. These descriptions highlight the factors that contributed to changing LLG estimates for FY 2015. Overall, FHA's liability decreased from the fiscal year 2014 estimates.

Mutual Mortgage Insurance (MMI) – On net, the MMI Fund LLG decreased from $24,648 million at the end of fiscal year 2014 to $10,434 million at the end of fiscal year 2015. The decrease in liability can be attributed to HECM and Forward loans. There are two primary factors at work this year in the forward-loan portfolio and two in the HECM (reverse mortgage) portfolio. The decrease in liability in Forward loans is mainly due to the inclusion of the 2015 book-of-business which is forecasted to add a little over $7 billion in negative liability to the MMI fund. The second major factor is the leveling-off of interest rates from the downward trend seen in the past few years. This causes slower prepayment rates, since there is little incentive for homeowners to refinance. The major factor affecting the HECM LLG calculation is appreciation in housing prices. This increases recovery rates and thus, decreases the liability to the Fund.

GI/SRI Home Equity Conversion Mortgage (HECM) - HECM endorsements from fiscal years 1990-2008 remain in the GI/SRI Fund. The liability for these loans decreased from $11,034 million at the end of FY 2014 to $8,161 million at the end of FY 2015. This liability is driven more by long term house price appreciation forecasts than short term forecasts. The HECM loans remaining in the GI/SRI fund also benefited from slower UPB (Unpaid Principal Balance) growth due to lower current and future (projected) interest rates for adjustable-rate mortgages. Over 99 percent of the remaining GI/SRI HECM loans have adjustable interest 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 $32 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 $140 million, from ($1,063) million to ($1,203) million, due to lower prepayment expectations as well as increased 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 $20.1 billion. The Section 223(a)(7) liability is negative, meaning that the present value of expected future premium revenues is greater than the present value of expected future (net) claim expenses. The 223(a)(7) liability increased this year by $34 million, from ($640) million to ($607) million, principally due to higher claim expectations.

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 the third largest multifamily program in the GI/SRI fund with an insurance-in-force of $12.9 billion. The Section 221(d)(4) liability decreased by $26 million this year, from ($86) million to ($112) million. This was due to lower claim and prepayment predictions.

GI/SRI Section 232 Healthcare New Construction (NC) - The Section 232 NC program provides mortgage insurance for construction or substantial rehabilitation of nursing homes and assisted-living facilities. FHA insures a maximum of 90 percent of the estimated value of the physical improvements and major movable equipment. The Section 232 NC program has an insurance-in-force of $3.1 billion. The Section 232 NC liability decreased by $12.1 million from ($58.5) million in FY 2014 to ($70.6) million in FY 2015 due to a diminished insurance-in-force and decreased claim expectations.

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 $22 billion. The Section 232 Refinance liability decreased by $34 million from ($653) million in FY 2014 to ($687) million in FY 2015 due to a decrease in claims expectations.

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 $7.7 billion. The Section 242 liability increased by $71 million from ($295) million in FY 2014 to ($224) million in FY2015 due to higher prepayment expectations as well as diminished insurance-in-force.

Risks to LLG Calculations

LLG calculations for most major programs now use Monte Carlo simulations and stochastic economic forecasts. What is booked as an LLG value is the average or arithmetic “mean” value from a series of projections that view loan portfolio performance under a large variety of possible economic circumstances. The individual economic scenario forecasts are designed to mimic the types of movements in factors such as home prices, interest rates, and apartment vacancy rates that have actually occurred in the historical record. By creating a large number 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 for "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 value, 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. Comparisons of mean-value results, to indicators of the range of possible outcomes from the Monte Carlo simulations for Single Family forward and HECM mortgages in the MMI LLG, are shown in the table below. The representative outcomes shown there are for the inter-quartile range (25th and 75th percentiles), and a standard indicator of "tail" outcomes (95th percentile).

Range of LLG Values Found in Monte Carlo Simulations
(all dollars in millions)

Program Area	25th Percentile	Mean	75th Percentile	95th Percentile
MMI Fund				
Single-Family Forward Mortgages	$ -8,820	$ -2,195	$ 447	$ 5,185
Single Family Reverse Mortgages (HECM)	$ -9,736	$ -1,694	$ 4,902	$ 11,173
Total	**$ -18,556**	**$ -3,889**	**$ 5,349**	**$ 16,358**

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 emanates 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 the forecasting models for reasonableness of results on a number of dimensions. 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. Lastly, because of the critical importance of FHA's single-family programs for national housing policy and the uncertainty surrounding the final cost of credit expenses resulting from the recent, severe economic recession, HUD has contracted for a second independent actuarial study of that portfolio. This second opinion directly addresses potential model risk by evaluating whether a different modeling approach would produce a reasonably similar economic value. This year, the results of that examination provide a reasonable assurance that any model risk in the LLG calculations is within a tolerable range for accepting the primary contractor's loan performance projections.

At this point in the economic cycle, with demand for rental units high, and loans refinancing at historically low interest rates, near term risks to the multifamily LLG calculation appear to be low. However, over the longer term, risks come from many sources—changes in population growth and household formation, the supply of rental housing in each market where FHA has a presence, and local employment conditions. Risks also come from FHA's policy of insuring loans pre-construction in its 221(d)(4) program, though that currently comprises a small share of all new endorsement activity. To the extent 221(d)(4) projects come into each new cohort, LLG calculations are subject to risk from their ability to find viable markets when they do come on-line. New construction loans approved in 2007 – 2009 have now gone through several annual rounds of rentals to prove market viability. The combined 2010-2013 cohorts, which are just now starting to come into rent-up, are more than twice as large as 2007-2009, by dollar volume. Valuations of the newer portfolio are dependent upon continued trends in rental vacancy rates and rental-price growth.

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 is also 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, and from the supply of medical care in each community relative to demand and the ability of facility management to adapt to changing technologies and the competitive landscape. These are factors for which it is difficult to predict future trends.

Pre-Credit Reform Valuation Methodology

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

MMI Single Family LLR - For the single family portfolio, the remaining insurance-in-force for Pre-Credit Reform loans is $1.2 billion. The aggregate liability for the remaining pre-credit reform loans in FY 2015 is $6.5 million.

GI/SRI Multifamily & Healthcare LLR - For the multifamily and healthcare portfolio, the remaining insurance-in-force for pre-credit reform loans is $401 million. The aggregate liability for the remaining Pre-Credit Reform loans in FY 2015 is ($1.5) million, which is a $100 thousand increase from the ($1.6) million estimate in FY 2014. The year-over-year increase in aggregate liability is due to a $154 million decline in insurance-in-force as both measures move closer to zero.

Note 7. Other Assets

The following table presents the composition of Other Assets held by FHA as of September 30, 2015 and 2014:

(Dollars in millions)	FY 2015	FY 2014
Intragovernmental:		
Advances to HUD for Working Capital Fund Expenses	$ 1	$ 1
Total	**$ 1**	**$ 1**
With the Public:		
Escrow Monies Deposited at Minority-Owned Banks	$ 37	$ 41
Deposits in Transit	8	6
Total	**$ 45**	**$ 47**

Advances to HUD for Working Capital Fund Expenses

The Working Capital Fund was established by HUD to consolidate, at the department level, the acquisition of certain property and equipment to be used by different organizations within HUD. Advances to HUD for Working Capital Fund expenses represent the amount of payments made by FHA to reimburse the HUD Working Capital Fund for its share of the fund's expenses prior to the receipt of goods or services from this fund.

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), invested in U.S. Treasury securities (see Note 4 - GI/SRI Investments) or deposited at minority-owned banks.

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 8. Accounts Payable

Accounts Payable as of September 30, 2015 and 2014 are as follows:

(Dollars in millions)

	FY 2015	FY 2014
Intragovernmental:		
Claims Payable to Ginnie Mae	$ -	$ 2
Miscellaneous Payables to Other Federal Agencies	1	1
Total	**$ 1**	**$ 3**

	FY 2015	FY 2014
With the Public:		
Claims Payable	$ 357	$ 277
Premium Refunds Payable	142	142
Single Family Property Disposition Payable	25	14
Miscellaneous Payables	21	26
Total	**$ 545**	**$ 459**

Claims Payable

Claims payables represent the amount of claims that have been processed by FHA, but 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 the borrowers resulting from prepayment of the insured mortgages.

Single Family Property Disposition Payable

Single family property disposition payables includes 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, 2015 and 2014:

(Dollars in millions)

	FY 2015			FY 2014		
	Beginning Balance	Net Borrowings	Ending Balance	Beginning Balance	Net Borrowings	Ending Balance
Other Debt:						
Borrowings from FFB	$ -	$ 122	$ 122	$ -	$ -	$ -
Borrowings from U.S. Treasury	27,528	(627)	26,901	25,940	1,588	27,528
Total	**$ 27,528**	**$ (505)**	**$ 27,023**	**$ 25,940**	**$ 1,588**	**$ 27,528**

	FY 2015	FY 2014
Classification of Debt:		
Intragovernmental Debt	$ 27,023	$ 27,528
Total	**$ 27,023**	**$ 27,528**

Borrowings from U.S. Treasury

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

During fiscal year 2015, FHA's U.S. Treasury borrowings carried interest rates ranging from 1.02 percent to 7.59 percent. In fiscal year 2014, they carried interest rates ranged from 0.75 percent to 7.59 percent. The maturity dates for these borrowings occur from September 2017 – September 2030. Loans may be repaid in whole or in part without penalty at any time prior to maturity.

Borrowings from Federal Financing Bank:

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

Note 10. Other Liabilities

The following table describes the composition of Other Liabilities as of September 30, 2015 and 2014:

(Dollars in millions)

FY 2015		Current
Intragovernmental:		
Receipt Account Liability		2,351
Total	**$**	**2,351**
With the Public:		
Trust and Deposit Liabilities	$	63
Multifamily Notes Unearned Revenue		251
Premiums collected on unendorsed cases		326
Miscellaneous Liabilities		86
Total	**$**	**726**

FY 2014		Current
Intragovernmental:		
Receipt Account Liability		1,689
Total	**$**	**1,689**
With the Public:		
Trust and Deposit Liabilities	$	59
Multifamily Notes Unearned Revenue		248
Premiums collected on unendorsed cases		174
Miscellaneous Liabilities		148
Total	**$**	**629**

Receipt Account Payable Liability

The receipt account payable liability is created from downward credit subsidy reestimates 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.

Multifamily Notes Unearned Revenue

Multifamily Notes unearned revenue primarily includes the deferred interest revenue on Multifamily notes that are based on work out agreements with the owners. The workout agreements defer payments from the owners for a specified time but, the interest due on the notes is still accruing and will also be deferred until payments resume.

Miscellaneous Liabilities

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

Note 11. 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, 2015. There are pending or threatened legal actions where judgment against FHA is reasonably possible with an estimated potential loss of $5.2 million or more.

