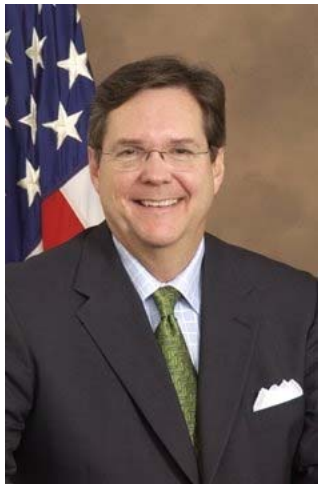
Message from the Chief Financial Officer

November 15, 2007



In FY 2007, the Department of Housing and Urban Development continued to make strides towards financial management excellence. The Department's progress is measured by the results and outcomes captured in this annual Performance and Accountability Report. The report tells the story of our successes and challenges in both the financial and program arenas. It serves as the principal publication and report to the Congress and the American people on our program leadership and our stewardship and management of the public funds entrusted to us.

I am pleased to report that for the eighth consecutive year, we have received an unqualified or "clean" opinion on the Department's consolidated financial statements from our independent Office of Inspector General auditors. The audit, however, did identify two new material weaknesses and six significant deficiencies this year. The auditors' reporting of these new issues is partially due to revisions to the Statement of Accounting Standard Number 112 (SAS 112). SAS 112 raised the bar and required agencies to demonstrate that stronger risk management and internal controls were in place. Corrective action plans are being developed to address these new findings and deficiencies, and the Department continues to make progress in addressing prior year findings. This favorable financial audit result affirms our continued commitment to financial and management excellence. Other significant financial management accomplishments in FY 2007 include:

- Received the Certificate of Excellence in Accountability Reporting (CEAR) from the Association of Government Accountants for the Department's FY 2006 Performance and Accountability Report.
- Obtained a score of "Green" on five of nine President's Management Agenda initiatives. Most notably, the Department improved its score from "Red" to "Green" on the Improved Financial Performance initiative. The Department continued to face challenges on the Credit Program Management, Competitive Sourcing, Human Capital, and Performance Improvement initiatives, but action plans are in place and improvement is expected in 2008.
- Implemented FedTraveler, a government-wide travel service. This eGovernment initiative was launched in response to the President's Management Agenda to improve the internal efficiency and effectiveness of the federal government. Its purpose is to realize the cost-savings and increased service associated with a common, automated, and integrated approach to managing the travel function of the federal government's civilian agencies. FedTraveler is projected to reduce the self-booked ticketing fee incurred by HUD by 66 percent, versus the previous agent-assisted ticketing fee.

- Completed HUD's second assessment of the effectiveness of internal controls over financial reporting, in accordance with the new requirements of Appendix A of OMB Circular A-123. This is the equivalent of the Sarbanes-Oxley Act requirements for the private sector. Based on the results of that evaluation, the Secretary was able to report reasonable assurance that the Department's internal controls over financial reporting, as of June 30, 2007, were operating effectively, and no material weaknesses were found in the design or operation of the internal controls over financial reporting. Nevertheless, opportunities for improved controls were identified and corrective actions have been initiated.
- Received the highest rating from the Office of Management and Budget on goals for all nine key federal accounting practices, achieving: 100 percent fund balance with Treasury reconciliation, 100 percent suspense account resolution, 100 percent debt management, 99 percent prompt payment, 99 percent interest management, 96 percent electronic funds transfer, 99 percent individual travel card timeliness, 100 percent central travel card timeliness, and 100 percent purchase card timeliness. These nine green ratings placed HUD among the top performers in the federal government.
- Issued a solicitation for a system integrator/shared service provider (SI/SSP) to allow HUD to achieve a new General Ledger System in FY 2009, as a major step towards a fully integrated financial management system by FY 2013. This effort will align four financial management modernization initiatives to integrate all core financial management functions via a phased implementation. The procurement action is scheduled to be completed in FY 2008.
- Continued the review and clean-up of obligated fund balances associated with terminated programs and expired contracts, as well as re-estimation of active long-term Section 8 project-based contracts, resulting in the deobligation of approximately $2 billion in excess/overestimated funds identified in FY 2007.

HUD is committed to maintaining proper stewardship of the resources entrusted to it by the Congress and the American taxpayer. I want to thank the staff of the Office of the Chief Financial Officer, the FHA and Ginnie Mae Comptroller's Offices, the Office of the Inspector General, and other HUD program and administrative components that are involved in the stewardship of HUD's funds. Their dedication and effort is essential in providing HUD's program management team with the budgetary, accounting, financial management systems, auditing, and performance management services necessary to effectively support HUD's mission and deliver results for the American people.

John W. Cox

Introduction to the Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of HUD, pursuant to the requirements of the Chief Financial Officers Act of 1990 (31 U.S.C. 3515(b)), the Government Management Reform Act of 1994, and OMB Circular A-136, "Financial Reporting Requirements." While the financial statements have been prepared from HUD's books and records in accordance with 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 principal financial statements and notes should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication is that the liabilities reported in the financial statements cannot be liquidated without legislation that provides resources to do so.

The financial statements presented herein are:

The **Consolidated Balance Sheets**, which present as of September 30, 2007 and 2006 those resources owned or managed by HUD which are available to provide future economic benefits (assets); amounts owed by HUD that will require payments from those resources or future resources (liabilities); and residual amounts retained by HUD comprising the difference (net position).

The **Consolidated Statements of Net Cost**, which present the net cost of HUD operations for the years ended September 30, 2007 and 2006. HUD's net cost of operations includes the gross costs incurred by HUD less any exchange revenue earned from HUD activities.

The **Consolidated Statements of Changes in Net Position**, which present the change in HUD's net position resulting from the net cost of HUD operations, budgetary financing sources other than exchange revenues, and other financing sources for the years ended September 30, 2007 and 2006.

The **Combined Statements of Budgetary Resources**, which present the budgetary resources available to HUD during FY 2007 and 2006, the status of these resources at September 30, 2007 and 2006, and the outlay of budgetary resources for the years ended September 30, 2007 and 2006.

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

Consolidated Balance Sheet
As of September 30, 2007 and 2006
(Dollars in Millions)

	2007	2006
ASSETS		
Intragovernmental		
Fund Balance with Treasury (Note 4)	$69,046	$81,395
Investments (Note 5)	31,270	30,426
Accounts Receivable (Net) (Note 6)		
Loans Receivable, Net (Note 7)		
Other Assets (Note 9)	8	26
Total Intragovernmental Assets	$100,324	$111,847
Investments (Note 5)	121	98
Accounts Receivable (Net) (Note 6)	256	363
Credit Program Receivables and Related Foreclosed Property (Note 7)	9,567	10,045
General Property Plant and Equipment (Net) (Note 8)	213	176
Other Assets (Note 9)	593	534
TOTAL ASSETS	$111,074	$123,063
LIABILITIES		
Intragovernmental Liabilities		
Accounts Payable (Note 10)	$5	$0
Debt (Note 11)	5,459	7,249
Other Intragovernmental Liabilities (Note 14)	3,808	2,670
Total Intragovernmental Liabilities	$9,272	$9,919
Accounts Payable (Note 10)	769	757
Loan Guarantees (Note 7)	7,551	3,589
Debt Held by the Public (Note 11)	981	1,252
Federal Employee and Veterans' Benefits (Note 12)	82	80
Loss Reserves (Note 13)	536	534
Other Governmental Liabilities (Note 14)	1,169	1,192
TOTAL LIABILITIES	$20,360	$17,323
CONTINGENCIES (Note 17)		
NET POSITION		
Unexpended Appropriations - Earmarked (Note 18)	($376)	($376)
Unexpended Appropriations	54,871	66,616
Cumulative Results of Operations - Earmarked (Note 18)	13,266	12,504
Cumulative Results of Operations	22,953	26,996
Total Net Position	90,714	105,740
Total Liabilities and Net Position	$111,074	$123,063

The accompanying notes are an integral part of these statements.

Consolidated Statement of Net Cost
For the Period Ended September 2007 and 2006
(Dollars in Millions)

	2007	2006
COSTS:		
Federal Housing Administration		
Gross Cost	$3,890	($380)
Less: Earned Revenue	(1,521)	(1,701)
Net Program Costs	$2,369	($2,081)
Government National Mortgage Association		
Gross Cost	$53	$60
Less: Earned Revenue	(791)	(849)
Net Program Costs	($738)	($789)
Section 8:		
Gross Cost	$24,640	$23,827
Less: Earned Revenue		
Net Program Costs	$24,640	$23,827
Community Development Block Grants:		
Gross Cost	$10,966	$5,093
Less: Earned Revenue		
Net Program Costs	$10,966	$5,093
HOME:		
Gross Cost	$1,902	$1,853
Less: Earned Revenue		
Net Program Costs	$1,902	$1,853
Operating Subsidies:		
Gross Cost	$3,831	$3,600
Less: Earned Revenue		
Net Program Costs	$3,831	$3,600
Low Rent Public Housing Loans and Grants		
Gross Cost	$3,479	$3,566
Less: Earned Revenue	($0)	($0)
Net Program Costs	$3,479	$3,566
Housing for the Elderly and Disabled		
Gross Cost	1,317	$1,279
Less: Earned Revenue	(419)	(515)
Net Program Costs	$898	$764
Other:		
Gross Cost	$3,376	$3,541
Less: Earned Revenue	(21)	(78)
Net Program Costs	$3,355	$3,463
Costs Not Assigned to Programs:	$332	$332
Consolidated:		
Gross Cost	$53,786	$42,771
Less: Earned Revenue	(2,752)	(3,143)
Net Cost of Operations	$51,034	$39,628

The accompanying notes are an integral part of these statements.

Consolidated Statement of Changes in Net Position for the period ending September 2007 and 2006

(Dollars in Millions)

	2007			2006
	EARMARKED FUNDS	ALL OTHER FUNDS	CONSOLIDATED TOTAL	CONSOLIDATED TOTAL
CUMULATIVE RESULTS OF OPERATIONS:				
Beginning of Period	(12,504)	(26,996)	(39,500)	($38,122)
Adjustments:				
Changes in Accounting Principles				
Corrections of Errors		33	33	
Beginning Balances, As Adjusted	(12,504)	(26,963)	(39,467)	($38,122)
BUDGETARY FINANCING SOURCES:				
Other Adjustments		(2)	(2)	
Appropriations Used	(1)	(50,951)	(50,952)	(44,332)
Non-exchange Revenue				
Donations/Forfeitures-Cash & Cash Equivalents				
Transfers In/Out Without Reimbursement		2,419	2,419	1,697
Other		2	2	(3)
Other Financing Sources (non-exchange):				
Donations and Forfeitures of Property				
Transfers In/Out Without Reimbursement		843	843	1,711
Imputed Financing		(97)	(97)	(79)
Other				
Total Financing Sources	(1)	(47,785)	(47,786)	($41,006)
Net Cost of Operations	(761)	51,795	51,034	$39,628
Net Change	(762)	4,010	3,248	($1,378)
CUMULATIVE RESULTS OF OPERATIONS	**(13,266)**	**(22,953)**	**(36,219)**	**($39,500)**
UNEXPENDED APPROPRIATIONS:				
Beginning of Period	376	(66,615)	(66,239)	($53,809)
Adjustments				
Changes in Accounting Principles				
Corrections of Errors		(33)	(33)	
Beginning Balances, As Adjusted	376	(66,648)	(66,272)	($53,809)
BUDGETARY FINANCING SOURCES:				
Appropriations Received	(1)	(40,174)	(40,175)	($59,418)
Appropriations Transfers In/Out		160	160	35
Other Adjustments		842	842	2,620
Appropriations Used	1	50,949	50,950	44,332
Total Budgetary Financing Sources		11,777	11,777	($12,431)
Unexpended Appropriations	**376**	**(54,871)**	**(54,495)**	**($66,240)**
NET POSITION	**($12,890)**	**($77,824)**	**($90,714)**	**($105,740)**

The accompanying notes are an integral part of these statements.

Combined Statement of Budgetary Resources
For the Period Ended September 2007 and 2006
(Dollars in Millions)

	2007		2006	
	Budgetary	NonBudgetary Credit Program Financing Accounts	Budgetary	NonBudgetary Credit Program Financing Accounts
Budgetary Resources:				
Unobligated Balance, Brought Forward	$48,465	$7,158	43,381	$6,006
Recoveries of Prior Year Unpaid Obligations	2,674	125	2,040	6
Budget Authority				
Appropriation	40,181	2	59,438	
Borrowing Authority	17	602	19	887
Contract Authority				
Spending Auth from Offsetting Collections				
Earned				
Collected	4,647	9,131	5,750	11,496
Change in Receivable from Fed Sources	52	42	(52)	(46)
Change in Unfilled Customer Orders				
Advance Received	(29)		(121)	
W/O Advance from Federal Sources	(9)	(2)	7	(5)
Anticipated Rest of Year w/o Advance	0			
Previously Unavailable				
Expenditure Transfers from Trust Funds				
Subtotal Budget Authority	$44,859	$9,775	$65,041	$12,332
Nonexpenditure Transfers, Net	(0)		156	
Temporarily Not Available Per PL				
Permanently not available	(4,268)	(2,315)	(7,905)	(2,186)
Total Budgetary Resources	$91,730	$14,742	$102,713	$16,158
Status of Budgetary Resources:				
Obligations Incurred				
Direct	$48,416	$10,523	54,146	9,000
Reimbursable	329		100	
Subtotal	$48,745	$10,523	$54,246	$9,000
Unobligated Balances				
Apportioned	$5,712	$1,007	11,416	2,146
Exempt from Apportionment	0			
Subtotal	$5,712	$1,007	$11,416	$2,146
Unobligated Balances Not Available	37,273	3,212	37,051	5,012
Total Status of Budgetary Resources	$91,730	$14,742	$102,713	$16,158
Change in Obligated Balance				
Obligated Balance, Net				
Unpaid Obligations, Brought Forward	$72,610	$1,377	69,218	1,263
Less: Uncollected Customer Payments from Federal Sources	(301)	(22)	(346)	(72)
Total Unpaid Obligated Balance, Net	$72,309	$1,355	$68,872	$1,191
Obligations Incurred, Net	48,745	10,523	54,246	9,000
Less: Gross Outlays	(52,875)	(10,433)	(48,816)	(8,881)
Obligated Balance Transferred, Net				
Actual Transfers, Unpaid Obligations				
Actual Transfers, Uncollected Customer Payments from Federal Sources				
Total Unpaid Obligated Balance Transferred, Net				
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(2,674)	(125)	(2,040)	(6)
Change in Uncollected Customer Payments from Federal Sources	(43)	(40)	45	51
Obligated Balance, Net - End of Period				
Unpaid Obligations	65,805	1,342	72,608	1,376
Less: Uncollected Customer Payments from Federal Sources	(344)	(62)	(301)	(21)
Total Obligated Balance, Net - End of Period	$65,461	$1,280	$72,307	$1,355
Net Outlays				
Gross Outlays	52,875	10,433	48,816	8,881
Less Offsetting Collections	(4,618)	(9,131)	(5,629)	(11,496)
Less: Distributed Offsetting Receipts	(2,807)		(717)	
Net Outlays	$45,450	$1,302	$42,470	($2,615)

The accompanying notes are an integral part of these statements.