Activity with Ginnie Mae

As of September 30, 2015, the Government National Mortgage Association ("Ginnie Mae") held defaulted FHA-insured mortgage loans. These loans, acquired from defaulted mortgage-backed securities issuers, had the following balances:

	FY 2015 (in Millions)	FY 2014 (in Millions)
Mortgages Held for Investment & Foreclosed Property (Pre-claim)	5,000	4,891
Short Sale Claims Receivable	48	19

"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 12. Gross Costs

Gross costs incurred by FHA for the period ended September 30, 2015 and 2014 are as follows:

(Dollars in millions)

FY 2015	Single Family Forward	HECM	Multifamily	Healthcare	Administrative Expenses	Total
Intragovernmental:						
Interest Expense	$ 955	$ 59	$ 104	$ 73	$ -	$ 1,191
Imputed Cost	-	-	-	-	15	15
Total	**$ 955**	**$ 59**	**$ 104**	**$ 73**	**$ 15**	**$ 1,206**
With the Public:						
Salary and Administrative Expense	$ -	$ -	$ -	$ -	$ 557	$ 557
Subsidy Expense	(13,018)	(65)	(399)	(125)	-	(13,607)
Re-estimate Expense	185	(3,445)	(70)	(6)	-	(3,336)
Interest Expense	(604)	(1,012)	(17)	51	-	(1,582)
Interest Accumulation Expense	140	526	(39)	(61)	-	566
Bad Debt Expense	(2)	3	(44)	-	-	(43)
Loan Loss Reserve	(1)	-	(2)	1	-	(2)
Other Expenses	17	1	12	-	10	40
Total	**$ (13,283)**	**$ (3,992)**	**$ (559)**	**$ (140)**	**$ 567**	**$ (17,407)**
Total Gross Costs	**$ (12,328)**	**$ (3,933)**	**$ (455)**	**$ (67)**	**$ 582**	**$ (16,201)**

FY 2014	Single Family Forward	HECM	Multifamily	Healthcare	Administrative Expenses	Total
Intragovernmental:						
Interest Expense	$ 736	$ 59	$ 123	$ 45	$ -	$ 963
Imputed Cost	-	-	-	-	15	15
Other Expenses	-	-	-	-	2	2
Total	**$ 736**	**$ 59**	**$ 123**	**$ 45**	**$ 17**	**$ 980**
With the Public:						
Salary and Administrative Expense	$ -	$ -	$ -	$ -	$ 574	$ 574
Subsidy Expense	(9,791)	(56)	(428)	(184)	-	(10,459)
Re-estimate Expense	2,636	1,580	(66)	(226)	-	3,924
Interest Expense	199	495	81	(65)	(1)	709
Interest Accumulation Expense	598	652	(71)	(30)	-	1,149
Bad Debt Expense	(19)	-	(78)	-	-	(97)
Loan Loss Reserve	2	-	(1)	-	-	1
Other Expenses	25	2	44	-	40	111
Total	**$ (6,350)**	**$ 2,673**	**$ (519)**	**$ (505)**	**$ 613**	**$ (4,088)**
Total Gross Costs	**$ (5,614)**	**$ 2,732**	**$ (396)**	**$ (460)**	**$ 630**	**$ (3,108)**

Interest Expense

Intragovernmental interest expense includes interest expense on borrowings from the U.S. Treasury in the financing account. Interest expense is calculated annually for each cohort using the interest rates provided by the U.S Treasury. Interest expense with the public consists of interest expense on debentures issued to claimants to settle claim payments and interest expense on the annual credit subsidy reestimates.

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 the offset to interest accumulation expense.

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. 30, *Inter-Entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts 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 Statements of Changes in Net Position.

Salary and Administrative Expenses

Salary and administrative expenses include FHA's reimbursement to HUD for FHA personnel costs and FHA's payments to third party contractors for administrative contract expenses. Beginning in fiscal year 2010 and going forward, FHA is only using the MMI annual program fund to record salaries and related expenses.

Re-estimate Expense

Re-estimate expense captures the cost associated with revisions to the liability for loan guarantee. A re-estimate is calculated annually.

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.

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 of 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 FHA's share of HUD expenses incurred in the Working Capital Fund and expenses from intra-agency agreements.

Note 13. Earned Revenue

Earned revenues generated by FHA for the period ended September 30, 2015 and 2014 are as follows:

(Dollars in millions)

FY 2015	Single Family Forward	HECM	Multifamily	Healthcare	Administrative Expenses	Total
Intragovernmental:						
Interest Revenue from Deposits at U.S. Treasury	$ 1,095	$ 584	$ 58	$ 16	$ -	$ 1,753
Interest Revenue from MMI/CMHI Investments	38	-	-	-	-	38
Gain on Sale of MMI/CMHI Investments	-	-	-	-	-	-
Total Intragovernmental	**$ 1,133**	**$ 584**	**$ 58**	**$ 16**	**$ -**	**$ 1,791**
With the Public:						
Insurance Premium Revenue	$ (1)	$ 1	$ 2	$ -	$ -	$ 2
Income from Notes and Properties	11	-	38	1	-	50
Other Revenue	1	-	5	-	-	6
Total With the Public	**$ 11**	**$ 1**	**$ 45**	**$ 1**	**$ -**	**$ 58**
Total Earned Revenue	**$ 1,144**	**$ 585**	**$ 103**	**$ 17**	**$ -**	**$ 1,849**

FY 2014	Single Family Forward	HECM	Multifamily	Healthcare	Administrative Expenses	Total
Intragovernmental:						
Interest Revenue from Deposits at U.S. Treasury	$ 1,334	$ 711	$ 51	$ 16	$ -	$ 2,112
Interest Revenue from MMI/CMHI Investments	6	-	-	-	-	6
Total Intragovernmental	**$ 1,340**	**$ 711**	**$ 51**	**$ 16**	**$ -**	**$ 2,118**
With the Public:						
Insurance Premium Revenue	$ (7)	$ -	$ 8	$ -	$ -	$ 1
Income from Notes and Properties	14	1	36	1	-	52
Other Revenue	10	-	-	-	-	10
Total With the Public	**$ 17**	**$ 1**	**$ 44**	**$ 1**	**$ -**	**$ 63**
Total Earned Revenue	**$ 1,357**	**$ 712**	**$ 95**	**$ 17**	**$ -**	**$ 2,181**

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.

Interest revenue with the public is generated mainly from FHA's acquisition of pre-1992 performing MNA notes as a result of claim payments to lenders for defaulted guaranteed loans. Interest revenue associated with the post-1991 MNA notes is included in the Allowance for Subsidy (AFS) balance.

Gain on Sale of MMI/CMHI Investments

Gains occur as a result of a sale of investments before maturity in the MMI/CMHI Capital Reserve account because the sales price of the investments was greater than the book value of the investments at the time of the sale.

Premium Revenue

According to the FCRA accounting, FHA's premium revenue includes only premiums associated with the pre-1992 loan guarantee business. Premiums for post-1991 guarantee loans are included in the balance of the LLG. The FHA premium structure includes both up-front premiums and annual periodic premiums.

Up-front Premiums

The up-front premium rates vary according to the mortgage type and the year of origination. The FHA up-front premium rates in fiscal year 2015 were:

Upfront Premium Rates	
10/01/2014 - 9/30/2015	
Single Family	1.75%
Multifamily	0.25%, 0.45%, 0.50%, 0.80% or 1.00%
HECM Standard	2.00% (Based on Maximum Claim Amount)
HECM Saver	0.01% (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 in fiscal year 2015 were:

Annual Periodic Premium Rates	
Single Family:	
10/01/2014 -1/25/2015	1.30%, 1.35%, 1.50% or 1.55%
01/26/2015 -9/30/2015	0.80%, 0.85%, 1.00% or 1.05%
Multifamily	0.45%, 0.50%, 0.57% or 0.80%
HECM (Standard and Saver)	1.25%

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. For guaranteed cases endorsed in fiscal year 2013, the Title I annual insurance premium is 1.00 percent of the loan amount until maturity.

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, sold, and gains associated with the sale.

Other Revenue

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

Note 14. 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 15. Transfers Out and Other Financing Sources

Transfers in/out incurred by FHA for the period ended September 30, 2015 and 2014 are as follows:

(Dollars in millions)

FY 2015	Cumulative Results of Operations	Unexpended Appropriations	Total
Transfers Out:			
HUD	$ 442	$ -	$ 442
Other Financing Sources:			
Treasury	$ (3,680)	$ -	$ (3,680)

FY 2014	Cumulative Results of Operations	Unexpended Appropriations	Total
Transfers Out:			
HUD	$ 497	$ -	$ 497
Other Financing Sources:			
Treasury	$ (2,231)	$ -	$ (2,231)

Transfers In/Out from HUD

FHA does not receive an appropriation for salaries and expense; instead the FHA amounts are appropriated directly to HUD. In order to recognize these costs in FHA's Statement of Net Cost, a Transfer In from HUD is recorded based on amounts computed by HUD. FHA continues to make a non-expenditure Transfer Out to HUD for Working Capital Fund expenses.

Other Financing Sources

Transfers out to U.S. Treasury consist of negative subsidy from new endorsements, modifications and downward credit subsidy reestimates in the GI/SRI general fund receipt account.

Note 16. Unexpended Appropriations

Unexpended appropriation balances at September 30, 2015 and 2014 are as follows:

(Dollars in millions)

FY 2015	Beginning Balance	Appropriations Received	Other Adjustments	Appropriations Used	Ending Balance
Positive Subsidy	$ 464	$ -	$ (10)	$ -	$ 454
Working Capital and Contract Expenses	274	130	(20)	(124)	260
Reestimates	-	2,080	-	(2,080)	-
GI/SRI Liquidating	134	25	-	(2)	157
Total	**$ 872**	**$ 2,235**	**$ (30)**	**$ (2,206)**	**$ 871**

FY 2014	Beginning Balance	Appropriations Received	Other Adjustments	Appropriations Used	Ending Balance
Positive Subsidy	$ 464	$ -	$ -	$ -	$ 464
Working Capital and Contract Expenses	298	127	(37)	(114)	274
Reestimates	-	210	-	(210)	-
GI/SRI Liquidating	107	30	-	(3)	134
Total	**$ 869**	**$ 367**	**$ (37)**	**$ (327)**	**$ 872**

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 program accounts for administrative and contract expenses. The GI/SRI and H4H no-year program accounts also receive appropriations for positive credit subsidy and upward reestimates. Additionally, FHA obtains 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

The SF-133 and the Statement of Budgetary Resources for fiscal year 2014 have been reconciled to the fiscal year 2014 actual amounts included in the Program and Financing Schedules presented in the fiscal year 2016 Budget of the United States Government. There were no significant reconciling items. Information from the fiscal year 2015 Statement of Budgetary Resources will be presented in the fiscal year 2017 Budget of the U.S. Government. The Budget will be transmitted to Congress on the first Monday in February 2016 and will be available from the Government Printing Office and online at that time.