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Consolidating Balance Sheet
As of September 2006
(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	Home	Operating Subsidies
ASSETS						
Intragovernmental						
Fund Balance with Treasury (Note 4)	$10,568	$4,056	$8,501	$27,678	$5,821	$943
Investments (Note 5)	22,012	8,414				
Other Assets (Note 9)	24		7	8	4	10
Total Intragovernmental Assets	$32,603	$12,471	$8,508	$27,686	$5,825	$953
Investments (Net) (Note 5)	98					
Accounts Receivable (Net) (Note 6)	168	24	164			
Credit Program Receivables and Related Foreclosed Property (Net) (Note 7)	4,283					
General Property Plant and Equipment (Net) (Note 8)		6				
Other Assets (Note 9)	141	391				
TOTAL ASSETS	$37,293	$12,893	$8,672	$27,686	$5,825	$953
LIABILITIES						
Intragovernmental Liabilities						
Accounts Payable (Note 10)				4		
Debt (Note 11)	$6,258					
Other Intragovernmental Liabilities (Note 14)	2,486		$86	$2	1	$2
Total Intragovernmental Liabilities	$8,744		$86	$5	$1	$2
Accounts Payable (Note 10)	396	37	11	43	28	147
Loan Guarantees Liabilities (Note 7)	3,482					
Debt Held by the Public (Note 11)	95					
Federal Employee and Veterans' Benefits (Note 12)			8	7	3	5
Loss Reserves (Note 13)		534				
Other Governmental Liabilities (Note 14)	577	439	9	6	3	6
TOTAL LIABILITIES	$13,294	$1,011	$113	$61	$35	$159
NET POSITION						
Unexpended Appropriations - Earmarked (Note 18)						
Unexpended Appropriations	$594		$8,526	$27,625	$5,790	$793
Cumulative Results of Operations - Earmarked (Note 18)		$11,882				
Cumulative Results of Operations	23,405		33			
Total Net Position	$23,999	$11,882	$8,559	$27,625	$5,790	$793
Total Liabilities and Net Position	$37,293	$12,893	$8,672	$27,686	$5,825	$953

Figures may not add to totals because of rounding.

Consolidating Balance Sheet (continued)
As of September 2006
(Dollars in Millions)

	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
ASSETS					
Intragovernmental					
Fund Balance with Treasury (Note 4)	$8,444	$6,626	$8,758		$81,395
Investments (Note 5)					30,426
Other Assets (Note 9)	17		(44)		26
Total Intragovernmental Assets	$8,461	$6,626	$8,714		$111,847
Investments (Net) (Note 5)					98
Accounts Receivable (Net) (Note 6)	1		6		363
Credit Program Receivables and Related Foreclosed Property (Net) (Note 7)	1	5,561	200		10,045
General Property Plant and Equipment (Net) (Note 8)			169		176
Other Assets (Note 9)			2		534
TOTAL ASSETS	$8,463	$12,187	$9,091		$123,063
LIABILITIES					
Intragovernmental Liabilities					
Accounts Payable (Note 10)			($4)		($0)
Debt (Note 11)	$991				7,249
Other Intragovernmental Liabilities (Note 14)	1	$1	93		2,670
Total Intragovernmental Liabilities	$992	$1	$89		$9,919
Accounts Payable (Note 10)	27	11	57		757
Loan Guarantees Liabilities (Note 7)			108		3,589
Debt Held by the Public (Note 11)	1,156				1,252
Federal Employee and Veterans' Benefits (Note 12)	2	2	55		80
Loss Reserves (Note 13)					534
Other Governmental Liabilities (Note 14)	2	30	121		1,192
TOTAL LIABILITIES	$2,179	$43	$428		$17,323
NET POSITION					
Unexpended Appropriations - Earmarked (Note 18)			(376)		(376)
Unexpended Appropriations	$8,316	$6,555	$8,416		$66,616
Cumulative Results of Operations - Earmarked (Note 18)			$622		$12,504
Cumulative Results of Operations	(2,032)	5,589	1		26,996
Total Net Position	$6,285	$12,144	$8,662		$105,740
Total Liabilities and Net Position	$8,463	$12,187	$9,091		$123,063

Figures may not add to totals because of rounding.

Consolidating Balance Sheet
As of September 2007
(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	Home	Operating Subsidies
ASSETS						
Intragovernmental						
Fund Balance with Treasury	$9,559	$4,433	$5,350	$20,553	$5,700	$1,100
Investments	22,481	8,789				
Accounts Receivable (Net)						
Loans Receivable, Net (Note 7)						
Other Assets	$4		$1	$3	$2	$8
Total Intragovernmental Assets	32,044	13,222	5,351	20,556	5,702	1,108
Investments	121					
Accounts Receivable	119	23	102		2	0
Credit Program Receivables and Related Foreclosed Property	4,738					
General Property Plant and Equipment		17				
Other Assets	$143	$449				
TOTAL ASSETS	37,165	13,711	5,453	20,556	5,705	1,108
LIABILITIES						
Intragovernmental Liabilities						
Accounts Payable	$0		1	$4	0	0
Debt	4,573					
Other Intragovernmental Liabilities	$3,656		$77	$2	$1	$2
Total Intragovernmental Liabilities	8,229		77	6	1	2
Accounts Payable	385	42	4	64	21	189
Loan Guarantees	7,431					
Debt Held by the Public	70					
Federal Employee and Veterans' Benefits			8	7	3	5
Loss Reserves		536				
Other Governmental Liabilities	474	513	9	6	3	6
TOTAL LIABILITIES	$16,590	$1,090	$98	$82	$28	$202
Commitments and Contingencies (Note 17)						
NET POSITION						
Unexpended Appropriations – Earmarked (Note 18)						
Unexpended Appropriations	544		5,355	20,474	5,677	906
Cumulative Results of Operations - Earmarked (Note 18)		$12,620				
Cumulative Results of Operations	20,031		0			
Total Net Position	$20,575	$12,620	$5,355	$20,474	$5,677	$906
Total Liabilities and Net Position	$37,165	$13,711	$5,453	$20,556	$5,705	$1,108

Figures may not add to totals because of rounding.

Consolidating Balance Sheet (continued)
As of September 2007
(Dollars in Millions)

	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
ASSETS					
Intragovernmental					
Fund Balance with Treasury	$7,777	$6,255	$8,318		$69,046
Investments			0		31,270
Accounts Receivable (Net)					
Loans Receivable, Net (Note 7)					
Other Assets (Note 9)	$7	$0	($17)		$8
Total Intragovernmental Assets	7,784	6,255	8,302		100,324
Investments					121
Accounts Receivable	1	0	9		256
Credit Program Receivables and Related Foreclosed Property	1	4,634	193		9,567
General Property Plant and Equipment			196		213
Other Assets			$1		$593
TOTAL ASSETS	7,786	10,889	8,701		111,074
LIABILITIES					
Intragovernmental Liabilities					
Accounts Payable	$0	$0	1		$5
Debt	886	0			5,459
Other Intragovernmental Liabilities	$1	$1	$69		$3,808
Total Intragovernmental Liabilities	888	1	68		9,272
Accounts Payable	22	6	36		769
Loan Guarantees			120		7,551
Debt Held by the Public	911				981
Federal Employee and Veterans' Benefits	2	2	57		82
Loss Reserves					536
Other Governmental Liabilities	2	32	125		1,169
TOTAL LIABILITIES	$1,824	$41	$406		$20,360
Commitments and Contingencies (Note 17)					
NET POSITION					
Unexpended Appropriations – Earmarked (Note 18)			(376)		(376)
Unexpended Appropriations	7,658	6,247	8,010		54,871
Cumulative Results of Operations - Earmarked (Note 18)			$645		$13,266
Cumulative Results of Operations	(1,696)	4,602	16		22,953
Total Net Position	$5,962	$10,849	$8,295		$90,714
Total Liabilities and Net Position	$7,786	$10,889	$8,701		$111,074

Figures may not add to totals because of rounding.

Consolidating Statement of Net Cost
For the Period Ended September 2007 and 2006
(Dollars in Millions)

2007	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	Home	Operating Subsidies
PROGRAM COSTS						
Gross Costs	3,890	53	24,640	10,966	1,902	$3,831
Less: Earned Revenues	(1,521)	(791)				
Net Costs	$2,369	($738)	$24,640	$10,966	$1,902	$3,831
Costs Not Assigned to Programs						
Earned Revenue Not Assigned						
Net Cost of Operations	$2,369	($738)	$24,640	$10,966	$1,902	$3,831

2006	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	Home	Operating Subsidies
PROGRAM COSTS						
Gross Costs	(380)	60	23,827	5,093	1,853	3,600
Less: Earned Revenues	(1,700)	(849)				
Net Costs	($2,081)	($789)	$23,827	$5,093	$1,853	$3,600
Costs Not Assigned to Programs						
Earned Revenue Not Assigned						
Net Cost of Operations	($2,081)	($789)	$23,827	$5,093	$1,853	$3,600

Figures may not add to totals because of rounding.

Consolidating Statement of Net Cost (continued)
For the Period Ended September 2007 and 2006
(Dollars in Millions)

2007	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
PROGRAM COSTS					
Gross Costs	3,479	1,317	3,376		53,454
Less: Earned Revenues	(0)	(419)	(21)		(2,752)
Net Costs	$3,479	$898	$3,355		$50,702
Costs Not Assigned to Programs			$332		$332
Earned Revenue Not Assigned					
Net Cost of Operations	$3,479	$898	$3,687		$51,034

2006	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
PROGRAM COSTS					
Gross Costs	3,566	1,279	3,541		42,439
Less: Earned Revenues	(0)	(515)	(78)		(3,143)
Net Costs	$3,566	$764	$3,463		$39,296
Costs Not Assigned to Programs			$332		$332
Earned Revenue Not Assigned					
Net Cost of Operations	$3,566	$764	$3,795		$39,628

Figures may not add to totals because of rounding.

Consolidating Statement of Changes in Net Position
for the period ended September 2006
(Dollars in Millions)

Cumulative Results of Operations

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	Home	Operating Subsidies
Net Position - Beginning of Period						
- Earmarked Funds		(11,093)				
- All Other Funds	(22,546)					
Beginning Balances	(22,546)	(11,093)				
Adjustments						
Changes in Accounting Principles						
- Earmarked Funds						
- All Other Funds						
Corrections of Errors						
- Earmarked Funds						
- All Other Funds						
Beginning Balances, As Adjusted						
- Earmarked Funds		(11,093)				
- All Other Funds	(22,546)					
Total Beginning Balances, As Adjusted	(22,546)	(11,093)				
Budgetary Financing Sources:						
Other Adjustments						
- Earmarked Funds						
- All Other Funds						
Appropriations Used						
- Earmarked Funds						
- All Other Funds	(1,178)		(23,697)	(5,036)	(1,829)	(3,534)
Transfers In/Out Without Reimbursement						
- Earmarked Funds						
- All Other Funds	731					
Other Budgetary Financing Sources						
- Earmarked Funds						
- All Other Funds			(163)	(57)	(24)	(65)
Other Financing Sources:						
Transfers In/Out Without Reimbursement						
- Earmarked Funds						
- All Other Funds	1,692					
Imputed Financing From Costs Absorbed From Others						
- Earmarked Funds						
- All Other Funds	(23)					
Total Financing Sources						
- Earmarked Funds						
- All Other Funds	1,222		(23,860)	(5,093)	(1,853)	(3,600)
Total Financing Sources	1,222		(23,860)	(5,093)	(1,853)	(3,600)
Net Cost of Operations						
- Earmarked Funds		(789)				
- All Other Funds	(2,081)		23,827	5,093	1,853	3,600
Net Change						
- Earmarked Funds		(789)				
- All Other Funds	(858)		(33)			
Total All Funds						
- Earmarked Funds		(11,882)				
- All Other Funds	(23,405)		(33)			
Total All Funds	(23,405)	(11,882)	(33)			

Figures may not add to totals because of rounding.

Consolidating Statement of Changes in Net Position (continued)
for the period ended September 2006
(Dollars in Millions)

Cumulative Results of Operations

	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
Net Position - Beginning of Period					
- Earmarked Funds			(590)		(11,683)
- All Other Funds	2,369	(6,286)	24		(26,439)
Beginning Balances	2,369	(6,286)	(566)		(38,122)
Adjustments					
Changes in Accounting Principles					
- Earmarked Funds					
- All Other Funds					
Corrections of Errors					
- Earmarked Funds					
- All Other Funds					
Beginning Balances, As Adjusted					
- Earmarked Funds			(590)		(11,683)
- All Other Funds	2,369	(6,286)	24		(26,439)
Total Beginning Balances, As Adjusted	2,369	(6,286)	(566)		(38,122)
Budgetary Financing Sources:					
Other Adjustments					
- Earmarked Funds					
- All Other Funds					
Appropriations Used					
- Earmarked Funds			(1)		(1)
- All Other Funds	(3,819)	(1,231)	(4,007)		(44,331)
Transfers In/Out Without Reimbursement					
- Earmarked Funds					
- All Other Funds		1,199	(233)		1,697
Other Budgetary Financing Sources					
- Earmarked Funds					
- All Other Funds	(85)	(37)	427		(3)
Other Financing Sources:					
Transfers In/Out Without Reimbursement					
- Earmarked Funds					
- All Other Funds			19		1,711
Imputed Financing From Costs Absorbed From Others					
- Earmarked Funds					
- All Other Funds			(56)		(79)
Total Financing Sources					
- Earmarked Funds			(1)		(1)
- All Other Funds	(3,903)	(68)	(3,851)		(41,005)
Total Financing Sources	(3,903)	(68)	(3,851)		(41,006)
Net Cost of Operations					
- Earmarked Funds			(31)		(820)
- All Other Funds	3,566	764	3,826		40,448
Net Change					
- Earmarked Funds			(32)		(821)
- All Other Funds	(337)	697	(24)		(557)
Total All Funds					
- Earmarked Funds			(622)		(12,504)
- All Other Funds	2,032	(5,589)	(1)		(26,996)
Total All Funds	2,032	(5,589)	(623)		(39,500)

Figures may not add to totals because of rounding.

Consolidating Statement of Changes in Net Position (continued)
for the period ended September 2006
(Dollars in Millions)

Unexpended Appropriations

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	Home	Operating Subsidies
Net Position - Beginning of Period						
- Earmarked Funds						
- All Other Funds	(609)		(10,893)	(11,849)	(5,863)	(764)
Beginning Balances	(609)		(10,893)	(11,849)	(5,863)	(764)
Adjustments						
Changes in Accounting Principles						
- Earmarked Funds						
- All Other Funds						
Corrections of Errors						
- Earmarked Funds						
- All Other Funds						
Beginning Balances, As Adjusted						
- Earmarked Funds						
- All Other Funds	(609)		(10,893)	(11,849)	(5,863)	(764)
Beginning Balances, As Adjusted	(609)		(10,893)	(11,849)	(5,863)	(764)
Budgetary Financing Sources						
Appropriations Received						
- Earmarked Funds						
- All Other Funds	(1,281)		(23,552)	(20,920)	(1,775)	(3,600)
Appropriations Transfers In/Out						
- Earmarked Funds						
- All Other Funds	35			24		
Other Adjustments (Recissions, etc)						
- Earmarked Funds						
- All Other Funds	83		2,222	84	18	37
Appropriations Used						
- Earmarked Funds						
- All Other Funds	1,178		23,697	5,036	1,829	3,534
Total Financing Sources						
- Earmarked Funds						
- All Other Funds	15		2,367	(15,776)	72	(29)
Total Financing Sources	15		2,367	(15,776)	72	(29)
Net Change						
- Earmarked Funds						
- All Other Funds	15		2,367	(15,776)	72	(29)
Total All Funds						
- Earmarked Funds						
- All Other Funds	(594)		(8,526)	(27,625)	(5,791)	(793)
Total All Funds	(594)		(8,526)	(27,625)	(5,791)	(793)

Figures may not add to totals because of rounding.

Consolidating Statement of Changes in Net Position (continued)
for the period ended September 2006
(Dollars in Millions)

Unexpended Appropriations

	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
Net Position - Beginning of Period					
- Earmarked Funds			376		376
- All Other Funds	(8,562)	(6,830)	(8,813)		(54,185)
Beginning Balances	(8,562)	(6,830)	(8,437)		(53,809)
Adjustments					
Changes in Accounting Principles					
- Earmarked Funds					
- All Other Funds					
Corrections of Errors					
- Earmarked Funds					
- All Other Funds					
Beginning Balances, As Adjusted					
- Earmarked Funds			376		376
- All Other Funds	(8,562)	(6,830)	(8,813)		(54,185)
Beginning Balances, As Adjusted	(8,562)	(6,830)	(8,437)		(53,809)
Budgetary Financing Sources					
Appropriations Received					
- Earmarked Funds			(1)		(1)
- All Other Funds	(3,642)	(981)	(3,667)		(59,417)
Appropriations Transfers In/Out					
- Earmarked Funds					
- All Other Funds			(24)		35
Other Adjustments (Recissions, etc)					
- Earmarked Funds					
- All Other Funds	69	26	81		2,620
Appropriations Used					
- Earmarked Funds			1		1
- All Other Funds	3,819	1,231	4,007		44,331
Total Financing Sources					
- Earmarked Funds					
- All Other Funds	246	275	398		(12,431)
Total Financing Sources	246	275	398		(12,431)
Net Change					
- Earmarked Funds					
- All Other Funds	246	275	398		(12,431)
Total All Funds					
- Earmarked Funds			376		376
- All Other Funds	(8,316)	(6,555)	(8,416)		(66,616)
Total All Funds	(8,316)	(6,555)	(8,040)		(66,240)

Figures may not add to totals because of rounding.

Consolidating Statement of Changes in Net Position
for the period ended September 2007
(Dollars in Millions)

Cumulative Results of Operations

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	Home	Operating Subsidies
Net Position - Beginning of Period						
- Earmarked Funds		(11,882)				
- All Other Funds	(23,405)		(33)			
Beginning Balances	(23,405)	(11,882)	(33)			
Adjustments						
Changes in Accounting Principles						
- Earmarked Funds						
- All Other Funds						
Corrections of Errors						
- Earmarked Funds						
- All Other Funds			33			
Beginning Balances, As Adjusted						
- Earmarked Funds		(11,882)				
- All Other Funds	(23,405)					
Total Beginning Balances, As Adjusted	(23,405)	(11,882)				
Budgetary Financing Sources:						
Other Adjustments						
- Earmarked Funds						
- All Other Funds	(2)					
Appropriations Used						
- Earmarked Funds						
- All Other Funds	(415)		(24,445)	(10,894)	(1,870)	(3,752)
Transfers In/Out Without Reimbursement						
- Earmarked Funds						
- All Other Funds	1,013					
Other Budgetary Financing Sources						
- Earmarked Funds						
- All Other Funds			(195)	(72)	(32)	(79)
Other Financing Sources:						
Transfers In/Out Without Reimbursement						
- Earmarked Funds						
- All Other Funds	445					
Imputed Financing From Costs Absorbed From Others						
- Earmarked Funds						
- All Other Funds	(37)					
Total Financing Sources						
- Earmarked Funds						
- All Other Funds	1,004		(24,640)	(10,966)	(1,902)	(3,831)
Total Financing Sources	1,004		(24,640)	(10,966)	(1,902)	(3,831)
Net Cost of Operations						
- Earmarked Funds		(738)				
- All Other Funds	2,370		24,640	10,966	1,902	3,831
Net Change						
- Earmarked Funds		(738)				
- All Other Funds	3,374					
Total All Funds						
- Earmarked Funds		(12,620)				
- All Other Funds	(20,031)					
Total All Funds	(20,031)	(12,620)				

Figures may not add to totals because of rounding.

Consolidating Statement of Changes in Net Position (continued) for the period ended September 2007

(Dollars in Millions)

Cumulative Results of Operations

	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
Net Position - Beginning of Period					
- Earmarked Funds			(622)		(12,504)
- All Other Funds	2,032	(5,589)	(1)		(26,996)
Beginning Balances	2,032	(5,589)	(623)		(39,500)
Adjustments					
Changes in Accounting Principles					
- Earmarked Funds					
- All Other Funds					
Corrections of Errors					
- Earmarked Funds					
- All Other Funds					33
Beginning Balances, As Adjusted					
- Earmarked Funds			(622)		(12,504)
- All Other Funds	2,032	(5,589)	(1)		(26,963)
Total Beginning Balances, As Adjusted	2,032	(5,589)	(623)		(39,467)
Budgetary Financing Sources:					
Other Adjustments					
- Earmarked Funds					
- All Other Funds					(2)
Appropriations Used					
- Earmarked Funds			(1)		(1)
- All Other Funds	(3,702)	(1,279)	(4,594)		(50,951)
Transfers In/Out Without Reimbursement					
- Earmarked Funds					
- All Other Funds		1,405	1		2,419
Other Budgetary Financing Sources					
- Earmarked Funds					
- All Other Funds	(113)	(37)	530		2
Other Financing Sources:					
Transfers In/Out Without Reimbursement					
- Earmarked Funds					
- All Other Funds			398		843
Imputed Financing From Costs Absorbed From Others					
- Earmarked Funds					
- All Other Funds			(60)		(97)
Total Financing Sources					
- Earmarked Funds			(1)		(1)
- All Other Funds	(3,815)	89	(3,725)		(47,785)
Total Financing Sources	(3,815)	89	(3,726)		(47,787)
Net Cost of Operations					
- Earmarked Funds			(23)		(761)
- All Other Funds	3,479	898	3,709		51,795
Net Change					
- Earmarked Funds			(23)		(762)
- All Other Funds	(336)	987	(15)		4,009
Total All Funds					
- Earmarked Funds			(646)		(13,266)
- All Other Funds	1,696	(4,602)	(16)		(22,953)
Total All Funds	1,696	(4,602)	(662)		(36,219)

Figures may not add to totals because of rounding.

Consolidating Statement of Changes in Net Position (continued)
for the period ended September 2007
(Dollars in Millions)

Unexpended Appropriations

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	Home	Operating Subsidies
Net Position - Beginning of Period						
- Earmarked Funds						
- All Other Funds	(594)		(8,526)	(27,625)	(5,790)	(793)
Beginning Balances	(594)		(8,526)	(27,625)	(5,790)	(793)
Adjustments						
Changes in Accounting Principles						
- Earmarked Funds						
- All Other Funds						
Corrections of Errors						
- Earmarked Funds						
- All Other Funds			(33)			
Beginning Balances, As Adjusted						
- Earmarked Funds						
- All Other Funds	(594)		(8,559)	(27,625)	(5,790)	(793)
Beginning Balances, As Adjusted	(594)		(8,559)	(27,625)	(5,790)	(793)
Budgetary Financing Sources						
Appropriations Received						
- Earmarked Funds						
- All Other Funds	(1,252)		(21,903)	(3,772)	(1,757)	(3,864)
Appropriations Transfers In/Out						
- Earmarked Funds						
- All Other Funds	769		7	2	1	
Other Adjustments (Recissions, etc)						
- Earmarked Funds						
- All Other Funds	119		655	27		
Appropriations Used						
- Earmarked Funds						
- All Other Funds	415		24,444	10,893	1,870	3,752
Total Financing Sources						
- Earmarked Funds						
- All Other Funds	51		3,203	7,150	114	(112)
Total Financing Sources	51		3,203	7,150	114	(112)
Net Change						
- Earmarked Funds						
- All Other Funds	51		3,203	7,150	114	(112)
Total All Funds						
- Earmarked Funds						
- All Other Funds	(543)		(5,356)	(20,475)	(5,676)	(905)
Total All Funds	(543)		(5,356)	(20,475)	(5,676)	(905)

Figures may not add to totals because of rounding.

Consolidating Statement of Changes in Net Position (continued) for the period ended September 2007

(Dollars in Millions)

Unexpended Appropriations

	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
Net Position - Beginning of Period					
- Earmarked Funds			376		376
- All Other Funds	(8,316)	(6,555)	(8,416)		(66,615)
Beginning Balances	(8,316)	(6,555)	(8,040)		(66,239)
Adjustments					
Changes in Accounting Principles					
- Earmarked Funds					
- All Other Funds					
Corrections of Errors					
- Earmarked Funds					
- All Other Funds					(33)
Beginning Balances, As Adjusted					
- Earmarked Funds			376		376
- All Other Funds	(8,316)	(6,555)	(8,416)		(66,648)
Beginning Balances, As Adjusted	(8,316)	(6,555)	(8,040)		(66,272)
Budgetary Financing Sources					
Appropriations Received					
- Earmarked Funds			(1)		(1)
- All Other Funds	(3,061)	(971)	(3,594)		(40,174)
Appropriations Transfers In/Out					
- Earmarked Funds					
- All Other Funds	11	1	(631)		160
Other Adjustments (Recissions, etc)					
- Earmarked Funds					
- All Other Funds	6		35		842
Appropriations Used					
- Earmarked Funds			1		1
- All Other Funds	3,702	1,279	4,594		50,949
Total Financing Sources					
- Earmarked Funds					
- All Other Funds	658	309	404		11,777
Total Financing Sources	658	309	404		11,777
Net Change					
- Earmarked Funds					
- All Other Funds	658	309	404		11,777
Total All Funds					
- Earmarked Funds			376		376
- All Other Funds	(7,658)	(6,246)	(8,012)		(54,871)
Total All Funds	(7,658)	(6,246)	(7,636)		(54,495)

Figures may not add to totals because of rounding.

Combining Statement of Budgetary Resources
For the Period Ended September 2006
(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	Home	Operating Subsidies	Public and Indian Housing Loans & Grants	Housing for the Elderly and Disabled
Budgetary Resources:								
Unobligated Balance, Brought Forward	$23,602	$11,579	$2,111	$1,218	$318	$2	$401	$1,337
Recoveries of Prior Year Unpaid Obligations	97		1,156	32	2	0	20	42
Budget Authority								
Appropriation	1,281	11	23,552	20,920	1,775	3,600	3,642	981
Borrowing Authority	9						10	
Contract Authority								
Spending Authority from Offsetting Collections								
Earned								
Collected	2,636	722					88	1,516
Change in Receivable from Fed Sources	(55)	3						
Change in Unfilled Customer Orders								
Advanced Received								
W/O Advance from Federal Sources								
Anticipated for Rest of Year w/o Advance								
Previously Unavailable								
Expenditure Transfers from Trust Funds								
Subtotal	$3,871	$736	$23,552	$20,920	$1,775	$3,600	$3,740	$2,497
Non Expenditure Transters, Net		156		(24)				
Temporarily Not Available Per PL								
Permanently not available	(151)		(4,720)	(83)	(18)	(36)	(724)	(1,464)
Total Budgetary Resources	$27,418	$12,471	$22,099	$22,063	$2,077	$3,566	$3,436	$2,413
Status of Budgetary Resources:								
Obligations Incurred								
Direct	5,028		19,857	15,798	1,807	3,564	3,021	1,172
Reimbursable		100						
Subtotal	$5,028	$100	$19,857	$15,798	$1,807	$3,564	$3,021	$1,172
Unobligated Balances								
Apportioned	161		1,087	6,237	268	1	405	1,157
Exempt from Apportionment								
Subtotal	$161	$0	$1,087	$6,237	$268	$1	$405	$1,157
Unobligated Balances Not Available	22,229	12,371	1,156	28	2	1	11	84
Total Status of Budgetary Resources	$27,418	$12,471	$22,099	$22,063	$2,077	$3,566	$3,436	$2,413

Figures may not add to totals because of rounding.

Combining Statement of Budgetary Resources (continued)
For the Period Ended September 2006
(Dollars in Millions)

	Eliminations	All Other	4th Qtr Budgetary Total	Federal Housing Administration Non Budgetary	Other NonBudgetary Credit Program Accounts	4th Quarter NonBudgetary Credit Program Financing Accounts	Total
Budgetary Resources:							
Unobligated Balance, Brought Forward		$2,812	$43,381	$5,891	$115	$6,006	$49,387
Recoveries of Prior Year Unpaid Obligations		692	2,040	6		6	2,046
Budget Authority							
Appropriation		3,676	59,438				59,438
Borrowing Authority			19	887		887	906
Contract Authority							
Spending Authority from Offsetting Collections							
Earned							
Collected		788	5,750	11,470	25	11,496	17,245
Change in Receivable from Fed Sources			(52)	(46)		(46)	(98)
Change in Unfilled Customer Orders							
Advanced Received		(121)	(121)				(121)
W/O Advance from Federal Sources		7	7		(5)	(5)	2
Anticipated for Rest of Year w/o Advance							
Previously Unavailable							
Expenditure Transfers from Trust Funds							
Subtotal		$4,350	$65,041	$12,312	$21	$12,332	$77,373
Non Expenditure Transters, Net		24	156				156
Temporarily Not Available Per PL							
Permanently not available		(709)	(7,905)	(2,187)		(2,186)	(10,091)
Total Budgetary Resources		$7,169	$102,713	$16,023	$136	$16,158	$118,871
Status of Budgetary Resources:							
Obligations Incurred							
Direct		3,901	54,146	8,991	10	9,000	63,146
Reimbursable			100				100
Subtotal		$3,901	$54,246	$8,991	$10	$9,000	$63,246
Unobligated Balances							
Apportioned		2,100	11,416	2,131	14	2,146	13,562
Exempt from Apportionment							
Subtotal		$2,100	$11,416	$2,131	$14	$2,146	$13,562
Unobligated Balances Not Available		1,168	37,051	4,900	112	5,012	42,063
Total Status of Budgetary Resources		$7,169	$102,713	$16,023	$136	$16,158	$118,871

Figures may not add to totals because of rounding.

Combining Statement of Budgetary Resources (continued)
For the Period Ended September 2006
(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	Home	Operating Subsidies	Public and Indian Housing Loans & Grants	Housing for the Elderly and Disabled
Change in Obligated Balance								
Obligated Balance, Net								
Unpaid Obligations, Brought Forward	$1,067	$121	$21,819	$10,659	$5,557	$872	$10,421	$5,530
Less: Uncollected Customer Payments from Federal Sources	(261)	(78)						
Total Unpaid Obligated Balance, Net	$806	$43	$21,819	$10,659	$5,557	$872	$10,421	$5,530
Obligations Incurred, Net	5,028	100	19,857	15,798	1,807	3,564	3,021	1,172
Less: Gross Outlays	(5,018)	(111)	(23,534)	(5,012)	(1,812)	(3,496)	(3,812)	(1,275)
Obligated Balance Transferred, Net								
Actual Transfers, Unpaid Obligations								
Actual Transfers, Uncollected Customer Payments from Federal Sources								
Total Unpaid Obligated Balance Transferred, Net								
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(97)		(1,156)	(32)	(2)		(20)	(42)
Change in Uncollected Customer Payments from Federal Sources	55	(3)						
Obligated Balance, Net - End of Period								
Unpaid Obligations	980	109	16,986	21,413	5,550	940	9,610	5,385
Less: Uncollected Customer Payments from Federal Sources	(207)	(80)						
Total Obligated Balance, Net - End of Period	$774	$29	$16,986	$21,413	$5,550	$940	$9,610	$5,385
Net Outlays								
Gross Outlays	5,018	111	23,534	5,012	1,812	3,496	3,812	1,275
Less Offsetting Collections	(2,636)	(722)					(88)	(1,516)
Less: Distributed Offsetting Receipts	(677)		(12)					
Net Outlays	$1,706	($611)	$23,521	$5,012	$1,812	$3,496	$3,724	($241)

Figures may not add to totals because of rounding.

Combining Statement of Budgetary Resources (continued)
For the Period Ended September 2006
(Dollars in Millions)

	Eliminations	All Other	4th Qtr Budgetary Total	Federal Housing Administration Non Budgetary	Other NonBudgetary Credit Program Accounts	4th Quarter NonBudgetary Credit Program Financing Accounts	Total
Change in Obligated Balance							
Obligated Balance, Net							
Unpaid Obligations, Brought Forward		$13,172	$69,218	$1,263		$1,263	$70,481
Less: Uncollected Customer Payments from Federal Sources		(7)	(346)	(52)	(20)	(72)	(418)
Total Unpaid Obligated Balance, Net		$13,165	$68,872	$1,211	($20)	$1,191	$70,063
Obligations Incurred, Net		3,901	54,246	8,991	10	9,000	63,246
Less: Gross Outlays		(4,747)	(48,816)	(8,871)	(10)	(8,881)	(57,696)
Obligated Balance Transferred, Net							
Actual Transfers, Unpaid Obligations							
Actual Transfers, Uncollected Customer Payments from Federal Sources							
Total Unpaid Obligated Balance Transferred, Net							
Less: Recoveries of Prior Year Unpaid Obligations, Actual		(692)	(2,040)	(6)		(6)	(2,046)
Change in Uncollected Customer Payments from Federal Sources		(7)	45	46	5	51	95
Obligated Balance, Net - End of Period							
Unpaid Obligations		11,634	72,608	1,376		1,376	73,985
Less: Uncollected Customer Payments from Federal Sources		(14)	(301)	(5)	(16)	(21)	(323)
Total Obligated Balance, Net - End of Period		$11,620	$72,307	$1,370	($16)	$1,355	$73,662
Net Outlays							
Gross Outlays		4,747	48,816	8,871	10	8,881	57,696
Less Offsetting Collections		(667)	(5,629)	(11,470)	(25)	(11,496)	(17,124)
Less: Distributed Offsetting Receipts		(28)	(717)				(717)
Net Outlays		$4,052	$42,470	($2,599)	($16)	($2,615)	$39,855

Figures may not add to totals because of rounding.