Obligated balances as of September 30, 2015 and 2014 are as follows:

Unpaid Obligations

(Dollars in Millions)

Undelivered Orders	**FY 2015**	**FY 2014**
MMI/CMHI	$ 1,658	$ 1,570
GI/SRI	368	321
H4H	1	-
EI	17	26
Undelivered Orders Subtotal	**$ 2,044**	**$ 1,917**
Accounts Payable		
MMI/CMHI	$ 663	$ 527
GI/SRI	343	372
Accounts Payable Subtotal	**$ 1,006**	**$ 899**
Total	**$ 3,050**	**$ 2,816**

Note 18. Budgetary Resources - Collections

The following table presents the composition of FHA's collections for the period ended September 30, 2015 and 2014:

(Dollars in Millions)

FY 2015	MMI/CMHI	GI/SRI	H4H	Total
Collections:				
Premiums	$ 12,593	$ 859	$ 1	$ 13,453
Notes	2,194	507	-	2,701
Property	4,319	193	1	4,513
Interest Earned from U.S. Treasury	1,362	379	-	1,741
Subsidy	13,086	-	-	13,086
Reestimates	21,327	2,080	-	23,407
Collections from settlements	961	-	-	961
Other	52	9	-	61
Total	**$ 55,894**	**$ 4,027**	**$ 2**	**$ 59,923**

FY 2014	MMI/CMHI	GI/SRI	H4H	Total
Collections:				
Premiums	$ 11,041	$ 843	$ 1	$ 11,885
Notes	4,884	434	1	5,319
Property	5,348	223	1	5,572
Interest Earned from U.S. Treasury	1,637	473	1	2,111
Subsidy	9,850	-	-	9,850
Reestimates	9,018	210	-	9,228
Collections from settlements	466	-	-	466
Other	47	15	-	62
Total	**$ 42,291**	**$ 2,198**	**$ 4**	**$ 44,493**

Note 19. Budgetary Resources – Obligations

The following table presents the composition of FHA's obligations for the period ended September 30, 2015 and 2014:

(Dollars in Millions)

September 30, 2015	MMI/CMHI	GI/SRI	H4H	Total
Obligations				
Claims	$ 19,412	$ 3,680	$ 4	$ 23,096
Property Expenses	794	86	1	881
Interest on Borrowings	937	251	-	1,188
Subsidy	13,085	561	-	13,646
Downward Reestimates	8,436	2,276	-	10,712
Upward Reestimates	12,891	2,080	-	14,971
Admin, Contract and Working Capital	130	-	-	130
Other	26	193	-	219
Total	**$ 55,711**	**$ 9,127**	**$ 5**	**$ 64,843**

September 30, 2014	MMI/CMHI	GI/SRI	H4H	Total
Obligations				
Claims	$ 25,392	$ 2,706	$ 5	$ 28,103
Property Expenses	956	92	-	1,048
Interest on Borrowings	726	237	-	963
Subsidy	9,849	526	-	10,375
Downward Reestimates	3,250	2,060	-	5,310
Upward Reestimates	5,769	210	-	5,979
Admin, Contract and Working Capital	122	-	-	122
Other	10	79	-	89
Total	**$ 46,074**	**$ 5,910**	**$ 5**	**$ 51,989**

Note 20. Reconciliation of Net Cost of Operations to Budget

This note (formerly the Statement of Financing) links the proprietary data to the budgetary data. Most transactions are recorded in both proprietary and budgetary accounts. However, because different accounting bases are used for budgetary and proprietary accounting, some transactions may appear in only one set of accounts. The Reconciliation of Net Cost of Operations to Budget is as follows for the period ended September 30, 2015 and 2014:

(Dollars in Millions)	FY 2015	FY 2014
RESOURCES USED TO FINANCE ACTIVITIES		
Obligations Incurred - SBR	$ 64,843	$ 51,989
Spending Authority from Offsetting Collections and Recoveries - SBR	(60,361)	(44,499)
Offsetting Receipts - SBR	(2,797)	(2,668)
Other Financing Sources - NP	(3,237)	(2,230)
Imputed Financing from Costs Absorbed by Others	15	15
TOTAL RESOURCES USED TO FINANCE ACTIVITIES	**$ (1,537)**	**$ 2,607**
RESOURCES THAT DO NOT FUND THE NET COST OF OPERATIONS		
Undelivered Orders and Adjustments	$ (127)	$ 428
Revenue and Other Resources	58,134	45,001
Purchase of Assets	(49,141)	(45,433)
Appropriation for prior year Re-estimate	(14,972)	(5,979)
TOTAL RESOURCES NOT PART OF NET COST OF OPERATIONS	**$ (6,106)**	**$ (5,983)**
TOTAL RESOURCES USED TO FINANCE THE NET COST (SURPLUS) OF OPERATIONS	**$ (7,643)**	**$ (3,376)**
COMPONENTS OF THE NET COST (SURPLUS) OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD		
Upward Re-estimate of Credit Subsidy Expense	$ 12,150	$ 10,639
Downward Re-estimate of Credit Subsidy Expense	(17,043)	(6,006)
Changes in Loan Loss Reserve Expense	(1)	27
Changes in Bad Debt Expenses Related to Uncollectible Pre-Credit Reform Receivables	(42)	(97)
Reduction of Credit Subsidy Expense from Endorsements and Modifications of Loan Guarantees	(13,607)	(10,457)
Gains or Losses on Sales of Credit Program Assets	15	29
Other	8,121	3,952
TOTAL COMPONENTS OF THE NET COST (SURPLUS) OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD	**$ (10,407)**	**$ (1,913)**
NET COST (SURPLUS) OF OPERATIONS	**$ (18,050)**	**$ (5,289)**

Required Supplementary Information

Schedule A: Intragovernmental Assets

FHA's Intra-governmental assets, by Federal entity, are as follows on September 30, 2015 and 2014:

(Dollars in Millions)

FY 2015	Fund Balance with U.S. Treasury	Investments in U.S. Treasury Securities	Other Assets	Total
U.S. Treasury	$ 39,057	$ 14,754	$ -	$ 53,811
HUD	-	-	1	1
Total	**$ 39,057**	**$ 14,754**	**$ 1**	**$ 53,812**

FY 2014	Fund Balance with U.S. Treasury	Investments in U.S. Treasury Securities	Other Assets	Total
U.S. Treasury	$ 50,232	$ 6,379	$ -	$ 56,611
HUD	-	-	1	1
Total	**$ 50,232**	**$ 6,379**	**$ 1**	**$ 56,612**

Schedule B: Intragovernmental Liabilities

FHA's Intra-governmental liabilities, by Federal entity, are as follows on September 30, 2015 and 2014:

(Dollars in Millions)

FY 2015	Accounts Payable	Borrowings	Other Liabilities	Total
Federal Financing Bank	$ -	$ 122	$ -	$ 122
U.S. Treasury	-	26,901	2,351	29,252
HUD	1	-	-	1
Total	**$ 1**	**$ 27,023**	**$ 2,351**	**$ 29,375**

FY 2014	Accounts Payable	Borrowings	Other Liabilities	Total
U.S. Treasury	-	27,528	1,689	29,217
HUD	3	-	-	3
Total	**$ 3**	**$ 27,528**	**$ 1,689**	**$ 29,220**

Required Supplementary Information

Schedule C: Comparative Combining Statement of Budgetary Resources by FHA Program for Budgetary September 30, 2015:

Dollars in Millions	MMI/CMHI Capital Reserve	MMI/CMHI Program	GI/SRI Program	Other	Budgetary Total
Budgetary Resources:					
Unobligated balance brought forward, October 1	$ 7,337	$ 94	$ 16	$ 705	$ 8,152
Unobligated balance brought forward, October 1, as adjusted	7,337	94	16	705	8,152
Recoveries of prior year unpaid obligations	-	24	-	26	50
Other changes in unobligated balance (+ or -)	(7,337)	7,317	-	(221)	(241)
Unobligated balance from prior year budget authority, net	-	7,435	16	510	7,961
Appropriations (discretionary and mandatory)	-	130	2,070	25	2,225
Spending authority from offsetting collections (discretionary and manda	15,963	5,554	-	199	21,716
Total budgetary resources	**$ 15,963**	**$ 13,119**	**$ 2,086**	**$ 734**	**$ 31,902**
Status of Budgetary Resources:					
Obligations incurred	$ -	$ 13,021	$ 2,080	$ 69	$ 15,170
Unobligated balance, end of year:					
Apportioned	-	47	6	3	56
Unapportioned	15,963	52	-	661	16,676
Total unobligated balance, end of year	15,963	98	6	665	16,732
Total budgetary resources	**$ 15,963**	**$ 13,119**	**$ 2,086**	**$ 734**	**$ 31,902**
Change in Obligated Balance:					
Unpaid obligations, brought forward, October 1 (gross)	$ -	$ 146	$ 1	$ 440	$ 587
Uncollected customer payments from Federal sources, brought forward, October 1 (-)	(8)	-	-	(1)	(9)
Obligated balance, start of year (net), before adjustments (+ or -)	(8)	146	1	439	578
Obligated balance, start of year (net), as adjusted	(8)	146	1	439	578
Obligations incurred	-	13,021	2,080	69	15,170
Outlays (gross) (-)	-	(13,010)	(2,080)	(52)	(15,142)
Change in uncollected customer payments from Federal sources (+ or -)	(6)	-	-	-	(6)
Recoveries of prior year unpaid obligations (-)	-	(24)	-	(26)	(50)
Unpaid obligations, end of year (gross)	-	133	1	431	565
Uncollected customer payments from Federal sources, end of year	(14)	-	-	(1)	(15)
Obligated balance, end of year (net)	**$ (14)**	**$ 133**	**$ 1**	**$ 430**	**$ 550**
Budget Authority and Outlays, Net:					
Budget authority, gross (discretionary and mandatory)	$ 15,963	$ 5,684	$ 2,070	$ 224	$ 23,941
Actual offsetting collections (discretionary and mandatory) (-)	(21,512)	-	-	(198)	(21,710)
Change in uncollected customer payments from Federal sources (discretionary and mandatory) (+ or -)	(5)	-	-	(1)	(6)
Budget authority, net (discretionary and mandatory)	(5,554)	5,684	2,070	25	2,225
Outlays, gross (discretionary and mandatory)	-	13,010	2,080	52	15,142
Actual offsetting collections (discretionary and mandatory) (-)	(21,512)	-	-	(198)	(21,710)
Outlays, net (discretionary and mandatory)	(21,512)	13,010	2,080	(146)	(6,568)
Distributed offsetting receipts (-)	-	-	-	(2,797)	(2,797)
Agency outlays, net (discretionary and mandatory)	**$ (21,512)**	**$ 13,010**	**$ 2,080**	**$ (2,943)**	**$ (9,365)**

Required Supplementary Information

Schedule C: Comparative Combining Statement of Budgetary Resources by FHA Program for Budgetary September 30, 2014:

Dollars in Millions	MMI/CMHI Capital Reserve	MMI/CMHI Program	GI/SRI Program	Other	Budgetary Total Total
Budgetary Resources:					
Unobligated balance brought forward, October 1	$ 2	$ 95	$ 23	$ 717	$ 837
Unobligated balance brought forward, October 1, as adjusted	2	95	23	717	837
Recoveries of prior year unpaid obligations	-	23	3	45	71
Other changes in unobligated balance (+ or -)	(2)	(25)	(10)	(234)	(271)
Unobligated balance from prior year budget authority, net	-	93	16	528	637
Appropriations (discretionary and mandatory)	-	127	210	30	367
Spending authority from offsetting collections (discretionary and manda	7,337	5,766	-	214	13,317
Total budgetary resources	**$ 7,337**	**$ 5,986**	**$ 226**	**$ 772**	**$ 14,321**
Status of Budgetary Resources:					
Obligations incurred	$ -	$ 5,892	$ 210	$ 67	$ 6,169
Apportioned	-	44	16	25	85
Unapportioned	7,337	50	-	680	8,067
Total unobligated balance, end of year	7,337	94	16	705	8,152
Total budgetary resources	**$ 7,337**	**$ 5,986**	**$ 226**	**$ 772**	**$ 14,321**
Change in Obligated Balance:					
Unpaid obligations, brought forward, October 1 (gross)	$ -	$ 147	$ 4	$ 483	$ 634
Uncollected customer payments from Federal sources, brought forward, October 1 (-)	(2)	-	-	(1)	(3)
Obligated balance, start of year (net), before adjustments (+ or -)	(2)	147	4	482	631
Obligated balance, start of year (net), as adjusted	(2)	147	4	482	631
Obligations incurred	-	5,892	210	67	6,169
Outlays (gross) (-)	-	(5,870)	(210)	(65)	(6,145)
Change in uncollected customer payments from Federal sources (+ or -)	(6)	-	-	-	(6)
Recoveries of prior year unpaid obligations (-)	-	(23)	(3)	(45)	(71)
Unpaid obligations, end of year (gross)	-	146	1	440	587
Uncollected customer payments from Federal sources, end of year	(8)	-	-	(1)	(9)
Obligated balance, end of year (net)	**$ (8)**	**$ 146**	**$ 1**	**$ 439**	**$ 578**
Budget Authority and Outlays, Net:					
Budget authority, gross (discretionary and mandatory)	$ 7,337	$ 5,893	$ 210	$ 244	$ 13,684
Actual offsetting collections (discretionary and mandatory) (-)	(13,098)	-	-	(213)	(13,311)
Change in uncollected customer payments from Federal sources (discretionary and mandatory) (+ or -)	(6)	-	-	-	(6)
Budget authority, net (discretionary and mandatory)	(5,767)	5,893	210	31	367
Outlays, gross (discretionary and mandatory)	-	5,870	210	65	6,145
Actual offsetting collections (discretionary and mandatory) (-)	(13,098)	-	-	(213)	(13,311)
Outlays, net (discretionary and mandatory)	(13,098)	5,870	210	(148)	(7,166)
Distributed offsetting receipts (-)	-	-	-	(2,668)	(2,668)
Agency outlays, net (discretionary and mandatory)	**$ (13,098)**	**$ 5,870**	**$ 210**	**$ (2,816)**	**$ (9,834)**

Required Supplementary Information

Schedule D: Comparative Combining Budgetary Resources by FHA Program for Non-Budgetary September 30, 2015:

	MMI/CMHI Financing	GI/SRI Financing	Other	Non Budgetary Total
Budgetary Resources:				
Unobligated balance brought forward, October 1	$ 37,072	$ 8,474	$ 23	$ 45,569
Unobligated balance brought forward, October 1, as adjusted	37,072	8,474	23	45,569
Recoveries of prior year unpaid obligations	333	49	-	382
Unobligated balance from prior year budget authority, net	37,405	8,523	23	45,951
Borrowing authority (discretionary and mandatory)	10,003	2,020	123	12,146
Spending authority from offsetting collections (discretionary and mandatory)	22,856	2,702	5	25,563
Total budgetary resources	**$ 70,264**	**$ 13,245**	**$ 151**	**$ 83,660**
Status of Budgetary Resources:				
Obligations incurred	$ 42,667	$ 6,884	$ 122	$ 49,673
Unobligated balance, end of year:				
Apportioned	2,158	1,333	18	3,509
Unapportioned	25,439	5,028	11	30,478
Total unobligated balance, end of year	27,597	6,361	29	33,987
Total budgetary resources	**$ 70,264**	**$ 13,245**	**$ 151**	**$ 83,660**
Change in Obligated Balance:				
Unpaid obligations, brought forward, October 1 (gross)	$ 1,806	$ 423	$ -	$ 2,229
Obligated balance, start of year (net), before adjustments (+ or -)	1,806	423	-	2,229
Obligated balance, start of year (net), as adjusted	1,806	423	-	2,229
Obligations incurred	42,666	6,884	123	49,673
Outlays (gross) (-)	(42,097)	(6,819)	(119)	(49,035)
Recoveries of prior year unpaid obligations (-)	(333)	(49)	-	(382)
Unpaid obligations, end of year (gross)	2,042	439	4	2,485
Obligated balance, end of year (net)	**$ 2,042**	**$ 439**	**$ 4**	**$ 2,485**
Budget Authority and Outlays, Net:				
Budget authority, gross (discretionary and mandatory)	$ 32,859	$ 4,721	$ 128	$ 37,708
Actual offsetting collections (discretionary and mandatory) (-)	(34,374)	(3,833)	(6)	(38,213)
Budget authority, net (discretionary and mandatory)	(1,515)	888	122	(505)
Outlays, gross (discretionary and mandatory)	42,097	6,819	119	49,035
Actual offsetting collections (discretionary and mandatory) (-)	(34,374)	(3,833)	(6)	(38,213)
Outlays, net (discretionary and mandatory)	7,723	2,986	113	10,822
Agency outlays, net (discretionary and mandatory)	**$ 7,723**	**$ 2,986**	**$ 113**	**$ 10,822**

Required Supplementary Information

Schedule D: Comparative Combining Budgetary Resources by FHA Program for Non-Budgetary September 30, 2014:

	MMI/CMHI Financing	GI/SRI Financing	Other	Non Budgetary Total
Budgetary Resources:				
Unobligated balance brought forward, October 1	$ 46,334	$ 11,495	$ 26	$ 57,855
Unobligated balance brought forward, October 1, as adjusted	46,334	11,495	26	57,855
Recoveries of prior year unpaid obligations	714	49	1	764
Other changes in unobligated balance (+ or -)	-	-	(1)	(1)
Unobligated balance from prior year budget authority, net	47,048	11,544	26	58,618
Borrowing authority (discretionary and mandatory)	7,000	1,769	-	8,769
Spending authority from offsetting collections (discretionary and mandatory)	23,181	817	4	24,002
Total budgetary resources	**$ 77,229**	**$ 14,130**	**$ 30**	**$ 91,389**
Status of Budgetary Resources:				
Obligations incurred	$ 40,158	$ 5,656	$ 6	$ 45,820
Unobligated balance, end of year:				
Apportioned	12,076	1,406	12	13,494
Unapportioned	24,995	7,068	12	32,075
Total unobligated balance, end of year	37,071	8,474	24	45,569
Total budgetary resources	**$ 77,229**	**$ 14,130**	**$ 30**	**$ 91,389**
Change in Obligated Balance:				
Unpaid obligations, brought forward, October 1 (gross)	$ 2,019	$ 520	$ -	$ 2,539
Obligated balance, start of year (net), before adjustments (+ or -)	2,019	520	-	2,539
Obligated balance, start of year (net), as adjusted	2,019	520	-	2,539
Obligations incurred	40,158	5,656	6	45,820
Outlays (gross) (-)	(39,657)	(5,704)	(5)	(45,366)
Recoveries of prior year unpaid obligations (-)	(714)	(49)	(1)	(764)
Unpaid obligations, end of year (gross)	1,806	423	-	2,229
Obligated balance, end of year (net)	**$ 1,806**	**$ 423**	**$ -**	**$ 2,229**
Budget Authority and Outlays, Net:				
Budget authority, gross (discretionary and mandatory)	$ 30,181	$ 2,586	$ 4	$ 32,771
Actual offsetting collections (discretionary and mandatory) (-)	(29,181)	(1,997)	(4)	(31,182)
Budget authority, net (discretionary and mandatory)	1,000	589	-	1,589
Outlays, gross (discretionary and mandatory)	39,657	5,704	5	45,366
Actual offsetting collections (discretionary and mandatory) (-)	(29,181)	(1,997)	(4)	(31,182)
Outlays, net (discretionary and mandatory)	10,476	3,707	1	14,184
Agency outlays, net (discretionary and mandatory)	**$ 10,476**	**$ 3,707**	**$ 1**	**$ 14,184**

Other Accompanying Information

The Office of Management and Budget (OMB) requires all CFO Act agencies' to include the Schedule of Spending in the Other Accompanying Information section of their Annual Financial Report. The Schedule of Spending presents an overview of how and where agencies are spending money. The statement discloses FHA's resources that were available to spend, services or items that were purchased, with whom the agencies are spending money, and how obligations are issued.

FEDERAL HOUSING ADMINISTRATION
(AN AGENCY OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT)
SCHEDULE OF SPENDING
As of September 30 2015
in millions

	FY 2015	FY 2014
What Money is Available to Spend?		
Total Resources	$115,562	$105,710
Less Amount Available but Not Agreed to be Spent	$3,565	$13,579
Less Amount Not Available to be Spent	$47,154	$40,142
Total Amounts Agreed to be Spent	**$64,843**	**$51,989**
How Was the Money Spent?		
Category*		
Claims	$22,996	$27,991
Property Expenses	$385	$596
Interest on Borrowings	$1,187	$963
Subsidy	$13,607	$10,457
Downward Reestimates	$10,712	$5,310
Upward Reestimates	$14,972	$5,979
Admin, Contract and Working Capital	$128	$116
Other	$190	$99
Total Spending	$64,177	$51,511
Amounts Remaining to be Spent	$666	$478
Total Amounts Agreed to be Spent	**$64,843**	**$51,989**
Who Did the Money go to?		
For Profit	$24,366	$29,280
Government	$40,477	$22,709
Total Amounts Agreed to be Spent	**$64,843**	**$51,989**
How Was the Money Issued?		
Claims	$23,096	$28,103
Property Expenses	$880	$1,048
Interest on Borrowings	$1,187	$963
Subsidy	$13,646	$10,376
Downward Reestimates	$10,712	$5,310
Upward Reestimates	$14,972	$5,979
Admin, Contract and Working Capital	$130	$123
Other	$220	$87
Total on how Money Was Issued	**$64,843**	**$51,989**

Summary of Financial Statement Audit and Management Assurances

The one FY 2014 material weakness was downgraded to a significant deficiency in FY 2015. The following tables provide a summary of financial audit findings with regard to the audit opinion and management assurances.

Summary of Financial Statement Audit

Summary of Financial Statement Audit					
Audit Opinion	Unmodified				
Restatement	No				
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Failure to recognize accounts receivable appropriately	1	0	1	0	0
Total Material Weaknesses	1	0	1	0	0

Summary of Management Assurances

Summary of Management Assurances					
Effectiveness of Internal Control over Financial Reporting (FMFIA section 2)					
Statement of Assurance	Unqualified				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Failure to recognize accounts receivable appropriately	1	0	1	0	0
Total Material Weaknesses	1	0	1	0	0

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AUDITOR'S REPORT

This report was issued separately in November 2015 by HUD, OIG entitled, "Audit of the Federal Housing Administration's Financial Statements for Fiscal Years 2015 and 2014" (2016-FO-0002). The report is available at HUD, OIG's internet site at: http://www.hudoig.gov.