Combining Statement of Budgetary Resources
For the Period Ended September 2007
(Dollars in Millions)
Restated

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	Home	Operating Subsidies	Public and Indian Housing Loans & Grants	Housing for the Elderly and Disabled
Budgetary Resources:								
Unobligated Balance, Brought Forward	$22,390	$12,368	$2,242	$6,265	$270	$2	$416	$1,241
Recoveries of Prior Year Unpaid Obligations	89		2,065	24	6	1	22	24
Budget Authority								
Appropriation	1,252		21,903	3,772	1,757	3,864	3,061	971
Borrowing Authority	15						2	
Contract Authority								
Spending Authority from Offsetting Collections								
Earned								
Collected	2,057	1,060				2	94	1,348
Change in Receivable from Fed Sources	56	(4)						
Change in Unfilled Customer Orders								
Advanced Received								
W/O Advance from Federal Sources	(0)							
Anticipated for Rest of Year w/o Advance								0
Previously Unavailable								
Expenditure Transfers from Trust Funds								
Subtotal	$3,380	$1,056	$21,903	$3,772	$1,757	$3,866	$3,156	$2,319
Non Expenditure Transters, Net	(609)		(7)	(2)	(1)		(11)	(1)
Temporarily Not Available Per PL								
Permanently not available	(291)		(1,464)	(28)	(0)		(107)	(1,405)
Total Budgetary Resources	$24,959	$13,425	$24,739	$10,032	$2,032	$3,869	$3,476	$2,178
Status of Budgetary Resources:								
Obligations Incurred								
Direct	2,116		23,537	9,246	1,711	3,865	3,252	1,000
Reimbursable		329						
Subtotal	$2,116	$329	$23,537	$9,246	$1,711	$3,865	$3,252	$1,000
Unobligated Balances								
Apportioned	187		943	766	317	0	206	1,052
Exempt from Apportionment		0						
Subtotal	$187	$0	$943	$766	$317	$0	$206	$1,052
Unobligated Balances Not Available	22,656	13,095	259	20	5	4	18	126
Total Status of Budgetary Resources	$24,959	$13,425	$24,739	$10,032	$2,032	$3,869	$3,476	$2,178

Figures may not add to totals because of rounding.

Combining Statement of Budgetary Resources (continued)
For the Period Ended September 2007
(Dollars in Millions)
Restated

	Eliminations	All Other	4th Qtr Budgetary Total	Federal Housing Administration Non Budgetary	Other NonBudgetary Credit Program Accounts	4th Quarter NonBudgetary Credit Program Financing Accounts	Total
Budgetary Resources:							
Unobligated Balance, Brought Forward		$3,270	$48,465	$7,032	$126	$7,158	$55,623
Recoveries of Prior Year Unpaid Obligations		442	2,674	125		125	2,798
Budget Authority							
Appropriation		3,601	40,181	2		2	40,183
Borrowing Authority			17	602		602	619
Contract Authority							
Spending Authority from Offsetting Collections							
Earned							
Collected		86	4,647	9,104	28	9,131	13,778
Change in Receivable from Fed Sources		0	52	42		42	94
Change in Unfilled Customer Orders							
Advanced Received		(29)	(29)				(29)
W/O Advance from Federal Sources		(9)	(9)	(4)	2	(2)	(12)
Anticipated for Rest of Year w/o Advance		0	0				0
Previously Unavailable							
Expenditure Transfers from Trust Funds							
Subtotal		$3,649	$44,859	$9,745	$30	$9,775	$54,634
Non Expenditure Transters, Net		631	(0)				(0)
Temporarily Not Available Per PL							
Permanently not available		(972)	(4,268)	(2,315)		(2,315)	(6,583)
Total Budgetary Resources		$7,020	$91,730	$14,586	$156	$14,742	$106,472
Status of Budgetary Resources:							
Obligations Incurred							
Direct		3,688	48,416	10,510	14	10,523	58,938
Reimbursable			329				329
Subtotal		$3,688	$48,745	$10,510	$14	$10,523	$59,268
Unobligated Balances							
Apportioned		2,242	5,712	993	14	1,007	6,720
Exempt from Apportionment			0				0
Subtotal		$2,242	$5,712	$993	$14	$1,007	$6,720
Unobligated Balances Not Available		1,090	37,273	3,084	128	3,212	40,485
Total Status of Budgetary Resources		$7,020	$91,730	$14,586	$156	$14,742	$106,472

Figures may not add to totals because of rounding.

Combining Statement of Budgetary Resources (continued)
For the Period Ended September 2007
(Dollars in Millions)
Restated

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	Home	Operating Subsidies	Public and Indian Housing Loans & Grants	Housing for the Elderly and Disabled
Change in Obligated Balance								
Obligated Balance, Net								
Unpaid Obligations, Brought Forward	$980	$112	$16,986	$21,413	$5,550	$940	$9,610	$5,385
Less: Uncollected Customer Payments from Federal Sources	(207)	(80)						
Total Unpaid Obligated Balance, Net	$774	$32	$16,986	$21,413	$5,550	$940	$9,610	$5,385
Obligations Incurred, Net	2,116	329	23,537	9,246	1,711	3,865	3,252	1,000
Less: Gross Outlays	(2,053)	(313)	(24,392)	(10,867)	(1,876)	(3,708)	(3,711)	(1,284)
Obligated Balance Transferred, Net								
Actual Transfers, Unpaid Obligations								
Actual Transfers, Uncollected Customer Payments from Federal Sources								
Total Unpaid Obligated Balance Transferred, Net								
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(89)		(2,065)	(24)	(6)	(1)	(22)	(24)
Change in Uncollected Customer Payments from Federal Sources	(56)	4						
Obligated Balance, Net - End of Period								
Unpaid Obligations	954	129	14,067	19,768	5,379	1,096	9,129	5,076
Less: Uncollected Customer Payments from Federal Sources	(263)	(77)						
Total Obligated Balance, Net - End of Period	$692	$52	$14,067	$19,768	$5,379	$1,096	$9,129	$5,076
Net Outlays								
Gross Outlays	2,053	313	24,392	10,867	1,876	3,708	3,711	1,284
Less Offsetting Collections	(2,057)	(1,060)				(2)	(94)	(1,348)
Less: Distributed Offsetting Receipts	(2,759)		(13)					
Net Outlays	($2,763)	($747)	$24,379	$10,867	$1,876	$3,706	$3,617	($64)

Figures may not add to totals because of rounding.

Combining Statement of Budgetary Resources (continued)
For the Period Ended September 2007
(Dollars in Millions)
Restated

	Eliminations	All Other	4th Qtr Budgetary Total	Federal Housing Administration Non Budgetary	Other NonBudgetary Credit Program Accounts	4th Quarter NonBudgetary Credit Program Financing Accounts	Total
Change in Obligated Balance							
Obligated Balance, Net							
Unpaid Obligations, Brought Forward		$11,633	$72,610	$1,377		$1,377	$73,987
Less: Uncollected Customer Payments from Federal Sources		(14)	(301)	(6)	(16)	(22)	(323)
Total Unpaid Obligated Balance, Net		$11,619	$72,309	$1,370	($16)	$1,355	$73,664
Obligations Incurred, Net		3,688	48,745	10,510	14	10,523	59,268
Less: Gross Outlays		(4,672)	(52,875)	(10,420)	(14)	(10,433)	(63,309)
Obligated Balance Transferred, Net							
Actual Transfers, Unpaid Obligations							
Actual Transfers, Uncollected Customer Payments from Federal Sources							
Total Unpaid Obligated Balance Transferred, Net							
Less: Recoveries of Prior Year Unpaid Obligations, Actual		(442)	(2,674)	(125)		(125)	(2,798)
Change in Uncollected Customer Payments from Federal Sources		9	(43)	(38)	(2)	(40)	(83)
Obligated Balance, Net - End of Period							
Unpaid Obligations		10,207	65,805	1,342		1,342	67,147
Less: Uncollected Customer Payments from Federal Sources		(5)	(344)	(44)	(18)	(62)	(406)
Total Obligated Balance, Net - End of Period		$10,202	$65,461	$1,298	($18)	$1,280	$66,742
Net Outlays							
Gross Outlays		4,672	52,875	10,420	14	10,433	63,309
Less Offsetting Collections		(57)	(4,618)	(9,104)	(28)	(9,131)	(13,749)
Less: Distributed Offsetting Receipts		(36)	(2,807)				(2,808)
Net Outlays		$4,579	$45,450	$1,316	($14)	$1,302	$46,751

Figures may not add to totals because of rounding.

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Notes to Financial Statements

September 30, 2007 and 2006

NOTE 1 - ENTITY AND MISSION

The U.S. Department of Housing and Urban Development (HUD) was created in 1965 to (1) provide housing subsidies for low and moderate income families, (2) provide grants to states and communities for community development activities, (3) provide direct loans and capital advances for construction and rehabilitation of housing projects for the elderly and persons with disabilities, and (4) promote and enforce fair housing and equal housing opportunity. In addition, HUD insures mortgages for single family and multifamily dwellings; insures loans for home improvements and manufactured homes; and facilitates financing for the purchase or refinancing of millions of American homes.

HUD's major programs are as follows:

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, as amended. While FHA was established as a separate Federal entity, it was subsequently merged into HUD in 1965. FHA administers active mortgage insurance programs which are designed to make mortgage financing more accessible to the home-buying public and thereby to develop affordable housing. FHA insures private lenders against loss on mortgages which finance single family homes, multifamily projects, health care facilities, property improvements, and manufactured homes.

The **Government National Mortgage Association** (Ginnie Mae) was created in 1968 as a wholly owned Government corporation within HUD to administer mortgage support programs that could not be carried out in the private market. Ginnie Mae guarantees the timely payment of principal and interest on mortgage-backed securities issued by approved private mortgage institutions and backed by pools of mortgages insured or guaranteed by FHA, the Rural Housing Service (RHS), the Department of Veterans Affairs (VA) and the HUD Office of Public and Indian Housing (PIH).

The **Section 8 Rental Assistance** programs assist low- and very low-income families in obtaining decent and safe rental housing. HUD makes up the difference between what a low- and very low-income family can afford and the approved rent for an adequate housing unit with the Housing Choice Voucher (HCV) Program funding cycle that started January 1, 2005 and ended December 31, 2005. As of January 1, 2005, Congress changed the basis of the program funding to PHAs from a “unit-based” process where program variables affected the annual Federal funding amount to a “budget-based” process where annual Federal funding is a fixed amount. Under the budget-based process, PHAs draw the program funds allocated to them on a monthly basis, i.e., one twelve of the annual allocation.

Operating Subsidies are provided to PHAs and Tribally Designated Housing Entities (TDHEs) to help finance the operations and maintenance costs of their housing projects.

The **Community Development Block Grant** (CDBG) programs provide funds for metropolitan cities, urban counties, and other communities to use for neighborhood revitalization, economic development, and improved community facilities and services. The United States Congress appropriated $2 billion in FY 2002 and $783 million in emergency supplemental appropriations in FY 2001 for "Community Development Fund" for emergency expenses to respond to the September 11, 2001 terrorist attacks on the United States. Of the amounts appropriated, $6,296 million and $228 million were expensed as of September 30, 2007 and 2006, respectively. Any remaining un-obligated balances shall remain available until expended.

The **Low Rent Public Housing Grants** program provides grants to PHAs and TDHEs for construction and rehabilitation of low-rent housing. This program is a continuation of the Low Rent Public Housing Loan program which pays principal and interest on long-term loans made to PHAs and TDHEs for construction and rehabilitation of low-rent housing.

The **Section 202/811 Supportive Housing for the Elderly and Persons with Disabilities** programs, prior to fiscal 1992, provided 40 year loans to nonprofit organizations sponsoring rental housing for the elderly or disabled. During fiscal 1992, the program was converted to a grant program. The grant program provides capital for long-term supportive housing for the elderly (Section 202) and disabled (Section 811).

The **Home Investments Partnerships** program provides grants to States, local Governments, and Indian tribes to implement local housing strategies designed to increase home ownership and affordable housing opportunities for low- and very low-income families.

Other Programs not included above consist of other smaller programs which provide grant, subsidy funding, and direct loans to support other HUD objectives such as fair housing and equal opportunity, energy conservation, assistance for the homeless, rehabilitation of housing units, removal of lead hazards, and home ownership. These programs comprise approximately 7.83 percent of HUD's consolidated assets and 7.59 percent of HUD's consolidated revenues and financing sources for fiscal 2007 and 7.4 percent of HUD's consolidated assets and 6.3 percent of HUD's consolidated revenues and financing sources for fiscal 2006.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Consolidation

The financial statements include all funds and programs for which HUD is responsible. All significant intra-fund balances and transactions have been eliminated in consolidation. Transfer appropriations are consolidated into the financial statements based on an evaluation of their relationship with HUD.

B. Basis of Accounting

The financial statements include the accounts and transactions of the Office of Fair Housing and Equal Opportunity (OFHEO), Ginnie Mae, FHA, and HUD's Grant, Subsidy and Loan programs.

The financial statements are presented in accordance with the Office of Management and Budget (OMB) Circular No. A-136, Financial Reporting Requirements and in conformance with the Federal Accounting Standards Advisory Board's (FASAB) Statements of Federal Financial Accounting Standards (SFFAS).

The financial statements are presented on the accrual basis of accounting. Under this method, HUD recognizes revenues when earned, and expenses when a liability is incurred, without regard to receipt or payment of cash. Generally, procedures for HUD's major grant and subsidy programs require recipients to request periodic disbursement concurrent with incurring eligible costs.

The department's disbursement policy permits grantees/recipients to request funds to meet immediate cash needs to reimburse themselves for eligible incurred expenses and eligible expenses expected to be received and paid within three days or as subsidies are payable. HUD's disbursement of funds for these purposes are not considered advance payments, but are viewed as good cash management between the department and the grantees. In the event it is determined that the grantee/recipient did not disburse the funds within the three day time frame, interest earned must be returned to HUD and deposited into one of Treasury's miscellaneous receipt accounts.

C. Use of Estimates

The preparation of the principal financial statements in conformity with Generally Accepted Accounting Principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at 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 the Department's best estimates based on pertinent information available.

To estimate the allowance for subsidy (AFS) associated with loans receivable and related to foreclosed property and the Liability for Loan Guarantees (LLG), the Department uses cash flow model assumptions associated with loan guarantee cases subject to the Federal Credit Reform Act of 1990 (FCRA), as described in Note 7, to estimate the cash flows associated with future loan performance. To make reasonable projections of future loan performance, the Department develops assumptions based on historical data, current and forecasted program and economic assumptions.

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

D. Credit Reform Accounting

The primary purpose of the Federal Credit Reform Act of 1990, which became effective on October 1, 1991, is to more accurately measure the cost of Federal credit programs and to place the cost of such credit programs on a basis equivalent with other Federal spending. OMB Circular A-11, Part 5, Federal Credit Programs defines Loan Guarantee as any guarantee, insurance or other pledge with respect to the payment of all or a part of the principal or interest on any debt obligation of a non-Federal borrower (Issuer) to a non-Federal lender (Investor). FHA practices Credit Reform accounting. In the opinion of Ginnie Mae management, and HUD's General Counsel, the Federal Credit Reform Act does not apply to Ginnie Mae. Nevertheless, in consultation with the OMB, Ginnie Mae has adopted certain credit reform practices.

The FCRA establishes the use of the program, financing, general fund receipt and capital reserve accounts for loan guarantees committed and direct loans obligated after September 30, 1991

(Credit Reform). It also establishes the liquidating account for activity relating to any loan guarantees committed and direct loans obligated before October 1, 1991 (pre-Credit Reform). These accounts are classified as either budgetary or non-budgetary in the Combined 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.

The program account is a budget account that receives and obligates appropriations to cover the subsidy cost of a direct loan or loan guarantee and disburses the subsidy cost to the financing account. The program account also receives appropriations for administrative expenses. The financing account is a non-budgetary account that records all of the cash flows resulting from Credit Reform direct loans or loan guarantees. It disburses loans, collects repayments and fees, makes claim payments, holds balances, borrows from U.S. Treasury, earns or pays interest, and receives the subsidy cost payment from the program account.

The general fund receipt account is a budget account used for the receipt of amounts paid from the financing account when there is a negative subsidy from the original estimate or a downward re-estimate. In most cases, the receipt account is a general fund receipt account and amounts are not earmarked for the credit program. They are available for appropriations only in the sense that all general fund receipts are available for appropriations. Any assets in this account are non-entity assets and are offset by intragovernmental liabilities. At the beginning of the following fiscal year, the fund balance in the general fund receipt account is transferred to U.S. Treasury general fund. The FHA general fund receipt account of the General Insurance (GI) and Special Risk Insurance (SRI) funds are in this category.

In order to resolve the different requirements between the FCRA and the National Affordable Housing Act of 1990 (NAHA), OMB instructed FHA to create the capital reserve account to retain the Mutual Mortgage Insurance/Cooperative Management Housing Insurance (MMI/CMHI) negative subsidy and subsequent downward re-estimates. Specifically, the NAHA required that FHA's MMI fund achieve a Capital Ratio of 2.0 percent by fiscal year 2000. The Capital Ratio is defined as the ratio of economic net worth (current cash plus the present value of all future net cash flows) of the MMI fund to unamortized insurance in force (the unpaid balance of insured mortgages). Therefore, to ensure that the calculated Capital Ratio reflects the actual strength of the MMI fund, the resources of the capital reserve account, which are considered FHA assets, are included in the calculation of the MMI fund's economic net worth. At the end of fiscal year 1995, FHA met and has since maintained the Capital Ratio requirement. FHA's actuary estimates the September 30, 2007, Capital Ratio at 6.40 percent. The fiscal year 2006 estimated Capital Ratio was 6.82 percent.

The liquidating account is a budget account that records all cash flows to and from FHA resulting from pre-Credit Reform direct loans or loan guarantees. Liquidating account collections in any year are 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 the GI/SRI liquidating account with permanent indefinite authority to cover any resource shortages.

E. Operating Revenue and Financing Sources

HUD finances operations principally through appropriations, collection of premiums and fees on its FHA and Ginnie Mae programs, and interest income on its mortgage notes, loans, and investments portfolio.

Appropriations for Grant and Subsidy Programs

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

FHA Unearned Premiums

Premiums charged by FHA for single family mortgage insurance provided by its Mutual Mortgage Insurance (MMI) Fund and Cooperative Management Housing Insurance (CMHI) Fund include up-front and annual risk based premiums. Pre-credit reform up-front risk based premiums are recorded as unearned revenue upon collection and are recognized as revenue over the period in which losses and insurance costs are expected to occur. Annual risk-based premiums are recognized as revenue on a straight-line basis throughout the year. FHA's other activities charge periodic insurance premiums over the mortgage insurance term. Premiums on annual installment policies are recognized for the liquidating accounts on a straight-line basis throughout the year.

Premiums associated with Credit Reform loan guarantees are included in the calculation of the Liability for Loan Guarantees (LLG) and not included in the unearned premium amount reported on the Balance Sheet, since the LLG represents the net present value of future cash flows associated with those insurance portfolios.

Ginnie Mae Fees

Fees received for Ginnie Mae’s guaranty of mortgage-backed securities are recognized as earned. Commitment fees represent income that Ginnie Mae earns for providing approved issuers with authority to pool mortgages into Ginnie Mae mortgage-backed securities. The authority Ginnie Mae provides issuers expires 12 months from issuance for single family issuers and 24 months from issuance for multifamily issuers. Ginnie Mae receives Commitment Fees as issuers request Commitment Authority and recognizes the Commitment Fees as earned as Issuers use their Commitment Authority, with the balance deferred until earned or expired, whichever occurs first. Fees from expired commitment Authority are not returned to issuers.

F. Appropriations and Moneys Received from Other HUD Programs

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

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

G. Investments

HUD limits its investments, principally comprised of investments by FHA's MMI/CMHI Fund and by Ginnie Mae, to non-marketable market-based Treasury interest-bearing obligations (i.e., investments not sold in public markets). The market value and interest rates established for such investments are the same as those for similar Treasury issues, which are publicly marketed.

HUD's investment decisions are limited by Treasury policy which: (1) only allows investment in Treasury notes, bills, and bonds; and (2) prohibits HUD from engaging in practices that result in "windfall" gains and profits, such as security trading and full scale restructuring of portfolios, in order to take advantage of interest rate fluctuations.

FHA's normal policy is to hold investments in U.S. Government securities to maturity. However, in certain circumstances, FHA may have to liquidate its U.S. Government securities before maturity to finance claim payments.

HUD reports investments in U.S. Government securities at amortized cost. Premiums or discounts are amortized into interest income over the term of the investment. HUD intends to hold investments to maturity, unless needed for operations. No provision is made to record unrealized gains or losses on these securities because, in the majority of cases, they are held to maturity.

The Departments of Veterans Affairs and Housing and Urban Development Appropriations Act of 1999 and Section 601 of the Independent Agencies Act of 1999 provide FHA with new flexibility in reforming its single family claims and property disposition activities. In accordance with these Acts, FHA implemented the Accelerated Claims Disposition Demonstration program (the 601 program) to shorten the claim filing process, obtain higher recoveries from its defaulted guaranteed loans, and support the Office of Housing's mission of keeping homeowners in their home. To achieve these objectives, FHA transfers assigned mortgage notes to private-sector entities in exchange for cash and equity interest. The servicing and disposition of the mortgage notes are performed by the private-sector entities whose primary mission is dedicated to these types of activity.

With the transfer of assigned mortgage notes under the 601 program, FHA obtains ownership interest in the private-sector entities. This level of ownership interest enables FHA to exercise significant influence over the operating and financial policies of the entities. Accordingly, to comply with the requirement of Opinion No. 18 issued by the Accounting Principles Board (APB 18), FHA uses the equity method of accounting to measure the value of its investments in these entities. The equity method of accounting requires FHA to record its investments in the entities at cost initially. Periodically, the carrying amount of the investments is adjusted for cash distributions to FHA and for FHA's share of the entities' earnings or losses.

Multifamily Risk Sharing Debentures [Section542(c)] is a program available to lenders. The lender shares the risk in a property by issuing debentures for claim amount paid by FHA on defaulted insured loans. HUD must approve FHA's participation in the risk sharing program and determines the portion of risk FHA assumes. If FHA's risk is over 50 percent, HUD must review and approve the underwriting standards, terms, and conditions of the loan. If the loan defaults, the lender has 75 days to file a claim with FHA. FHA then pays the lender the initial settlement. The initial settlement is the Unpaid Principal Balance (UPB) and interest at the note rate from the date of the default to the date of the initial settlement. On the settlement date the lender issues FHA a debenture for the amount of the settlement at the note rate (determined by the U.S. Treasury) thus sharing the risk in the property. The percentage of risk for each party is stated in the debenture. Interest is accrued monthly and is paid on the anniversary date of the initial settlement. Only interest payments are required. The term of the debenture is 5 years. The debenture can be redeemed early if the property is sold. The lender will be paid their percentage of risk sharing from the net proceeds of the sale of the property after adjustments for escrows, reserve for placement, and interest on debenture, hazard insurance and property repairs. The net amount is considered to be final claim profit or loss.

H. Credit Program Receivables and Related Foreclosed Property

HUD finances mortgages and provides loans to support construction and rehabilitation of low rent housing, principally for the elderly and disabled under the Section 202/811 program. Prior to April 1996, mortgages were also assigned to HUD through FHA claims settlement (i.e., Mortgage Notes Assigned (MNAs)). Single family mortgages were assigned to FHA when the mortgagor defaulted due to certain "temporary hardship" conditions beyond the control of the mortgagor, and when, in management's judgment, it is likely that the mortgage could be brought current in the future. FHA's loans receivable include MNAs, also described as Secretary-held notes, and purchase money mortgages (PMM). 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 mortgages are assigned to FHA when lenders file mortgage insurance claims for defaulted notes.

Credit program receivables for direct loan programs and defaulted guaranteed loans assigned for direct collection are valued differently based on the direct loan obligation or loan guarantee commitment date. These valuations are in accordance with the Federal Credit Reform Act of 1990 and SFFAS No. 2, "Accounting for Direct Loans and Loan Guarantees," as amended by SFFAS No. 18. Those obligated or committed on or after October 1, 1991 (post-Credit Reform) are valued at the net present value of expected cash flows from the related receivables.

Credit program receivables resulting from obligations or commitments prior to October 1, 1991 (pre-Credit Reform) are recorded at the lower of cost or fair value (net realizable value). Fair value is estimated based on the prevailing market interest rates at the date of mortgage assignment. When fair value is less than cost, discounts are recorded and amortized to interest income over the remaining terms of the mortgages or upon sale of the mortgages. Interest is recognized as income when earned. However, when full collection of principal is considered doubtful, the accrual of interest income is suspended and receipts (both interest and principal) are recorded as collections of principal. Pre-Credit Reform loans are reported net of allowance for loss and any unamortized discount. The estimate for the allowance on credit program receivables is based on historical loss rates and recovery rates resulting from asset sales and property recovery rates, net of cost of sales.

Foreclosed property acquired as a result of defaults of loans obligated or loan guarantees committed on or after October 1, 1991, is valued at the net present value of the projected cash flows associated with the property. Foreclosed property acquired as a result in defaulted loans obligated or loan guarantees committed prior to 1992 is valued at net realizable value. The estimate for the allowance for loss related to the net realizable value of foreclosed property is based on historical loss rates and recovery rates resulting from property sales, net of cost of sales.

I. Borrowings

As further discussed in Note 11, several of HUD's programs have the authority to borrow funds from the U.S. Treasury for program operations. These borrowings, representing unpaid principal balances and future accrued interest is reported as debt in HUD's consolidated financial statements. The PIH Low Rent Public Housing Loan Program and the Housing for the Elderly or Handicapped fund were financed through borrowings from the Federal Financing Bank or the U.S. Treasury prior to the Department's conversion of these programs to grant programs. The Department also borrowed funds from the private sector to assist in the construction and rehabilitation of low rent housing projects under the PIH Low Rent Public Housing Loan Program. Repayments of these long-term borrowings have terms up to 40 years.

In accordance with Credit Reform accounting, FHA also 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 amount related to new loan disbursements, and existing loan modifications from the financing accounts to the general fund receipts account (for cases in GI/SRI funds) or the liquidating account (for cases in MMI/CMHI funds). In some instances, borrowings are also needed to transfer the credit subsidy related to downward re-estimate from the GI/SRI financing account to the GI/SRI receipt account or when available cash is less than claim payments due.

J. Liability for Loan Guarantees

The potential future losses related to FHA's central business of providing mortgage insurance are accounted for as 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 Loan Loss Reserve (LLR).

The LLG and LLR are calculated as the present value of anticipated cash outflows for defaults, such as claim payments, premium refunds, property expense for on-hand properties and sale expense for sold properties, less anticipated cash inflows such as premium receipts, proceeds from asset sales and principal and interest on Secretary-held notes acquired from FHA's claim settlements of defaulted mortgages or pursuant to Section 221 (g) (4) of the National Housing Act.

HUD records its loan loss reserves for its mortgage insurance programs operated through FHA. FHA loss reserves are recorded for the net present value of estimated future cash flows associated with FHA-insured mortgage loans endorsed before fiscal year 1992.

K. Full Cost Reporting

Beginning in fiscal 1998, SFFAS No. 4 required that full costing of program outputs be included in Federal agency financial statements. Full cost reporting includes direct, indirect, and inter-entity costs. For purposes of the consolidated department financial statements, HUD identified each responsible segment's share of the program costs or resources provided by HUD or other Federal agencies. These costs are treated as imputed cost for the Statement of Net Cost and imputed financing for the Statement of Changes in Net Position.

L. Accrued Unfunded Leave and Federal Employees Compensation Act (FECA) Liabilities

Annual leave and compensatory time are accrued as earned and the liability is reduced as leave is taken. The liability at year-end reflects cumulative leave earned but not taken, priced at current wage rates. Earned leave deferred to future periods is to be funded by future appropriations. HUD offsets this unfunded liability by recording future financing sources in the Net Position section of its Consolidated Balance Sheet. Sick leave and other types of leave are expensed as taken.

HUD also accrues the portion of the estimated liability for disability benefits assigned to the agency under the Federal Employee Compensation Act (FECA), administered and determined by the Department of Labor (DOL). The liability, based on the net present value of estimated future payments based on a study conducted by DOL, was $82 million as of September 30, 2007 and $80 million as of September 30, 2006. Future payments on this liability are to be funded by future appropriations. HUD offsets this unfunded liability by recording future financing sources.

M. Retirement Plans

The majority of HUD's employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). FERS went into effect pursuant to Public Law 99-335 on January 1, 1987. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired before January 1, 1984, can elect to either join FERS and Social Security or remain in CSRS. HUD expenses its contributions to the retirement plans.

A primary feature of FERS is that it offers a savings plan whereby HUD automatically contributes 1 percent of pay and matches any employee contribution up to 5 percent of an individual's basic pay. Under CSRS, employees can contribute up to $15,000 of their pay to the savings plan, but there is no corresponding matching by HUD. Although HUD funds a portion of the benefits under FERS relating to its employees and makes the necessary withholdings from them, it has no liability for future payments to employees under these plans, nor does it report CSRS, FERS, or FECA assets, accumulated plan benefits, or unfunded liabilities applicable to its employees retirement plans. These amounts are reported by the Office of Personnel Management (OPM) and are not allocated to the individual employers. HUD's matching contribution to these retirement plans during fiscal 2007 and 2006 was $83 million and $81 million, respectively.

N. Loss Reserves

HUD records loss reserves for its mortgage insurance programs operated through FHA and its financial guaranty programs operated by Ginnie Mae. FHA loss reserves are recorded for the net present value of estimated future cash flows associated with FHA-insured mortgage loans endorsed before fiscal year 1992. Ginnie Mae establishes reserves for actual and probable defaults of issuers of Ginnie Mae-guaranteed mortgage-backed securities; such reserves are based on management's judgment about historical claim and loss information and current and projected economic factors.

O. Financial Accounting Standards Board Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees

The Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 45 (FIN 45), *Guarantor's Accounting and Disclosure Requirements for Guarantees,* Including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statements No. 5, 57, and 107, and Rescission of FASB Interpretation No. 34, in November 2002. FIN 45 clarifies the requirements of FASB Statement No. 5, Accounting for Contingencies, relating to the guarantor's accounting for, and disclosure of, the issuance of certain types of guarantees that upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under the guarantee. We have computed the fair value of our guarantee based on the life of the mortgage-backed securities and their underlying loans. Based on this evaluation we have disclosed an asset and liability of $425.9 million as of September 30, 2007 and $363.7 million as of September 30, 2006 categorized as other assets and other liabilities, see Note A. There is no impact on the net financial position of Ginnie Mae due to FIN 45.

P. Reclassification of HUD's Equity Balances

PBCAs assist the Office of Housing in managing its portfolio of properties, including the disbursement of subsidies to property owners who participate in the Section 8 program. HUD CFO worked with Multifamily Housing to develop an estimate of the gross receivable due from overpayments on PBCA contracts. The $16.7 million receivable amount for the overpayments was incorrectly recorded in HUD's Financial Reporting System used to generate HUD's financial statements in FY 2006. The $16.7 million error created an overstatement of HUD's cumulative results of operations and an understatement of unexpended appropriations on the Statement of Changes in Net Position by $33 million respectively. CFO Management concluded that the financial statement error was not material and therefore no restatement of HUD's fiscal year 2006 financial statements was warranted.

NOTE 3 – ENTITY AND NON-ENTITY ASSETS

Non-entity assets consist of assets that belong to other entities but are included in the Department's consolidated financial statements and are offset by various liabilities to accurately reflect HUD's net position. The Department's non-entity assets principally consist of: (1) U.S. deposit of negative credit subsidy in the GI/SRI general fund receipt account, (2) escrow monies collected by FHA that are either deposited at the U.S Treasury, Minority-Owned banks or invested in U.S. Treasury securities, and (3) cash remittances from Section 8 bond refundings deposited in the General Fund of the Treasury.