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To: Edward Golding, Principal Deputy Assistant Secretary for Housing, H

//signed//

From: Thomas R. McEnanly, Director, Financial Audits Division, GAF

Subject: Audit of the Federal Housing Administration's Financial Statements for Fiscal Years 2015 and 2014

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our audit of the Federal Housing Administration's fiscal years 2015 and 2014 financial statements.

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, section 8M, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at http://www.hudoig.gov.

If you have any questions or comments about this report, please do not hesitate to call me at 202-402-8216.

Audit Report Number: 2016-FO-0002
Date: November 16, 2015

Audit of the Federal Housing Administration's Financial Statements for Fiscal Years 2015 and 2014

Highlights

What We Audited and Why

The Chief Financial Officers Act of 1990 (Public Law 101-576), as amended, requires the Office of Inspector General (OIG) to audit the financial statements of the Federal Housing Administration (FHA) annually. We audited the accompanying financial statements and notes of FHA, as of and for the fiscal years ending September 30, 2015 and 2014, which are composed of the balance sheets and the related statements of net cost and changes in net position and the combined statements of budgetary resources for the years then ended. We conducted these audits in accordance with U.S. generally accepted government auditing standards.

What We Found

In our opinion, FHA's fiscal years 2015 and 2014 financial statements were presented fairly, in all material respects, in accordance with the U.S. generally accepted accounting principles for the Federal Government. Our opinion is reported in FHA's Fiscal Year 2015 Annual Management Report. The results of our audit of FHA's principal financial statements and notes for the fiscal years ending September 30, 2015 and 2014, including our report on FHA's internal control and test of compliance with selected provisions of laws and regulations applicable to FHA are presented in this report. Our audit disclosed three significant deficiencies in internal controls, which are discussed further in the body of this report.

What We Recommend

We recommended FHA develop, document, implement or strengthen existing internal control policies and procedures to support reliable financial reporting over its receivable, liability for loan guarantee and budgetary balances. Additionally, we recommended FHA bill the appropriate parties for the $291 million in loans receivable that were unsupported as of fiscal yearend.

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

Independent Auditor's Report

Principal Deputy Assistant Secretary
Federal Housing Administration

In our audit of the fiscal years 2015 and 2014 financial statements of the Federal Housing Administration (FHA), a component of the U.S. Department of Housing and Urban Development (HUD), we found

- That the financial statements and notes were presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- Three significant deficiencies in internal control over financial reporting; and
- No instances of reportable noncompliance with certain provisions of laws and regulations that apply to FHA.

The following sections and appendixes discuss in more detail (1) our conclusions, including a matter of emphasis related to the potential range of estimate for the single-family liability for loan guarantee; (2) management's discussion and analysis (MD&A), other required supplementary information (RSI), and other information included with the financial statements; (3) management's responsibilities; (4) our responsibilities; (5) management's response to findings; (6) the current status of prior-year findings; and (7) a schedule of questioned costs.

Report on the Financial Statements

We have audited the accompanying financial statements of FHA, which are composed of the balance sheets as of September 30, 2015 and 2014, and the related statements of net cost and changes in net position, the combined statements of budgetary resources for the years then ended, and the related notes to the financial statements.

Management's Responsibilities

FHA management is responsible for preparing and fairly presenting these financial statements in accordance with U.S. generally accepted accounting principles. These responsibilities include designing, implementing, and maintaining internal control to ensure that FHA prepares and fairly presents financial statements that are free from material misstatement, whether due to fraud or error.

Management is also responsible for (1) evaluating the effectiveness of internal control over financial reporting; (2) providing a statement of assurance on the overall effectiveness on internal control over financial reporting, including providing reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act (FMFIA) are met; and (3) ensuring compliance with other applicable laws and regulations.

Auditor's Responsibilities

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. We also conducted our audits in accordance with Office of Management and Budget (OMB) Bulletin No. 15-02, as amended, Audit Requirements for Federal Financial Statements.

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

We are also responsible for (1) obtaining a sufficient understanding of internal control over financial reporting to plan the audit, (2) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements and applicable laws for which OMB Bulletin 15-02, as amended, requires testing, and (3) applying certain limited procedures with respect to the RSI and all other accompanying information included with the financial statements.

We did not evaluate all internal controls relevant to operating objectives as broadly established by FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. Because of inherent limitations in internal control, misstatements due to error or fraud, or noncompliance may still occur and not be detected. We also caution that projecting our audit results to future periods is subject to risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws and regulations applicable to FHA. We limited our tests of compliance to certain provisions of laws and regulations that have a direct and material effect on the financial statements and those required by OMB Bulletin 15-02, as amended, that we deemed to be applicable to FHA's financial statements for the fiscal years ending September 30, 2015 and 2014. We caution that noncompliance with laws and regulations may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

We believe that the audit evidence we obtained was sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

In our opinion, the financial statements referred to above presented fairly, in all material respects, the financial position of FHA as of September 30, 2015 and 2014, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in notes 1 and 6 to the financial statements, the loan guarantee liability is an actuarially determined estimate of the net present value of future claims, net of future premiums, and future recoveries from loans insured as of the end of the fiscal year. This estimate is developed using econometric models that integrate historical loan-level program and economic data with regional house price appreciation forecasts to develop assumptions about future portfolio performance. This year's estimate is the mean value from a series of projections using many economic scenarios, and FHA's single-family liability for loan guarantee estimates reported as of September 30, 2015, could change depending on which economic outcome prevails. This forecast method helps project how the estimate will be affected by different economic scenarios but does not address the risk that the models may not accurately reflect current borrower behavior or may contain technical errors. The loan guarantee liability is discussed further in note 6 to the financial statements. Our opinion was not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that FHA's MD&A and other RSI be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Federal Accounting Standards Advisory Board (FASAB), which considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the MD&A and other RSI in accordance with U.S. generally accepted government auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide assurance on this information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide assurance.

Other Information

The message from the Commissioner and the schedule of spending are presented for additional analysis and are not a required part of the financial statements or RSI. This information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we do not express an opinion or provide assurance on it.

Report on Internal Control Over Financial Reporting and Compliance Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered FHA's internal control over financial reporting to determine the appropriate audit procedures for expressing our opinion on the financial statements but not for expressing an opinion on the effectiveness of FHA's internal control. Accordingly, we do not express an opinion on the effectiveness of FHA's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, other deficiencies in internal control that might be material weaknesses or significant deficiencies may exist that were not identified. We identified three deficiencies in internal control, described below, which we consider to be significant deficiencies.

<u>Controls To Prevent Misclassification of the Receivables Had Not Been Fully Implemented</u>
In fiscal year 2015, our review of partial claims found that the risk of not completely and accurately identifying recorded loans receivable with missing notes at the end of each reporting period continued to be an issue. We believe that the risk continued to exist because the action plans developed by FHA in 2015 to remedy the control deficiencies identified in our 2014 audit report had not been fully implemented. As a result, we are concerned about the reliability of financial information related to loans receivable produced using FHA's current partial claims business processes.

<u>FHA's Internal Control Over Financial Reporting Had Weaknesses</u>
In fiscal year 2015, we identified weaknesses in FHA's internal control over financial reporting. These weaknesses related to the (1) failure to obligate funds for future borrower disbursements upon assigning home equity conversion mortgage (HECM) notes, (2) failure to implement some key controls over its cash flow modeling processes, and (3) inadequate procedures for identifying and reviewing abnormal U.S. Standard General Ledger (USSGL) account balances. Factors contributing to these issues were (1) FHA's belief that future borrower disbursements should be treated as claim payments made to lenders and (2) a lack of emphasis on the need for or importance of maintaining complete and up-to-date model documentation. These weaknesses significantly

increased FHA's risk of having errors in the financial statements and not preventing and detecting them in a timely manner.

Weaknesses Were Identified in Selected FHA Information Technology Systems
Our review of the general and application controls over the FHA Single Family Insurance System (SFIS) and the Claims subsystem found (1) weaknesses in SFIS, which included five of the nine vulnerabilities identified during the fiscal year 2015 vulnerability scan that were previously identified but not corrected; (2) that the risk assessment prepared for SFIS did not accurately document whether SFIS was operating with an acceptable level of risk; (3) that effective application contingency planning had not been implemented on SFIS; (4) that SFIS may be at risk due to improperly implemented security controls with connected applications; and (5) that SFIS management was not familiar with the data values. Additionally, we found a weakness in the Claims information system, in which some of the personally identifiable information (PII) was not encrypted. These conditions occurred because some application controls were not sufficient. As a result, the information used to provide input to the FHA financial statements could have been adversely affected.

Report on Compliance

As part of obtaining reasonable assurance about whether FHA's financial statements were free from material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on determining financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that would be reportable under U.S. generally accepted government auditing standards or OMB audit guidance.

This report is intended for the information and use of the management of FHA, OMB, the U.S. Government Accountability Office, and Congress and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited. The purpose of the Report on Internal Control Over Financial Reporting and the Report on Compliance sections of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of FHA's internal control or compliance. These reports are an integral part of an audit performed in accordance with Government Auditing Standards in considering FHA's internal control and compliance. Accordingly, these reports are not suitable for any other purpose. In addition to this report and providing specific recommendations to FHA management, we noted other matters involving internal control over financial reporting and FHA's operation that we are reporting to FHA management in a separate management letter.

Randy W. McGinnis

Randy W. McGinnis
Assistant Inspector General for Audit
November 13, 2015

Significant Deficiencies

Finding 1: Controls To Prevent Misclassification of the Receivables Had Not Been Fully Implemented

In fiscal year 2015, our review of partial claims found that the risk of not completely and accurately identifying recorded loans receivable with missing notes at the end of each reporting period continued to be an issue. We believe that the risk continued to exist because the action plans developed by FHA in 2015 to remedy the control deficiencies identified in our 2014 audit report had not been fully implemented. As a result, we are concerned about the reliability of financial information related to loans receivable produced using FHA's current partial claims business processes.

2015 Status of 2014 Audit Matters

In the fiscal year 2014 audit, we reported that 57,164 partial claims representing $1.5 billion in loans receivable balance reported in FHA's balance sheet as of September 30, 2014, were not supported with second mortgage notes. FHA developed a number of policies and procedures in response to our fiscal year 2014 audit recommendations. FHA's goal was to identify partial claims with missing promissory notes beyond their prescribed submission period and appropriately bill noncompliant lenders for the amount of claims paid plus an incentive fee for their failure to submit the required documentation to FHA.

During our audit, we recognized the efforts made by FHA in fiscal year 2015 because of the substantial reduction in the volume of partial claims with missing promissory notes from 57,164 ($1.5 billion) at the end of fiscal year 2014 to 12,057 ($376 million) at the end of fiscal year 2015. While this achievement was a step in the right direction, we believe more work is needed. This work includes ensuring that policies and procedures developed in 2015 will (1) properly reclassify the receivables and aid in the collection of promissory notes or if appropriate, (2) bill noncompliant lenders for not submitting required documentation. Specific examples of these issues are provided in detail below.