HUD's assets as of September 30, 2007 and 2006 were as follows (dollars in millions):

Description	2007 Entity	2007 Non-Entity	2007 Total	2006 Entity	2006 Non-Entity	2006 Total
Intragovernmental						
Fund Balance with Treasury (Note 4)	$ 66,141	$ 2,905	$ 69,046	$ 80,545	$ 850	$ 81,395
Investments (Note 5)	31,265	5	31,270	30,421	5	30,426
Accounts Receivable (net) (Note 6)	-	-	-	-	-	-
Other Assets (Note 9)	9	-	9	26	-	26
Total Intragovernmental Assets	$ 97,415	$ 2,910	$ 100,325	$ 110,992	$ 855	$ 111,847
Investments (Note 5)	121		121	98	-	98
Accounts Receivable (net) (Note 6)	186	70	256	287	76	363
Loan Receivables and	-					
Related Foreclosed Property (net) (Note 7)	9,566	-	9,566	10,045	-	10,045
General Property, Plant, and Equipment (net) (Note8)	212	-	212	176	-	176
Other Assets (Note 9)	483	110	593	423	111	534
Total Assets	$ 107,983	$ 3,090	$ 111,073	$ 122,021	$ 1,042	$ 123,063

NOTE 4 – FUND BALANCE WITH THE U.S. TREASURY

The U.S. Treasury, which, in effect, maintains HUD's bank accounts, processes substantially all of HUD's receipts and disbursements. HUD's fund balances with the U.S. Treasury as of September 30, 2007 and 2006 were as follows (dollars in millions):

Description	2007	2006
Revolving Funds	$ 11,418	$ 14,062
Appropriated Funds	54,757	66,442
Trust Funds	5	5
Other	2,866	886
Total - Fund Balance	$ 69,046	$ 81,395

The Department's Fund Balance with Treasury includes receipt accounts established under current Federal Credit Reform legislation and cash collections deposited in restricted accounts that cannot be used by HUD for its programmatic needs. These designated funds established by the Department of Treasury are classified as suspense and/or deposit funds and consist of accounts receivable balances due from the public. A Statement of Budgetary Resources is not prepared for these funds since any cash remittances received by the Department are not defined as a budgetary resource.

In addition to fund balance, contract and investment authority are also a part of HUD's funding sources. Contract authority permits an agency to incur obligations in advance of an appropriation, offsetting collections, or receipts to make outlays to liquidate the obligations. HUD has permanent indefinite contract authority. Since federal securities are considered the equivalent of cash for budget purposes, investments in them are treated as a change in the mix of assets held, rather than as a purchase of assets.

A primary reason for the increase in HUD's fund balance with Treasury is appropriations received for hurricane disaster relief efforts as further explained in Note 24.

HUD's fund balances with U.S. Treasury as reflected in the entity's general ledger as of September 30, 2007, were as follows (dollars in millions):

Status of Resources - 2007

Description	Unobligated Available	Unobligated Unavailable	Obligated Not Yet Disbursed	Unfilled Customer Orders	Status of Total Resources	Fund Balance	Other Authority	Total Resources
FHA	$ 1,180	$ 25,740	$ 2,296	$ (1)	$ 29,215	$ 6,800	$ 22,416	$ 29,216
GNMA	-	13,095	129	(77)	13,147	4,433	8,715	13,148
Section 8 Rental Assistance	943	259	14,067		15,269	5,336	9,932	15,268
CDBG	766	20	19,768		20,554	20,554	-	20,554
HOME	317	5	5,379		5,701	5,700	-	5,700
Operating Subsidies	-	4	1,096		1,100	1,100	-	1,100
Public Housing Loans and	206	18	9,129		9,353	7,777	1,576	9,353
Section 202/811	1,053	126	5,076		6,255	6,255	-	6,255
Section 235/236	31	740	4,972		5,743	349	5,394	5,743
All Other	2,225	478	5,235	(22)	7,916	7,907	9	7,916
Total	$ 6,721	$ 40,485	$ 67,147	$ (100)	$ 114,253	66,211	$ 48,042	$ 114,253

Status of Resources Covered by Fund Balance

Description	Unobligated Available	Unobligated Unavailable	Obligated Not Yet Disbursed	Unfilled Customer Orders	Fund Balance	Non-Bugdetary: Deposit and Receipt Accounts	Suspense,	Total Fund Balance
FHA	$ 1,180	$ 3,325	$ 2,296	$ (1)	$ 6,800	$ 2,759	$ -	9,559
GNMA	-	4,381	129	(77)	4,433		-	4,433
Section 8 Rental Assistance	532	202	4,602		5,336	13	-	5,349
CDBG	766	20	19,768		20,554		-	20,554
HOME	317	4	5,379		5,700		-	5,700
Operating Subsidies	-	4	1,096		1,100		-	1,100
Public Housing Loans and	206	18	7,553		7,777		-	7,777
Section 202/811	1,053	126	5,076		6,255		-	6,255
Section 235/236	5	3	341		349		-	349
All Other	2,225	470	5,234	(22)	7,907	63	-	7,970
Total	$ 6,284	$ 8,553	$ 51,474	$ (100)	$ 66,211	$ 2,835	$ -	$ 69,046

Status of Resources Covered by Other Authority

Description	Unobligated Available	Unobligated Unavailable	Obligated Not Yet Disbursed	Unfilled Customer Orders	Permanent Indefinite Authority	Investment Authority
FHA		$ 22,416				$ 22,416
GNMA		8,715				8,715
Section 8 Rental Assistance	$ 410	57	$ 9,465		$ 9,932	
Public Housing Loans and	-	-	1,576		1,576	
Section 235/236	26	737	4,631		5,394	
All Other	-	8	1		9	
Total	$ 436	$ 31,933	$ 15,673	$ -	$ 16,911	$ 31,131

Status of Receipt Account Balances

Description	Fund Balance
FHA	$ 2,759
GNMA	-
Section 8 Rental Assistance	13
All Other	63
Total	$ 2,835

Status of Resources - 2006

Description	Unobligated Available	Unobligated Unavailable	Obligated Not Yet Disbursed	Unfilled Customer Orders	Status of Total Resources	Fund Balance	Other Authority	Total Resources
FHA	$ 2,292	$ 27,130	$ 2,357	$ (5)	$ 31,774	$ 9,891	$ 21,883	$ 31,774
GNMA	-	12,442	109	(80)	12,471	4,056	8,415	12,471
Section 8 Rental Assistance	1,087	1,156	16,986		19,229	8,489	10,740	19,229
CDBG	6,237	28	21,413		27,678	27,678		27,678
HOME	268	2	5,551		5,821	5,821		5,821
Operating Subsidies	1	1	940		942	943		943
Public Housing Loans and Grants	405	11	9,610		10,026	8,444	1,582	10,026
Section 202/811	1,157	84	5,385		6,626	6,626	-	6,626
Section 235/236	31	936	5,799		6,766	434	6,332	6,766
All Other	2,084	344	5,835	(30)	8,233	8,223	10	8,233
Total	$ 13,562	$ 42,134	$ 73,985	$ (115)	$ 129,566	$ 80,605	$ 48,962	$ 129,567

Status of Resources Covered by Fund Balance

Description	Unobligated Available	Unobligated Unavailable	Obligated Not Yet Disbursed	Unfilled Customer Orders	Fund Balance	Non-Budgetary Funds (Suspense, Deposit and Receipt Accounts)	Total Fund Balance
FHA	$ 2,292	$ 5,247	$ 2,357	$ (5)	$ 9,891	$ 677	$ 10,568
GNMA	-	4,028	109	(80)	4,057	-	4,057
Section 8 Rental Assistance	834	79	7,576		8,489	12	8,501
CDBG	6,237	28	21,413		27,678		27,678
HOME	268	2	5,551		5,821		5,821
Operating Subsidies	1	1	940		942		942
Public Housing Loans and Grants	405	11	8,028		8,444	-	8,444
Section 202/811	1,157	84	5,385		6,626		6,626
Section 235/236	1	3	430		434	-	434
All Other	2,084	336	5,833	(30)	8,223	101	8,324
Total	$ 13,279	$ 9,819	$ 57,622	$ (115)	$ 80,605	$ 790	$ 81,395

Status of Resources Covered by Other Authority

Description	Unobligated Available	Unobligated Unavailable	Obligated Not Yet Disbursed	Unfilled Customer Orders	Permanent Indefinite Authority	Investment Authority
FHA	-	$ 21,883	-	-		$ 21,883
GNMA	-	8,415	-	-		8,415
Section 8 Rental Assistance	$ 253	1,076	$ 9,411	-	$ 10,740	
Public Housing Loans and Grants	-	-	1,582	-	1,582	
Section 235/236	30	932	5,370	-	6,332	
All Other	-	9	1	-	10	
Total	$ 283	$ 32,315	$ 16,364	$ -	$ 18,664	$ 30,298

Status of Receipt Account Balances

Description	Fund Balance
FHA	$ 677
GNMA	-
Section 8 Rental Assistance	12
All Other	101
Total	$ 790

An immaterial difference exists between HUD's recorded Fund Balances with the U.S. Treasury and the U.S. Department of Treasury's records. It is the Department's practice to adjust its records to agree with Treasury's balances at the end of the fiscal year. The adjustments are reversed at the beginning of the following fiscal year.

NOTE 5 - INVESTMENTS

The U.S. Government securities are non-marketable intra-governmental securities. Interest rates are established by the U.S. Treasury and during fiscal year 2007 ranged from 0.88 percent to 4.62 percent. During fiscal year 2006 interest rates ranged from 0.88 percent to 6.50 percent. The amortized cost and estimated market value of investments in debt securities as of September 30, 2007 and 2006 were as follows (dollars in millions):

	Cost	Par Value	Unamortized Premium (Discount)	Accrued Interest	Net Investments	Unamortized Gain	Market Value
FY 2007	$ 30,870	$ 31,168	$ (214)	$ 316	$ 31,270	$ 192	$ 31,462
FY 2006	$ 30,079	$ 30,421	$ (250)	$ 255	$ 30,426	$ (19)	$ 30,407

Investments in Private-Sector Entities

These investments in private-sector entities are the result of FHA's participation in the Accelerated Claims Disposition Demonstration program in fiscal years 2007 and 2006 as discussed in Note 2G. The following table presents financial data on FHA's investments in private-sector entities as of September 30, 2007 and 2006 (dollars in millions):

	Beginning Balance	New Acquisitions	Share of Earnings or Losses	Return of Investments	Other Adjustments	Ending Balance
FY 2007	$ 98	$ -	$ (1)	$ (56)	$ -	$ 41
FY 2006	$ 201	$ 49	$ 15	$ (167)	$ -	$ 98

This table of investments consists of the debentures issued to FHA by lenders participating in the Multifamily Risk-Sharing program under Section 542(c) as of September 30, 2007. The cost is the amount paid at settlement date.

Risk Sharing Debentures

	Beginning Balance	Acquired	Redeemed	Ending Balance
Debentures	$ -	$ 80	$ -	$ 80
Accrued Interest	$ -	$ -	$ -	$ -
September 30, 2007				$ 80

	Beginning Balance	Acquired	Redeemed	Ending Balance
Debentures	$ -	$ -	$ -	$ -
Accrued Interest	$ -	$ -	$ -	$ -
September 30, 2006				$ -

The condensed, audited financial information related to these private-sector entities as of December 31, 2006, and for the period from inception to December 31, 2005, is summarized below (dollars in millions):

	2006		2005	
Total assets, primarily mortgage loans	$	258	$	422
Liabilities	$	2	$	3
Partners' capital		256		419
Total liabilities and partners's capital	$	258	$	422
Revenues	$	78	$	184
Expenses		(23)		(20)
Net Income	$	55	$	164

NOTE 6 - ACCOUNTS RECEIVABLE

The department's accounts receivable represents Section 8 year-end settlements, claims to cash from the public and state and local authorities for bond refundings, sustained audit findings, FHA insurance premiums and foreclosed property proceeds. A 100 percent allowance for loss is established for all delinquent accounts 90 days and over.

Section 8 Settlements

Prior to January 1, 2005, the Housing Choice Voucher (HCV) Program's Section 8 subsidies were disbursed based on estimated amounts due under the contracts. At the end of each year, the actual amount due under the contracts was determined. The excess of subsidies paid to PHAs during the year over the actual amount due was reflected as an accounts receivable in the balance sheet. These receivable amounts were "collected" by offsetting such amounts with subsidies due to the PHAs in subsequent periods. On January 1, 2005, Congress changed the basis of the program funding from a "unit-based" process with program variables that affected the total annual Federal funding need, to a "budget-based" process that limits the Federal funding to PHAs to a fixed amount. Under this "budget-based" process, HUD records an expense for the HCV Program when each monthly allocation of program funds is added to the PHAs letter-of-credit for drawdown and the PHA records a corresponding revenue on its books. A year end settlement process to determine actual amounts due is no longer applicable

Bond Refundings

Many of the Section 8 projects constructed in the late 1970s and early 1980s were financed with tax exempt bonds with maturities ranging from 20 to 40 years. The related Section 8 contracts provided that the subsidies would be based on the difference between what tenants could pay pursuant to a formula, and the total operating costs of the Section 8 project, including debt service. The high interest rates during the construction period resulted in high subsidies. When interest rates came down in the 1980s, HUD was interested in getting the bonds refunded. One method used to account for the savings when bonds are refunded (PHA's) sell a new series of bonds at a lower interest rate, to liquidate the original bonds), is to continue to pay the original amount of the bond debt service to a trustee. The amounts paid in excess of the lower "refunded" debt service and any related financing costs, are considered savings. One-half of these savings are provided to the PHA, the remaining half is returned to HUD. As of September 30, 2007 and 2006, HUD was due $62 million and $71 million, respectively.

Other Receivables

Other receivables include sustained audit findings, refunds of overpayment, FHA insurance premiums and foreclosed property proceeds due from the public.

The following shows accounts receivable as reflected in the Balance Sheet as of September 30, 2007 and 2006, as follows (dollars in millions):

	2007			2006		
Description	Gross Accounts Receivable	Allowance for Loss	Total	Gross Accounts Receivable	Allowance for Loss	Total
Section 8 Settlements	$ 82	$ (42)	40	76	-	76
Bond Refundings	65	$ (3)	62	81	$ (10)	71
Other Receivables:						
FHA	124	(5)	119	51	-	51
Other Receivables	49	(14)	35	248	(83)	165
Total Assets	$ 320	$ (64)	$ 256	$ 456	$ (93)	$ 363

NOTE 7 - DIRECT LOANS AND LOAN GUARANTEES, NON-FEDERAL BORROWERS

HUD reports direct loan obligations or loan guarantee commitments made prior to fiscal year 1992 and the resulting direct loans or defaulted guaranteed loans, net of allowance for estimated uncollectible loans or estimated losses.

Direct loan obligations or loan guarantee commitments made after fiscal 1991, and the resulting direct loans or defaulted guaranteed loans, are governed by the Federal Credit Reform Act of 1990 and are recorded as the net present value of the associated cash flows (i.e. interest rate differential, interest subsidies, estimated delinquencies and defaults, fee offsets, and other cash flows).

Additionally, HUD insures Home Equity Conversion Mortgages (HECM), also known as reverse mortgages. These loans are used by senior homeowners age 62 and older to convert the equity in their home into monthly streams of income and/or a line of credit to be repaid when they no longer occupy the home. Unlike ordinary home equity loans, a HUD reverse mortgage does not require repayment as long as the home is the borrower's principal residence.

The following is an analysis of loan receivables, loan guarantees, liability for loan guarantees, and the nature and amounts of the subsidy costs associated with the loans and loan guarantees for fiscal 2007 and 2006 were as follows:

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

1. FHA
2. Housing for the Elderly and Disabled
3. Low Rent Public Housing Loan Fund
4. All Other
   a) Revolving Fund
   b) Flexible Subsidy
   c) CDBG, Section 108(b)
   d) Indian Housing Loan Guarantee Fund
   e) Loan Guarantee Recovery Fund
   f) Native Hawaiian Housing Loan Guarantee Fund
   g) Title VI Indian Housing Loan Guarantee Fund

B. Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method) (dollars in millions):

Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans
$ 16	$ 5	$ (6)	-	$ 15
4,594	56	(17)	$ 1	4,634
1	1	-	-	2
655	11	(475)	1	192
$ 5,266	$ 73	$ (498)	$ 2	$ 4,843

2006

Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans
$ 17	$ 3	$ (7)	-	$ 13
5,520	62	(22)	$ 1	5,561
1	-	-	-	1
675	11	(488)	2	200
$ 6,213	$ 76	$ (517)	$ 3	$ 5,775

C. Direct Loans Obligated After FY 1991(dollars in millions):

	2007				
Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property	Value of Assets Related to Direct Loans
FHA	1	-	$ (3)	-	$ (2)

	2006				
Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property	Value of Assets Related to Direct Loans
FHA	1	-	$ (4)	-	$ (3)

D. Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method)(dollars in millions):

	2007				
	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan and Interest Losses	Foreclosed Property, Net	Defaulted Guaranteed Loans Receivable, Net
FHA	$ 2,989	$ 212	$ (804)	$ 8	$ 2,405

	2006				
	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan and Interest Losses	Foreclosed Property, Net	Defaulted Guaranteed Loans Receivable, Net
FHA	$ 2,978	$ 135	$ (819)	$ 14	$ 2,308

E. Defaulted Guaranteed Loans from Post-FY 1991 Guarantees (dollars in millions):

	2007				
	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property, Gross	Value of Assets Related to Defaulted Guaranteed Loans
FHA	$ 873	$ 186	$ (1,779)	$ 3,040	$ 2,320

	2006				
	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property, Gross	Value of Assets Related to Defaulted Guaranteed Loans
FHA	$ 917	$ 48	$ (1,889)	$ 2,888	$ 1,964

	2007	2006
Total Credit Program Receivables and Related Foreclosed Property, Net	$9,567	$10,045

F. Guaranteed Loans Outstanding (dollars in millions):

Guaranteed Loans Outstanding:

	2007	
Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
FHA Programs	$ 438,872	$ 399,960
All Other	2,998	2,993
Total	$ 441,870	$ 402,953

	2006	
Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
FHA Programs	$ 434,070	$ 395,771
All Other	2,879	2,879
Total	$ 436,949	$ 398,650

Home Equity Conversion Mortgage Loans Outstanding:

		Cumulative	
Loan Guarantee Programs	2007 Current Year Endorsements	Current Outstanding Balance	Maximun Potential Liability
FHA GI/SRI Programs	$ 24,567	$ 29,982	$ 56,676

		Cumulative	
Loan Guarantee Programs	2006 Current Year Endorsements	Current Outstanding Balance	Maximun Potential Liability
FHA GI/SRI Programs	$ 17,994	$ 18,295	$ 35,878

New Guaranteed Loans Disbursed (Current Reporting Year):

Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
FHA Programs	$ 63,511	$ 63,139
All Other	312	311
Total	$ 63,823	$ 63,450

New Guaranteed Loans Disbursed (Prior Reporting Years):

Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
FHA Programs	$ 61,625	$ 59,725
All Other	539	539
Total	$ 62,164	$ 60,264

G. Liability for Loan Guarantees (Estimated Future Default Claims, Pre-1992) (dollars in millions):

	2007		
Loan Guarantee Programs	Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims	Liabilities for Loan Guarantees for Post-1991 Guarantees (Present Value)	Total Liabilities For Loan Guarantees
FHA Programs	$ 371	$ 7,060	$ 7,431
All Other	-	120	120
Total	$ 371	$ 7,180	$ 7,551

	2006		
Loan Guarantee Programs	Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims	Liabilities for Loan Guarantees for Post-1991 Guarantees (Present Value)	Total Liabilities For Loan Guarantees
FHA Programs	$ 498	$ 2,984	$ 3,482
All Other	-	108	108
Total	$ 498	$ 3,092	$ 3,590

H. Subsidy Expense for Post-FY 1991 Loan Guarantees:

Subsidy Expense for Current Year Loan Guarantees (dollars in millions)

2007

Loan Guarantee Programs	Default Component	Fees Component	Other Component	Subsidy Amount
FHA	$ 2,003	$ (3,694)	$ 667	$ (1,024)
All Other	8	-	-	8
Total	$ 2,011	$ (3,694)	$ 667	$ (1,016)

2006

Loan Guarantee Programs	Default Component	Fees Component	Other Component	Subsidy Amount
FHA	$ 1,465	$ (3,214)	$ 378	$ (1,371)
All Other	13	-	-	13
Total	$ 1,478	$ (3,214)	$ 378	$ (1,358)

Modification and Re-estimates (dollars in millions)

2007

Loan Guarantee Programs	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
FHA	(5)	-	$ 3,630	$ 3,625
All Other			(3)	(3)
Total	$ (5)	$ -	$ 3,627	$ 3,622

2006

Loan Guarantee Programs	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
FHA	(9)	-	$ 421	$ 412
All Other			(4)	(4)
Total	$ (9)	$ -	$ 417	$ 408

Total Loan Guarantee Subsidy Expense (dollars in millions)

Loan Guarantee Programs	Current Year	Prior Year
FHA	$ 2,601	$ (959)
All Other	5	9
Total	$ 2,606	$ (950)

I. Subsidy Rates for Loan Guarantees by Programs and Component:

Budget Subsidy Rates for Loans Guarantee for FY 2007

Loan Guarantee Program	Default	Fees and Other Collections	Other	Total
FHA				
FHA	2.24%	-4.12%	0.74%	-1.14%
All Other				
CDBG, Section 108 (b)	2.17%			2.17%
Loan Guarantee Recovery	50.00%			50.00%
Indian Housing	2.35%			2.35%
Natiove Hawaiian Housing	2.35%			2.35%
Title VI Indian Housing	11.99%			11.99%

The subsidy rates above pertain only to FY 2007 cohorts. These rates cannot be applied to the guarantees of loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loan guarantees reported in the current year could result from disbursements of loans from both current year cohorts and prior year(s) cohort. The subsidy expense reported in the current year also includes modifications re-estimates.

J. Schedule for Reconciling Loan Guarantee Liability Balances (post 1991 Loan Guarantees):

(dollars in millions)

Beginning Balance, Changes, and Ending Balance	FY 2007	FY 2006
Beginning balance of the loan guarantee liability	$ 3,589	$ 4,678
Add: subsidy expense for guaranteed loans disbursed during the reporting years by component:		
(a) Interest supplement costs	-	-
(b) Default costs (net of recoveries)	2,012	1,478
(c) Fees and other collections	(3,694)	(3,214)
(d) Othe subsidy costs	667	378
Total of the above subsidy expense components	$ (1,015)	$ (1,358)
Adjustments:		
(a) Loan guarantee modifications	-	-
(b) Fees Received	3,234	2,819
(c) Interest supplemental paid	-	-
(d) Foreclosed property and loans acquired	3,756	4,011
(e) Claim payments to lenders	(5,870)	(6,296)
(f) Interest accumulation on the liability balance	(61)	41
(g) Other	(6)	12
Ending balance of the subsidy cost allowance before reestimates	$ 3,627	$ 3,907
Add or Subtract subsidy reestimates by component:		
(a) Interest rate reestimate	381	(1,670)
(b) Technical/default reestimate	3,543	1,352
Total of the above reestimate components	3,924	(318)
Ending balance of the subsidy cost allowance	$ 7,551	$ 3,589

K. Administrative Expense (dollars in millions):

Loan Guarantee Program	FY 2007	FY 2006
FHA	$ 493	$ 501
All Other	1	1
Total	$ 494	$ 502

NOTE 8 – GENERAL PROPERTY, PLANT, AND EQUIPMENT

General property plant and equipment consists of furniture, fixtures, equipment and data processing software used in providing goods and services that have an estimated useful life of two or more years. Purchases of $100,000 or more are recorded as an asset and depreciated over their estimated useful life on a straight-line basis with no salvage value. Capitalized replacement and improvement costs are depreciated over the remaining useful life of the replaced or improved asset. Generally, the department's assets are depreciated over a 4-year period, unless it can be demonstrated that the estimated useful life is significantly greater than 4 years.

The following shows general property plant and equipment as of September 30, 2007 and 2006, (dollars in millions):

Description	FY 2007 Cost	FY 2007 Accum Depr and Amortization	FY 2007 Book Value	FY 2006 Cost	FY 2006 Accum Depr and Amortization	FY 2006 Book Value
Equipment	$ 16	$ (12)	$ 4	$ 31	$ (26)	$ 5
Leasehold Improvements	6	(4)	2	6	(3)	3
Internal Use Software	126	(76)	50	116	(61)	55
Internal Use Software in Development	157	-	157	113	-	113
Total Assets	$ 305	$ (92)	$ 213	$ 266	$ (90)	$ 176

NOTE 9 - OTHER ASSETS

The following shows HUD's Other Assets as of September 30, 2007 (dollars in millions):

Description	FHA	Ginnie Mae	All Other	Total
Intragovernmental Assets:				
Other Assets	-		$ 8	8
Total Intragovernmental Assets	-	-	8	8
Mortgagor Reserves for Replacement - Cash	$ 110	-	-	$ 110
Advances to the Public	-	-	$ -	-
Financial Accounting Standards Board Interpretation No 45		$ -		-
Other Assets	33	449	1	483
Total	$ 143	$ 449	$ 9	$ 601

The following shows HUD's Other Assets as of September 30, 2006 (dollars in millions):

Description	FHA	Ginnie Mae	All Other	Total
Intragovernmental Assets:				
Other Assets	-	-	$ 26	26
Total Intragovernmental Assets	-	-	$ 26	$ 26
Mortgagor Reserves for Replacement - Cash	$ 111	-	-	$ 111
Advances from the Public	-	-	$ 2	2
Financial Accounting Standards Board Interpretation No 45		$ -		0
Other Assets	30	391	-	421
Total	$ 141	$ 391	$ 28	$ 560

NOTE 10 – LIABILITIES COVERED AND NOT COVERED BY BUDGETARY RESOURCES

The following shows HUD's liabilities as of September 30, 2007 and 2006 (dollars in millions):

Description	2007			2006		
	Covered	Not-Covered	Total	Covered	Not-Covered	Total
Intragovernmental						
Accounts Payable	$ 5	-	$ 5	$ -	-	$ -
Debt	5,459	-	$ 5,459	$ 7,249	-	$ 7,249
Other Intragovernmental Liabilities	3,789	$ 18	3,807	2,602	$ 68	2,670
Total Intragovernmental Liabilities	$ 9,253	$ 18	$ 9,271	$ 9,851	$ 68	$ 9,919
Accounts Payable	769	-	769	757	-	757
Liabilities for Loan Guarantees	7,551	-	7,551	3,589	-	3,589
Debt	981	-	981	1,252	-	1,252
Federal Employee and Veterans' Benefits	82	-	82	-	80	80
Loss Reserves	536	-	536	534	-	534
Other Liabilities	1,087	83	1,170	1,111	81	1,192
Total Liabilities	$ 20,259	$ 101	$ 20,360	$ 17,094	$ 229	$ 17,323

NOTE 11 - DEBT

Several HUD programs have the authority to borrow funds from the U.S. Treasury for program operations. Additionally, the National Housing Act authorizes FHA, in certain cases, to issue debentures in lieu of cash to pay claims. Also, PHAs and TDHEs borrowed funds from the private sector and from the Federal Financing Bank (FFB) to finance construction and rehabilitation of low rent housing. HUD is repaying these borrowings on behalf of the PHAs and TDHEs.

The following shows HUD borrowings, and borrowings by PHAs/TDHEs for which HUD is responsible for repayment, as of September 30, 2007 (dollars in millions):

Description	Beginning Balance	Net Borrowings	Ending Balance
Agency Debt:			
Held by Government Accounts	$ 991	$ (105)	$ 886
Held by the Public	1,251	(270)	981
Total Agency Debt	$ 2,242	$ (375)	$ 1,867
Other Debt:			
Debt to the U.S. Treasury	$ 6,258	$ (1,685)	$ 4,573
Total Debt	$ 8,500	$ (2,060)	$ 6,440
Classification of Debt:			
Intragovernmental Debt			$ 5,459
Debt held by the Public			981
Total Debt			$ 6,440

The following shows HUD borrowings, and borrowings by PHAs/TDHEs for which HUD is responsible for repayment, as of September 30, 2006 (dollars in millions):

Description	Beginning Balance	Net Borrowings	Ending Balance
Agency Debt:			
Held by Government Accounts	$ 1,090	$ (99)	$ 991
Held by the Public	1,542	(290)	1,252
Total Agency Debt	$ 2,632	$ (389)	$ 2,243
Other Debt:			
Debt to the U.S. Treasury	$ 7,832	$ (1,574)	$ 6,258
Total Debt	$ 10,464	$ (1,963)	$ 8,501
Classification of Debt:			
Intragovernmental Debt			$ 7,249
Debt held by the Public			1,252
Total Debt			$ 8,501

Interest paid on borrowings as of September 30, 2007 and 2006 was $117 million and $1,000 million respectively. The purpose of these borrowings is discussed in the following paragraphs.

Borrowings from the U.S. Treasury

HUD is authorized to borrow from the U.S. Treasury to finance Housing for Elderly and Disabled loans. The Treasury borrowings typically have a 15-year term, but may be repaid prior to maturity at HUD's discretion. However, such borrowings must be repaid in the sequence in which they were borrowed from Treasury. The interest rates on the borrowings are based on Treasury's 30-year bond yield at the time the notes are issued. Interest is payable on April 30 and October 31. Interest rates ranged from 7.44 percent to 8.18 percent during fiscal year 2006. All Treasury borrowings were paid in full during fiscal year 2006.

In fiscal 2007 and 2006, FHA borrowed $0 million and $896 million, respectively, from the U.S. Treasury. The borrowings were needed when FHA initially determined negative credit subsidy amounts related to new loan disbursements or to existing loan modifications. In some instances, borrowings were needed where available cash was less than claim payments due or downward subsidy-estimates. All borrowings were made by FHA's financing accounts. Negative subsidies were generated primarily by the MMI/CMHI Fund financing account; downward re-estimates have occurred from activity of the FHA's loan guarantee financing accounts. These borrowings carried interest rates ranging from 2.33 percent to 7.34 percent during fiscal 2007 and from 2.41 percent to 7.36 percent during fiscal year 2006.

Borrowings from the Federal Financing Bank (FFB) and the Public

During the 1960s, 1970s, and 1980s, PHAs obtained loans from the private sector and from the FFB to finance development and rehabilitation of low rent housing projects. HUD is repaying these borrowings on behalf of the PHAs, through the Low Rent Public Housing program. For borrowings from the Public, interest is payable throughout the year. Interest rates range from 3.25 percent to 6.0 percent during both fiscal year 2007 and 2006. The borrowings from the FFB and the private sector have terms up to 40 years. FFB interest is payable annually on November 1. Interest rates range from 10.67 percent to 16.18 percent during both fiscal year 2007 and 2006.

Before July 1, 1986, the FFB purchased notes issued by units of general local government and guaranteed by HUD under Section 108. These notes had various maturities and carried interest rates that were one-eighth of one percent above rates on comparable Treasury obligations. The FFB still holds substantially all outstanding notes, and no note purchased by the FFB has ever been declared in default.

Debentures Issued To Claimants

The National Housing Act authorizes FHA, in certain cases, to issue debentures in lieu of cash to settle claims. FHA-issued debentures bear interest at rates established by the U.S. Treasury. Interest rates related to the outstanding debentures ranged from 4.0 percent to 12.88 percent during both FY 2007 and FY 2006. Debentures may be redeemed by lenders prior to maturity to pay mortgage insurance premiums to FHA, or they may be called with the approval of the Secretary of the U. S. Treasury.

NOTE 12 – FEDERAL EMPLOYEE and VETERANS' BENEFITS

HUD also accrues the portion of the estimated liability for disability benefits assigned to the agency under the Federal Employee Compensation Act (FECA), administered and determined by the Department of Labor (DOL). The liability, based on the net present value of estimated future payments based on a study conducted by DOL, was $ 82 million as of September 30, 2007 and $80 million as of September 30, 2006. Future payments on this liability are to be funded by future appropriations. HUD offsets this unfunded liability by recording future financing sources.