- Controls over the timely processing of promissory notes and mortgage instruments in the Single-Family Mortgage Asset Recovery Technology system. In 2014, the huge increase in the number of partial claims filed and a backlog of unprocessed documents received by the FHA servicing contractor were some of the factors contributing to the large number of partial claims for which FHA was not able to provide supporting promissory notes. Our review of the contract with the loan servicing contractor revealed that, while it met the requirements for imaging documents received, there were no timeframes established for checking documents into the Single-Family Mortgage Asset Recovery Technology (SMART) system. The contract required that documents be imaged within 5 business days and that, according to the process described by the loan servicing contractor, the documents be checked in before imaging. During our onsite visit in July 2015, the FHA contractor stated that the timeframe for imaging documents was about 1 to 2 weeks rather than the 5 business days required by the contract. Processing and recording the documentation received (for example, notes) in a timely manner is critical in ensuring that the FHA system accurately reflects the status of the second notes and second mortgages for monitoring and financial reporting. Therefore, establishing appropriate document processing time standards and developing controls toward the achievement of that policy are needed to remedy the control deficiency. At present, FHA has not established a document-processing time policy and a key control to reasonably ensure compliance with that policy.

- Controls over timely referral of loans receivable with missing notes to the Financial Operations Center for collection. In response to our audit recommendations, FHA established billing procedures that would require sending a letter to noncompliant lenders to demand payment within 30 days of receipt of the letter if the missing documents were not provided to FHA. If the lenders failed to respond within 30 days with either the payment or the missing documents, a second letter would be sent. This letter would notify the lenders that the debts would be referred to the Financial Operations Center (FOC) for collection if appropriate action was not taken within 30 days from the date of the second demand letter. A third letter would be sent to FOC with a list of partial claims for noncompliant lenders requesting that FOC start the debt collection process. FHA had planned to release the demand letters to the lenders in batches because of the large volume of missing documents at the beginning of fiscal year 2015. We reviewed the execution of the demand letters for only two of the four batches since those were the only ones that were within the scope of our audit period. Our review found that FHA did not send the demand letters in accordance with the timetable established by FHA. For example, FHA issued two additional demand letters and extended the deadline for the first round. This action resulted in FHA's issuing four demand letters instead of two as it had originally planned. Additionally, FHA failed to make referrals to FOC within the timeframes established for rounds one and two. Specifically, FHA sent the referrals to FOC 9 months after the second letter for round one, and for round two, FHA had not sent the referral as of October 19, 2015, which was more than 30 days after the second letter. Overall, FHA did not effectively implement its procedures for issuing the demand letters and making timely referrals to FOC for collection.

- Controls over FOC's timely billing of receivables from noncompliant lenders. According to FOC's procedures, once it receives a list of partial claims from the National Servicing Center (NSC), it will review the files for accuracy and then enter the partial claims into HUD's debt collection system. After that process has been completed, FOC will notify NSC and the loan servicing contractor, which will remove the partial claims from the inventory. In 2014, we recommended that FHA staff start the billing process for the unsupported partial claims. In accordance with FHA's internal procedures, FOC's collection process should start once NSC's efforts to collect or retrieve the missing documents from the lenders have failed. However, as of the end of fiscal year 2015, FOC had not processed collection actions against any of the noncompliant lenders. We determined that 4,414 partial claims worth more than $116 million from round one were referred to FOC for debt collection on September 14, 2015. However, on October 20, 2015, FHA staff told us that the debt collection process for round one partial claims had not started. FHA stated that it wanted to ensure that payment had not been submitted for partial claims that had been referred because of the large number of payments made by lenders to FHA's loan servicing contractor.

- Alignment of FHA's policy and regulatory requirements for the submission of required documentations for partial claims. In 2014, we reported a discrepancy in the deadline for the delivery of partial claim notes between FHA's policy and its program regulations. FHA regulations require that the promissory note be provided to HUD within 60 days after execution. However, FHA's policy allowed lenders to submit the document within 6 months. Although FHA changed its policy[1] in fiscal year 2015 to address the discrepancy, it was not finalized until September 2015, which was too late in the fiscal year to make a significant impact by the end of that year. This new policy was made effective for claims filed on or after September 1, 2015. For claims filed before September 1, 2015, FHA applied the 6-month deadline for document delivery. As a result, this new policy did not remedy the condition of a large number of partial claims being more than 60 days old with missing notes in fiscal year 2015. The impact of this change will not be realized until fiscal year 2016.

Conclusion

In our review of the September 2015 missing documents report, we determined that 12,057 partial claims with a total claim amount of $376 million were missing the partial claim notes for more than 60 days. These unsupported notes were reclassified from loans receivable to accounts receivable, net of the allowance for subsidy. This amount represents a significant reduction from the 57,164 partial claims with a total claim amount of $1.5 billion reported at the end of fiscal year 2014. Of the 12,057 partial claims, we identified 3,252 partial claims with a claim amount of more than $84 million[2] that were more than 60 days old at the end of fiscal year 2014. The remaining 8,805 partial claims with a claim amount of more than $291 million[3] reached that milestone in fiscal year 2015. While there had been a significant decrease in the number of partial claims more than 60 days old on the missing documents report, FHA had not fully implemented the policy created to aid in the collection of promissory notes from lenders or the procedures for billing lenders delinquent after 60 days. Not all letters were sent in accordance with the timetable, and referrals to FOC were not made within the timeframes established based on our review of the rounds one and two letters. Further, there were delays in FOC's starting the debt collection process, which would have resulted in unsupported partial claims being removed from the loans receivable inventory.

Recommendations

We recommend that the Office of Single Family Housing

1A. Document FHA's end-to-end business processes and controls associated with the processing, reclassifying, billing and collection, and reporting of activities and transactions related to partial claims.

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1 FHA issued Mortgagee Letter 2015-18 on September 1, 2015.

2 An allowance for subsidy of $28 million was recognized against the $84 million gross loans receivable, resulting in a net balance of $56 million.

3 An allowance for subsidy of $96 million was recognized against the $291 million gross loans receivable, resulting in a net balance of $195 million.

1B. Fully implement the policies and procedures created to send demand letters and refer delinquent lenders to FOC within the timeframes prescribed in the policy and in accordance with Mortgagee Letter 2015-18.

1C. Start the billing process for the claims paid, plus incentive, in which the lender has not provided the original note and security instrument within the prescribed deadlines for the $291 million.

Finding 2: FHA's Internal Control Over Financial Reporting Had Weaknesses

In fiscal year 2015, we identified weaknesses in FHA's internal control over financial reporting. These weaknesses related to (1) a failure to obligate funds for future borrower disbursements upon assigning home equity conversion mortgage (HECM) notes, (2) a failure to implement some key controls over its cash flow modeling processes, and (3) inadequate procedures for identifying and reviewing abnormal USSGL account balances. Factors contributing to these issues were (1) FHA's belief that future borrower disbursements should be treated as claim payments made to lenders and (2) a lack of emphasis on the need for or importance of maintaining complete and up-to-date model documentation. These weaknesses significantly increased FHA's risk of having errors in the financial statements and not preventing and detecting them in a timely manner.

Obligations Were Not Accrued for HECM Disbursements in a Timely Manner

FHA did not have a process for accruing obligations associated with HECM-assigned notes. Lenders may assign their notes to HUD when the loan balance reaches 98 percent of the maximum claim amount, which is the maximum amount that HUD will pay a lender for a claim. Once notes are assigned to HUD, HUD becomes responsible for making any future scheduled and unscheduled disbursements to HECM borrowers. As noted in OMB Circular A-11, Preparation, Submission, and Execution of the Budget, an obligation is a legally binding agreement that will result in outlays, whether immediately or in the future. Therefore, as soon as notes are assigned to HUD, FHA should accrue an obligation for the potential future disbursements.

FHA's process was to record the transaction as straight disbursements instead of accruing obligations for any future borrower disbursements upon assignment of the HECM notes. FHA believed that borrower disbursements should be treated similarly to claim payments made to lenders. The failure to accrue obligations for future borrower disbursements when notes are assigned to HUD will result in FHA's obligations being understated.

After we brought this issue to FHA's attention, FHA agreed that an obligation should be established when notes are assigned to HUD. FHA did not have an estimate of the future disbursements due to borrowers at the end of fiscal year 2015. Therefore, before closing its books, FHA prepared a journal entry to record an obligation based on the actual disbursements made for fiscal year 2015 ($27 million). After closing its books, FHA determined that there were approximately 11,132 HECM borrowers who were eligible to receive disbursements on September 30, 2015, and estimated that the total funds due to these borrowers was $82.8 million. According to FHA officials, FHA planned to accrue an obligation as appropriate for the potential future disbursements on HECM-assigned notes going forward.

Some Key Controls Over Cash Flow Modeling Were Not Implemented

FHA did not implement some of the cash flow modeling controls that are required under FASAB's Federal Financial Accounting and Auditing Technical Release 6, Preparing Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act (TR 6). Specifically, FHA did not ensure that (1) a sensitivity analysis was performed for the HECM program, (2) sufficient documentation was maintained to support multifamily and HECM assumptions, (3) model code errors were prevented and detected in its single-family cash flow model, and (4) methodology changes were approved by management before implementation.

- Sensitivity analysis was not performed on the HECM cash flow model. For the past 2 fiscal years, FHA had not performed a sensitivity analysis or other tests on the HECM model to identify which of the input assumptions were key. During our audit, based on our analysis, we identified two input assumptions (property maintenance expense and sales expense) that should have been designated as key but were not. FASAB TR6, paragraph 37, states that a sensitivity analysis or other testing of an agency's cash flow models should be performed to identify which cash flow assumptions have the greatest impact on the credit subsidy rate. Performing a sensitivity analysis will help the agency better understand and mitigate the modeling risks. This condition occurred because the contractor engaged by FHA to conduct the cash flow modeling relied on FHA management's direction to default to what the agency had historically used as key assumptions. As a result, in fiscal year 2015, FHA designated the same assumptions as key as it did in fiscal year 2014. By not accurately identifying key assumptions, FHA may not fully understand the potential risks underlying the HECM cash flow model.

- Documentation to support multifamily and HECM model assumptions were not adequately maintained. FHA did not maintain adequate documentation to support multifamily and HECM assumptions. For example, FHA's multifamily model documentation lacked sufficient detail to demonstrate the methodology or sources used to develop the input assumptions, including specific data sources and data fields that were used to formulate those input assumptions. Additionally, there was no documentation to explain the rationale for the designation of key input assumptions on HECM. FASAB TR6, paragraph 20, states that the agency must maintain the documentation used to support the assumptions used in the subsidy calculations. Additionally, FASAB TR6, paragraph 38, states that key assumptions used in the process for developing estimates should be documented, including the rationale, justification, and source of supporting documentation. This documentation is crucial because it will not only facilitate the agency's review of the assumptions, which is a key control, but it will also facilitate the auditor's or other outside party's review for transparency.

- Code errors were identified in the single-family cash flow model. During our audit, we found an error in the formula for the single-family cash flow model that was used to calculate the cash flows for the non-Home Affordable Modification Program (HAMP) partial claim and non-HAMP partial claim incentive payment amounts. We found the error after confirming that the formulas in the model did not agree with the formulas in FHA's Mutual Mortgage Insurance Fund cash flow model overview and documentation. We brought this matter to the FHA contractor's attention and confirmed the error. The formula error was corrected in fiscal year 2015. We believe that the lack of clarity and conciseness in the model codes may have contributed to the formula error's not being detected when the code was implemented. This error resulted in an understatement of FHA's liability for loan guaranty by $170 million in fiscal year 2014. Because FHA changed its assumptions relating to non-HAMP partial claims, the error did not affect the fiscal year 2015 cash flows.

- A methodology change in the single-family recovery on assets model was not approved. In fiscal year 2015, we noted a change in the methodology for calculating the expected loss rate for properties in inventory, but no documentation was maintained to support that management approved the change. FASAB TR6, paragraph 40, states that the cash flow estimation process should be reviewed and approved. Additionally, FHA's internal policy requires management to approve changes. It was unclear why approval for this methodology change was not documented. Without evidence of management approval, FHA lacked assurance that the change was appropriate or agreed to by the appropriate level of management before implementation.

FHA's Process for Identifying Abnormal Budgetary USSGL Account Balances Was Inadequate

FHA could improve its process for identifying and reviewing abnormal USSGL account balances for its budgetary accounts. OMB Circular A-123, Management's Responsibility for Internal Control, requires agencies to establish and maintain internal control to ensure the reliability of financial reporting. During our audit, we identified abnormal USSGL account balances for the budgetary accounts during the second and third quarters. In June 2015, we brought these issues to FHA's attention and conducted a further review to determine whether the abnormal balances indicated a problem due to errors.[4] In June, July, and August 2015, FHA's analysis confirmed that the abnormal balances were due to error. As a result, in September 2015, FHA officials informed us that they had made corrections in July and August 2015 and were trying to correct the other errors.

This condition occurred because FHA's review process for identifying abnormal balances on budgetary accounts occurred at a higher, more aggregate level. We believe that FHA needs to drill down to the USSGL account level by fund to identify the potential abnormal account balance identified during the review. For example, FHA's internal procedures required, for each FHA fund, only that it determine whether any line number on Standard Form (SF)-133, Report on Budget Execution and Budgetary Resources, contained an abnormal balance.[5] If there was an abnormal balance for a specific line number, FHA would determine which USSGL accounts caused the abnormal balance. However, this process was not adequate because a line on the SF-133 could have a normal balance when it included several USSGL accounts with abnormal balances. Ensuring that effective procedures are in place for identifying and reviewing abnormal USSGL account balances is crucial in preventing and detecting errors in a timely manner.

Conclusion

FHA needs to improve its controls over financial reporting to ensure that it continues to produce financial statements that are free of material misstatements. Additionally, FHA needs to ensure strict compliance with the model internal control guidelines established by FASAB TR 6 to adequately manage or mitigate its modeling risks. Further, FHA needs improve its documentation describing the flow of information and the procedures used in developing the subsidy estimates. Documented procedures are a necessary and crucial link for communicating the agency's subsidy estimation and reestimation process to internal and external stakeholders and other interested parties.

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[4] In certain situations, an abnormal balance is acceptable.
[5] Each line number includes several USSGL accounts.

Recommendations

We recommend that the FHA Acting Comptroller

2A. Develop and implement accounting procedures for processing and recording obligations associated with HECM-assigned notes.

2B. Determine the adjustments needed to correct omission of obligations on HECM-assigned notes and post the adjusting entry accordingly.

2C. Strengthen procedures to ensure that staff implements the controls required by FASAB TR6, to include (1) performing a sensitivity analysis or other test to identify key assumptions, (2) maintaining sufficient documentation to support cash flow assumptions, and (3) preventing and detecting formula errors included in the cash flow models.

2D. Develop and implement policies and procedures to identify all abnormal USSGL account balances for the budgetary accounts.

Finding 3: Weaknesses Were Identified in Selected FHA Information Technology Systems

We reviewed the general and application controls over the FHA's Single Family Insurance System (SFIS)[6] and the Claims subsystem[7] as part of the internal control assessments of FHA's principal financial statements for fiscal year 2015. We found weaknesses in SFIS and Claims. These conditions occurred because some application controls were not sufficient. As a result, the appropriate confidentiality, integrity, and availability of critical information may have been negatively impacted. In addition, the information used to provide input to the FHA financial statements could have been adversely affected.

Based on our review of general and application controls over SFIS and Claims, the following deficiencies were identified in 2015.

Some Personally Identifiable Information Stored in the Claims System Was Not Encrypted

Some of the PII retained in Claims' post maintenance database files was not encrypted while exposed to increased risks. This condition occurred because there were no requirements for data encryption and the risk assessment process was not sufficient to establish an acceptable level of risk for the PII data that Claims maintained. Without proper access controls such as data encryption, PII in Claims could be vulnerable to unauthorized access and disclosure.

Some Vulnerabilities Remained Uncorrected for More Than a Year

Five of the nine vulnerabilities identified during the fiscal year 2015 vulnerability scan were identified during the fiscal year 2014 scan but had not been corrected. The remaining four vulnerabilities identified had been uncovered for more than 90 days. Although SFIS management was aware of the need to correct the identified vulnerabilities, necessary funds had not been allocated to pay the contractor to do the work. When these vulnerabilities remain, SFIS cannot accurately maintain the insurance-in-force[8] database or prevent hackers from stealing user login information that might compromise SFIS input data and transactions.

The SFIS Risk Assessment Was Not Adequately Conducted

The risk assessment prepared for SFIS did not accurately document whether SFIS was operating with an acceptable level of risk to information technology resources; information processed, stored, and transmitted in the application; and SFIS' connections to other systems. The SFIS risk assessment was insufficient because (1) it used the Cyber Security Assessment and Management System, which relied on outdated guidance, to generate risk-related reports, (2) it did not receive necessary guidance in a timely manner from the Office of the Chief Information Officer, and (3) neither the SFIS contractors nor FHA employees were familiar with the security requirements.

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6 SFIS, a mixed financial system, is the automated system that is the primary repository of FHA's single-family mortgage insurance inventory. The system maintains a detailed database of approximately 36 million case records of HUD-insured single-family mortgages, including one record for every active case and one for every case terminated since 1984.

7 The Claims subsystem processes single-family insurance claims against defaulted loans and accounts receivable relating to single-family claims. It also performs collection activities, processes cash receipts, and records accounts receivable activities as well as providing accounting information to users.

8 Insurance-in-force represents the number of policies actively being paid for by policy holders and the total of all coverage the insurer must pay out.

In addition, the FHA employees, who in addition to their other work priorities, were tasked to maintain the guidance issued by the Chief Information Security Officer, were not knowledgeable about SFIS and its relevant security controls. As a result of SFIS management's following the guidance issued by the Chief Information Security Officer and assigning staff that was not knowledgeable about SFIS and its relevant security controls, the risk assessment did not adequately identify the risks and vulnerabilities specific to SFIS.

Effective Application Contingency Planning Had Not Been Implemented for SFIS

SFIS had not implemented an effective application contingency planning practice. Specifically, (1) the business impact analysis performed to assess the criticality and sensitivity of SFIS resulted in an incomplete and inaccurate impact assessment, (2) backup testing had not been performed for SFIS or Claims as required by HUD's information technology security policy, and (3) the most recent SFIS-SFISnet contingency plan had not been properly tested and adjusted accordingly. These conditions occurred because (1) the diagrams listed in the business impact analysis did not identify the applications or external entities that interfaced with SFIS, (2) routine testing of application backup information was not included as a task in HUD's infrastructure contracts, (3) SFIS staff members did not fully understand the security documentation's requirements and had not made security documentation update a priority, and (4) SFIS management was not aware that applications owners were not allowed to participate in disaster recovery testing exercises. Without adequate SFIS contingency planning, SFIS management cannot effectively characterize the effects of a disruption, ensure that SFIS data are stored correctly, and ensure that the steps established to maintain or restore business operations, including computer operations, in the event of emergencies, system failures, or disaster, will be followed. As a result, any of these events might cause a disruption in the continuity of operations for SFIS.

Control Documents Regarding the Interface Between SFIS and Its Connected Systems Were Inaccurate or Incomplete

SFIS could be at risk due to improperly implemented security controls with its connected applications. FHA SFIS officials did not maintain current and accurate internal and external agreements with entities that had systems interfacing with SFIS. This condition occurred because FHA SFIS officials did not maintain current and accurate internal and external agreements with entities that had systems interfacing with SFIS. If the interconnections between SFIS and other applications are not properly defined, the security controls will not be in place or be properly configured. As a result, the interconnection could allow unauthorized personnel to access FHA information technology systems, or the data that it stores, processes, or transmits could be compromised.

SFIS Management Was Not Familiar With Data Value

SFIS management was not familiar with the data values[9] contained in a listing of production users that was extracted from two SFIS user tables. This condition existed because there was no application user guide defining the meaning of the data values. SFIS management had to contact its contractor to obtain the information. As a result, SFIS users might not have been able to (1) fully use the functionalities that the system provides, (2) properly use the system by entering the

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[9] Data value - a specific data element value stored at a specific location, commonly used to refer to data to be entered as well as data to be displayed.

correct input data, (3) accurately interpret the output data or error messages, and (4) generate the needed reports. Therefore, not having an application user guide could jeopardize SFIS' input and output data integrity and the efficiency of the system processes.

In fiscal year 2014, we reported on various weaknesses with general system controls and controls over certain applications, as well as weak security management.

We Followed Up on Information System Control Weaknesses Previously Identified in the FHA Subsidiary Ledger

The FHA subsidiary ledger is FHA's official system of record of financial transactions and is used to generate the financial statements. The FHA subsidiary ledger maintains budgetary, proprietary, and memorandum USSGL accounts. The FHA subsidiary ledger general ledger consists of approximately 200,000 summarized transactions (rows) per reporting period.

In an audit conducted in fiscal year 2014,[10] we found that improvements were needed in several areas to comply with Federal requirements and HUD security policies. Specifically, we found that (1) user accounts were not always properly created, deactivated, and removed in a timely manner; (2) controls for monitoring and analyzing audit tables and audit data were insufficient; (3) agreements were not developed for the interfaces between the subsidiary ledger and systems within the U.S. Department of the Treasury; (4) adequate controls were not fully implemented to protect sensitive production data in the subsidiary ledger test environment; (5) some security control weaknesses were not properly documented and corrected in a timely manner; and (6) some configuration management controls were inadequately documented.

We followed up on the status of these weaknesses during fiscal year 2015. HUD had addressed all weaknesses identified during this audit and completed all corrective actions.

We Followed Up on Information System Control Weaknesses Previously Identified in the Single Family Housing Enterprise Data Warehouse

FHA's Single Family Housing Enterprise Data Warehouse contains critical single-family business data from several data sources, mostly from FHA single-family automated systems. The data warehouse helps FHA manage its $1.2 trillion portfolio of single-family mortgages. In a fiscal year 2014[11] audit, we determined that

1. Access to some privacy information was not sufficiently restricted to individuals as necessary to perform their duties. All system users had read access to more than 38 million Social Security numbers in the system. Organizations that fail to adequately protect privacy information are reported frequently in the media and may face a loss of public confidence as a result.

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[10] 2015-DP-0003, Information Systems Control Weaknesses for Housing and Urban Development Accounting and Programs System Audit, issued January 15, 2014. This was a limited distribution report due to the sensitive nature of the information reported and was not made available to the public.

[11] 2015-DP-0001, Information System Control Weaknesses Identified in the Single Family Housing Enterprise Data Warehouse, issued October 21, 2014. This was a limited distribution report due to the sensitive nature of the information reported and was not made available to the public.

2. Reconciliations of data from source systems that interface with the data warehouse were not sufficient. Without adequate monitoring and reconciliation, there is no assurance that transactions are accurately processed through the interface and that no transactions are added, lost, or altered during processing.

3. Passwords for a majority of data warehouse user accounts were not changed every 90 days. Without proper password controls, such as changing passwords regularly, the sensitive information in the data warehouse could be vulnerable to unauthorized access and modification.

4. The Web server software was not kept up to date. Using outdated software could allow an attacker to obtain privacy information, such as names, Social Security numbers, FICO scores, addresses, income, and financial information stored in the data warehouse.

We followed up on the status of these weaknesses during fiscal year 2015. HUD was addressing the weaknesses identified during the audit and implementing appropriate corrective actions. These actions were scheduled to be completed during the first quarter of fiscal year 2016.

Conclusion
FHA must improve its information security controls over SFIS and Claims to comply with Federal requirements and its own security policies to prevent an increased risk of unauthorized disclosure or modification of SFIS and Claims data.

Recommendations
Recommendations were included in a separate OIG audit report. Therefore, no recommendations are reported here.

Scope and Methodology

In accordance with the Chief Financial Officers Act of 1990, as amended, OIG is responsible for conducting the annual financial statement audit of FHA. The scope of this work includes the audit of FHA's balance sheets as of September 30, 2015 and 2014, and the related statements of net costs and changes in net position, the combined statements of budgetary resources for the years then ended, and the related notes to the financial statements. We conducted this audit accordance with U.S. generally accepted government auditing standards and OMB Bulletin 15-02, as amended, Audit Requirements for Federal Financial Statements. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To fulfill these responsibilities, we

- Examined, on a test basis, evidence supporting the amounts and disclosures in the principal financial statements;
- Assessed the accounting principles used and the significant estimates made by management;
- Evaluated the overall presentation of the principal financial statements;
- Obtained an understanding of internal controls over financial reporting (including safeguarding assets) and compliance with laws and regulations (including the execution of transactions in accordance with budget authority);
- Tested and evaluated the design and operating effectiveness of relevant internal controls over significant cycles, classes of transactions, and account balances;
- Tested FHA's compliance with certain provisions of laws and regulations; governmentwide policies, noncompliance with which could have a direct and material effect on the determination of financial statement amounts; and certain other laws and regulations specified in OMB Bulletin 15-02, as amended, including the requirements referred to in FMFIA;
- Considered compliance with the process required by FMFIA for evaluating and reporting on internal controls and accounting systems; and
- Performed other procedures we considered necessary in the circumstances.

We considered internal controls over financial reporting by obtaining an understanding of the design of FHA's internal controls, determined whether these internal controls had been placed into operation, assessed control risk, and performed tests of controls to determine our auditing procedures for expressing our opinion on the principal financial statements. We also tested compliance with selected provisions of applicable laws, regulations, and government policies that may materially affect the principal financial statements.

With respect to internal controls related to performance measures to be reported in FHA's Fiscal Year 2015 Annual Management Report, we obtained an understanding of the design of significant internal controls as described in OMB Bulletin 15-02, as amended. We performed limited testing procedures as required by American Institute of Certified Public Accountants' auditing standards at AU-C, section 730, Required Supplementary Information, and OMB Bulletin 15-02, as amended. Our procedures were not designed to provide assurance on internal controls over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

We did not evaluate the internal controls relevant to operating objectives as broadly defined by FMFIA. We limited our internal controls testing to those controls that are material in relation to FHA's financial statements. Because of inherent limitations in any internal control structure, misstatements may occur and not be detected. We also caution that projection of any evaluation of the structure to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Our consideration of the internal controls over financial reporting would not necessarily disclose all matters in the internal controls over financial reporting that might be significant deficiencies. We noted certain matters in the internal control structure and its operation that we consider significant deficiencies under OMB Bulletin 15-02, as amended.

Followup on Prior Audits

The current fiscal yearend status of open recommendations from prior-year reports on FHA's financial statements are provided below. Specifically, we identified four unimplemented recommendations from prior-year reports. Two of the four recommendations were implemented after fiscal yearend but before the date of this report. FHA should continue to track these recommendations under the prior-year report numbers in accordance with departmental procedures. Each of these open recommendations and its status is shown below.

Federal Housing Administration Fiscal Years 2014 and 2013 Financial Statements Audit, 2015-FO-0001

With respect to FHA's not establishing appropriate receivables for legal settlements and partial claims notes, we recommended that the Director of Single Family Asset Management

1.a. In conjunction with the loan servicing contractor, review the supporting documentation for all partial claim notes to ensure that SMART accurately reflects the status of the second notes and second mortgages. (Final action target date was September 30, 2015; reported in ARCATS (Audit Resolution and Corrective Action Tracking System) as 1D; closed October 6, 2015.)

1.b. Align its current policy on partial claim document delivery with FHA's regulatory requirements. (Final action target date was September 30, 2015; reported in ARCATS as 1E; closed October 6, 2015.)

1.c. Initiate the billing process for the claims paid, plus incentive, where the lender has not provided the original of the note and security instrument within the prescribed deadlines for the $1.5 billion. (Final action target date was October 31, 2015; reported in ARCATS as 1F.)

Federal Housing Administration Fiscal Years 2013 and 2012 Financial Statements Audit, 2014-FO-0002

With respect to undelivered orders for property-related contracts being reviewed annually and deobligated promptly, we recommended that the FHA Comptroller

2.a. Review and deobligate, as appropriate, the $43 million in expired property-related contracts once they have been closed out by the contracts office. (Final action target date was September 30, 2014; reported in ARCATS as 1C.)

Appendixes

Appendix A

Schedule of Questioned Costs

Recommendation number	Unsupported 1/
1.C.	$291,489,605
Totals	**$291,489,605**

1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

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

OFFICE OF HOUSING

NOV 12 2015

MEMORANDUM FOR: Thomas R. McEnanly, Financial Audits Division Director, GAF

FROM: Susan A. Betts, Housing-FHA Deputy Comptroller, HWA

SUBJECT: Response to Fiscal Year 2015 FHA Audit Report

Thank you for providing us the opportunity to respond to FHA's Independent Audit Report. FHA continues to place a primary focus on improvements in internal controls. During fiscal year (FY) 2015, FHA resolved one FY 2014 significant deficiency and has made significant progress towards resolving a material weakness that has been downgraded to a significant deficiency.

FHA is pleased that the OIG has acknowledged improvements made in FY 2015 and agrees with the deficiencies identified. FHA will work to resolve the findings in FY 2016.

Report on Internal Control - Significant Deficiencies

Comment 1

1. Controls to Prevent Misclassification of the Receivables Have Not Been Fully Implemented

FHA concurs with the finding and recommendations. As of November 6, 2015, the Albany Financial Operations Center (FOC) has initiated debt collection on round one of 4,383 delinquent receivables totaling $116 million associated with the remaining receivables from the FY 2014 finding. The second round of FY 2015 delinquent receivables will be transferred to the FOC for debt collection in the 1st quarter of FY 2016. FHA established a process to continually ensure all second notes are received timely going forward, and will take appropriate actions for noncompliance.

Comment 2

2. FHA's Internal Control Over Financial Reporting Had Weaknesses

FHA concurs with the audit findings and recommendations:

Failure to Obligate Funds for Future Borrower Disbursements upon HECM Note Assignment

FHA is working with the HECM contractor to develop reporting requirements to determine the amount of HECM obligations to support the additional liability associated with owner equity drawdowns following assignment to FHA. The accounting procedures for HECM obligations will be formally documented and implemented.

Failure to Implement Some Key Controls over Cash Flow Modeling Processes

FHA will implement OIG recommendations relating to model assumptions and improve

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

documentation and controls as outlined in FASAB TR6.

Inadequate Procedures for Identifying and Reviewing Abnormal U.S. Standard General Ledger Budgetary Account Balances

While FHA does review budgetary account balances at the fund level as part of the monthly SF133 preparation, we agree that the review process can be improved to provide a more detailed review at the SGL account level. A new budgetary account query is being developed to identify abnormal balances at the SGL account and fund level. Beginning in FY 2016, the General Ledger Division will run the budgetary query monthly and incorporate the review and resolution of any budgetary abnormal balances into the current processes already being performed for the proprietary SGL accounts.

3. Weaknesses Identified in Selected FHA Information Technology Systems

Comment 3

FHA agrees with the audit findings and recommendations and has begun corrective actions in anticipation of OIG's separate audit report on FHA information system control weaknesses.

OIG Evaluation of Auditee Comments

Comment 1 OIG accepts the response of concurrence with the finding and recommendations. FHA's continued efforts in addressing the control deficiencies identified in our report will improve the reliability of financial information related to loans receivable produced using FHA's partial claims business processes.

Comment 2 OIG accepts the response of concurrence with the finding and recommendations. The accounting procedures for HECM obligations, improved documentation and controls as outlined in FASAB TR6, and the new budgetary account query will mitigate FHA's risk of having errors in the financial statements and not preventing and detecting them in a timely manner.

Comment 3 OIG accepts the response of concurrence for recommendations identified in the separate audit reports on the Single Family Insurance System and the Claims subsystem. We look forward to working with the office on the recommendations to reach a mutually acceptable corrective action plan.

FHA ORGANIZATIONAL CHART

- **Principal Deputy Assistant Secretary for Housing**
  Federal Housing Commissioner
  - **Deputy Asst. Secretary for Finance and Budget**
    - Office of the Housing-FHA Comptroller
    - Office of Asset Sales
    - Office of Budget and Field Resources
  - **Deputy Asst. Secretary for Multifamily Housing Programs**
    - Assoc. Deputy Asst. Secretary for Affordable Housing Preservation
    - Office of Housing Asst. and Grant Adm.
    - Office of Housing Asst. Contract Adm. Oversight
    - Office of Multifamily Development
    - Office of Asset Management
    - Office of Program Systems Management
  - **Deputy Asst. Secretary for Housing Counseling**
    - Office of Policy and Grant Administration
    - Office of Outreach and Capacity Building
    - Office of Oversight and Accountability
  - **Deputy Asst. Secretary for Single Family Housing**
    - Office of Single Family Program Development
    - Office of Single Family Asset Management
    - Office of Lender Activities and Program Compliance
  - **Deputy Asst. Secretary for Healthcare Programs**
    - Office of Hospital Facilities
    - Office of Residential Care Facilities
    - Office of Architecture and Engineering
  - **Deputy Asst. Secretary for Risk Management and Regulatory Affairs**
    - Office of Manufactured Housing Programs
    - Assoc. Deputy Asst Secretary for Risk Management and Assessment
  - **Deputy Asst. Secretary for Operations**
    - Office of Management
    - Office of Business Development

http://portal.hud.gov/hudportal/documents/huddoc?id=fhafy15annualmgmntrpt.pdf

Your Door to FHA HOMEOWNERSHIP

ANNUAL MANAGEMENT REPORT

Fiscal Year 2015