The Department's Federal Employee and Veterans' benefit expenses totaled approximately $135 million for fiscal year 2007; $35 million to be funded by OPM. Federal Employee and Veterans' benefit expenses totaled approximately $136 million for fiscal 2006. This includes $38 million to be funded by the OPM. Amounts funded by OPM are charged to expense with a corresponding amount considered as an imputed financing source in the statement of changes in net position.

NOTE 13 - LOSS RESERVES

For fiscal years 2007 and 2006, Ginnie Mae established loss reserves of $536 and $534 million, respectively, which represents probable defaults by issuers of mortgage-backed securities, through a provision charged to operations. The reserve is relieved as losses are realized from the disposal of the defaulted issuers' portfolios. Ginnie Mae recovers part of its losses through servicing fees on the performing portion of the portfolios and the sale of servicing rights which transfers to Ginnie Mae upon the default of the issuer. Ginnie Mae management believes that its reserve is adequate to cover probable losses from defaults by issuers of Ginnie Mae guaranteed mortgage-backed securities.

Ginnie Mae incurs losses when insurance and guarantees do not cover expenses that result from issuer defaults. Such expenses include: (1) unrecoverable losses on individual mortgage defaults because of coverage limitations on mortgage insurance or guarantees, (2) ineligible mortgages included in defaulted Ginnie Mae pools, (3) improper use of proceeds by an issuer, and (4) non-reimbursable administrative expenses and costs incurred to service and liquidate portfolios of defaulted issuers.

NOTE 14 - OTHER LIABILITIES

The following shows HUD's Other Liabilities as of September 30, 2007 (dollars in millions):

Description	Non-Current	Current	Total
Intragovernmental Liabilities			
FHA Special Receipt Account Liability	-	$ 3,657	$ 3,657
Unfunded FECA Liability	$ 18	-	18
Employer Contributions and Payroll Taxes		5	5
Miscellaneous Receipts Payable to Treasury	-	106	106
Penalty Due to Treasury	-	-	-
Advances to Federal Agencies		22	22
Total Intragovernmental Liabilities	$ 18	$ 3,790	$ 3,808
Other Liabilities			
FHA Other Liabilities	-	$ 288	$ 288
FHA Escrow Funds Related to Mortgage Notes	-	155	155
FHA Unearned Premiums	$ 7	24	31
Ginnie Mae Deferred Income	-	76	76
Deferred Credits	-	5	5
Deposit Funds	58	11	69
Accrued Unfunded Annual Leave	77	-	77
Accrued Funded Payroll Benefits	-	36	36
Other - FIN 45		426	426
Other	6	-	6
Total Other Liabilities	$ 166	$ 4,811	$ 4,977

Special Receipt Account Liability

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

The following shows HUD's Other Liabilities as of September 30, 2006 (dollars in millions):

Description	Non-Current	Current	Total
Intragovernmental Liabilities			
FHA Special Receipt Account Liability	-	$ 2,486	$ 2,486
HUD-Section 312 Rehabilitation Program Payable	-	-	-
Unfunded FECA Liability	$ 18	-	18
Employer Contributions and Payroll Taxes		5	5
Miscellaneous Receipts Payable to Treasury	103	-	103
Penalty Due to Treasury		50	50
Advances to Federal Agencies		8	8
Total Intragovernmental Liabilities	$ 121	$ 2,549	$ 2,670
Other Liabilities			
FHA Other Liabilities	-	$ 266	$ 266
FHA Escrow Funds Related to Mortgage Notes	-	170	170
FHA Unearned Premiums	$ 119	21	140
Ginnie Mae Deffered Income	-	73	73
Deferred Credits	-	3	3
Deposit Funds	54	2	56
Accrued Unfunded Annual Leave	75	-	75
Accrued Funded Payroll Benefits	-	39	39
Other - FIN 45	-	364	364
Other	6	-	6
Total Other Liabilities	$ 375	$ 3,487	$ 3,862

NOTE 15 – OPERATING LEASES

OFHEO has an occupancy lease with the Office of Thrift Supervision (OTS) at 1700 G Street NW, Washington DC that covers office space and building services which include utilities, security guards, janitorial services, mail delivery, use of the loading dock, garage parking and building operation and maintenance. The initial term of the lease was for five years beginning in 1993, with the option to renew for three 5-year terms. OFHEO has exercised the second of the three option terms.

OFHEO may terminate the lease agreement with OTS in whole or in part. In the event of a termination at OFHEO's discretion, OFHEO would be required to pay two months rent. If either party ceases to exist or merges with another entity by operation of law, either party may terminate the rental agreement. In the event of termination under this provision, neither party is liable for further costs, fees, damages or other monies due to the termination, except for payments through the date of termination. Due to this termination clause, no deferred rent is established for this lease nor is disclosure of minimum future lease payments required under Financial Accounting Standard Board Statement #13. If OFHEO continues renting up to the expiration date of its current option term ending November 2008, lease payments for fiscal year 2008 are estimated to be $4.4 million.

In FY 2005, OFHEO obtained additional rental space at 1750 Pennsylvania Avenue NW, Washington DC through a private sector sublessor. The expiration date of the lease is March 30, 2011. If the primary lease would terminate earlier than the expiration date, the sublease would then also terminate. A deferred rent liability is established for this lease.

Under existing commitments, the future minimum lease payments through FY 2011 are as follows:

Period Ending September 30, 2007	1750 Penn Ave NW (In Millions)
2008	.9
2009	.9
2010	1.0
2011	.5
Total Future Minimum Lease Payments	3.3

Note: Lease runs through March, 2011.

Total rent expense on the two leases for the years ended September 30, 2007 and 2006 was approximately $5.1 million and $4.9 million, respectively.

NOTE 16 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

Some of HUD's programs, principally those operated through FHA and Ginnie Mae, enter into financial arrangements with off-balance sheet risk in the normal course of their operations.

A. FHA Mortgage Insurance

Unamortized insurance in force outstanding for FHA's mortgage insurance programs as of September 30, 2007 and 2006 was $ 400 billion and $396 billion, respectively and is discussed in Note 7F.

B. Ginnie Mae Mortgage-Backed Securities

Ginnie Mae financial instruments with off-balance sheet risk include guarantees of Mortgage-Backed Securities (MBS) and commitments to guaranty MBS. The securities are backed by pools of FHA-insured, RHS-insured, and VA-guaranteed mortgage loans. Ginnie Mae is exposed to credit loss in the event of non-performance by other parties to the financial instruments. The total amount of Ginnie Mae guaranteed securities outstanding at September 30, 2007 and 2006, was approximately $427.6 billion and $410 billion, respectively. However, Ginnie Mae's potential loss is considerably less because the FHA and RHS insurance and VA guaranty serve to indemnify Ginnie Mae for most losses. Also, as a result of the structure of the security, Ginnie Mae bears no interest rate or liquidity risk.

During the mortgage closing period and prior to granting its guaranty, Ginnie Mae enters into commitments to guaranty MBS. The commitment ends when the MBS are issued or when the commitment period expires. Ginnie Mae's risks related to outstanding commitments are much less than for outstanding securities due, in part, to Ginnie Mae's ability to limit commitment authority granted to individual issuers of MBS. Outstanding commitments as of September 30, 2007 and 2006 were $35.8 billion and $22.8 billion, respectively. Generally, Ginnie Mae's MBS pools are diversified among issuers and geographic areas. No significant geographic concentrations of credit risk exist; however, to a limited extent, securities are concentrated among issuers.

In fiscal 2007 and 2006, Ginnie Mae issued a total of $32.7 billion and $23.8 billion respectively in its REMIC multi-class securities program. The estimated outstanding balance for the complete multi-class securities program (REMICs, Platinum's, etc.) at September 30, 2007 and 2006, were $201 billion and $198.7 billion, respectively. These guaranteed securities do not subject Ginnie Mae to additional credit risk beyond that assumed under the MBS program.

C. Section 108 Loan Guarantees

Under HUD's Section 108 Loan Guarantee program, recipients of CDBG Entitlement Grant program funds may pledge future grant funds as collateral for loans guaranteed by HUD (these loans were provided from private lenders since July 1, 1986). This Loan Guarantee Program provides entitlement communities with a source of financing for projects that are too large to be financed from annual grants. The amount of loan guarantees outstanding as of September 30, 2007 and 2006 was $2.3 billion and $2.4 billion, respectively. HUD's management believes its exposure in providing these loan guarantees is limited, since loan repayments can be offset from future CDBG Entitlement Program Funds and, if necessary, other funds provided to the recipient by HUD. HUD has never had a loss under this program since its inception in 1974.

NOTE 17 - CONTINGENCIES

Lawsuits and Other

HUD is party to a number of claims and tort actions related to lawsuits brought against it concerning the implementation or operation of its various programs. One group of related cases challenges the legality of actions the Department took in accordance with laws aimed at preserving rental housing units for low-income tenants. The cases within this group are in various stages of the litigation process and have been ongoing for a number of years. The general likelihood of an overall unfavorable outcome, at the group level, has been determined to be probable, with the exception of one case which a loss is believed reasonably possible. The potential loss related to these cases cannot be accurately estimated at this time and; therefore, the Department has not accrued a liability in connection with the cases. Final settlement on one related case occurred during FY 2006 and HUD accrued a liability of $965,000 in connection with this settlement. Final payment was made from the Treasury Department's Judgment Fund. No additional related cases were settled in FY 2007.

In other unrelated cases where the likelihood of unfavorable outcome is determined to be probable, the Department estimates that the range of losses could be between $5 million and $20 million. HUD accrued a liability of $5 million in FY 2006 for these cases.

During FY 2007 FHA recognized $11 million as a contingent liability due to probable, or likely, adverse judgments. No additional contingent liability accruals were recorded in FY 2007.

However, there are two FHA cases where judgment against FHA is considered reasonably possible with an estimated potential loss of $3 million.

Two FHA cases were settled in FY 2007 and recorded by FHA. In one case $18,343,953 was paid from the Judgment Fund. The other case for $11,900,000 was paid from the FHA Insurance Fund.

In addition, a number of varying cases exists for differing sums. The Department has determined the likelihood of loss is remote and uncertain in amount; consequently, no contingent liabilities were accrued by the Department for these cases.

NOTE 18 – EARMARKED FUNDS

Earmarked funds are financed by specifically identified revenues and are required by statute to be used for designated activities or purposes.

Rental Housing Assistance Fund

The Housing and Urban Development Act of 1968 authorized the Secretary to establish a revolving fund into which rental collections in excess of the established basic rents for units in section 236 subsidized projects would be deposited. The Housing and Community Development Amendment of 1978 authorized the Secretary, subject to approval in appropriation acts, to transfer excess rent collections received after 1978 to the Troubled Projects Operating Subsidy program, renamed the Flexible Subsidy Fund. Prior to that time, collections were used for paying tax and utility increases in section 236 projects. The Housing and Community Development Act of 1980 amended the 1978 Act by authorizing the transfer of excess rent collections regardless of when collected.

All uncommitted balances of excess rental charges from the Rental Housing Assistance Fund as of June 30, 2005, and any collections made during fiscal year 2005 and all subsequent fiscal years, shall be transferred to the Flexible Subsidy Fund, as authorized by section 236(g) of the National Housing Act, as amended.

Flexible Subsidy

The Flexible Subsidy Fund assists financially troubled subsidized projects under certain FHA authorities. The subsidies are intended to prevent potential losses to the FHA fund resulting from project insolvency and to preserve these projects as a viable source of housing for low and moderate-income tenants. Priority was given with Federal insurance-in-force and then to those with mortgages that had been assigned to the Department.

Manufactured Housing Fees Trust Fund

The National Manufactured Housing Construction and Safety Standards Act of 1974, as amended by the Manufactured Housing Improvement Act of 2000, authorizes development and enforcement of appropriate standards for the construction, design, and performance of manufactured homes to assure their quality, durability, affordability, and safety.

Fees are charged to the manufacturers for each manufactured home transportable section produced and will be used to fund the costs of all authorized activities necessary for the consensus committee, HUD, and its agents to carry out all aspects of the manufactured housing legislation. Fees are deposited in a trust fund administered by the Department, a portion of the fee receipts are transferred to the salaries and expense account to defray the direct administrative expenses to the program.

This account also presents activities formerly shown under the Interstate Land Sales account which provides protection to the public with respect to purchases or leases of subdivision lots.

The fee receipts are permanently appropriated and have helped finance a portion of the direct administrative expenses incurred in program operations. Activities are initially financed via transfer from the Manufactured Housing General Fund. At year-end, the transferred funds are returned to the general fund.

Ginnie Mae

Ginnie Mae was created in 1968 through an amendment to the National Housing Act as a wholly-owned government corporation within the Department, and is administered by the Secretary of HUD and the President of Ginnie Mae. As such, Ginnie Mae is a self-financed government corporation and receives no funds from general tax revenues. Operations are financed by a variety of fees, such as guaranty, commitment, new issuer, handling, and transfer servicing fees, which are only to be used for Ginnie Mae's legislatively authorized mission.

The following shows earmarked funds activity as of September 30, 2007 (dollars in millions):

	GNMA	Rental Housing Assistance	Flexible Subsidy	Manufactured Housing Fees Trust Fund	Manufactured Housing Fees Receipt Acct	Eliminations	Total Earmarked Funds
Balance Sheet							
Fund Balance w/Treasury	$ 4,433	$ 8	$ 66	$ 4	-	-	$ 4,511
Investments	8,789						8,789
Accounts Receivable	23		-			-	23
Loans Receivable			192				192
General Property, Plant and Equipment	16						16
Other	449						449
Total Assets	$ 13,710	$ 8	$ 258	$ 4	$ -	$ -	$ 13,980
Accounts Payable	$ 554	-	-	-	-	-	554
Loss Reserves	$ 536	-	$ -				536
Other Liabilities	-		$ -				-
Total Liabilities	$ 1,090	$ -	$ -	$ -	$ -	$ -	$ 1,090
Unexpended Appropriations	-	-	$ (376)	-	-	-	$ (376)
Cumulative Results of Operations	$ 12,620	8	634	4	-	-	13,266
Total Net Position	12,620	8	258	4	-	-	12,890
Total Liabilities and Net Position	$ 13,710	$ 8	$ 258	$ 4	$ -	$ -	$ 13,980
Statement of Net Cost For the Period Ended							
Gross Costs	$ 53	$ -	$ (9)	$ 7	$ -	$ 1	$ 52
Less Earned Revenues	(791)	(4)	(12)		(7)	-	(814)
Net Costs	$ (738)	$ (4)	$ (21)	$ 7	$ (7)	$ 1	$ (762)
Statement of Changes in Net Position for the Period Ended							
Net Position Beginning of Period	$ 11,882	$ 4	$ 237	$ 5	$ -	$ -	$ 12,128
							-
Appropriations Received	-	-	-	-	-	1	1
Appropriations Used							-
Transfers In/Out Without Reimbursement				6	(7)		(1)
Net Cost of Operations	738	4	21	(7)	7	(1)	762
Change in Net Position	738	4	21	(1)	-	-	762
Net Position End of Period	$ 12,620	$ 8	$ 258	$ 4	$ -	$ -	$ 12,890

The following shows earmarked funds activity as of September 30, 2006 (dollars in millions):

	GNMA	Rental Housing Assistance	Flexible Subsidy	Manufactured Housing Fees Trust Fund	Manufactured Housing Fees Receipt Acct	Eliminations	Total Earmarked Funds
Balance Sheet							
Fund Balance w/Treasury	$ 4,056	$ 4	$ 43	$ 5	$ -	-	$ 4,108
Investments	8,414						8,414
Accounts Receivable	24		-			$ -	24
Loans Receivable			198				198
General Property, Plant and Equipment	6						6
Other	392						392
Total Assets	$ 12,892	$ 4	$ 241	$ 5	$ -	$ -	$ 13,142
Accounts Payable	$ 37	$ -	-	$ -	-	$ -	37
Loss Reserves	534	-					534
Other Liabilities	439		$ 4				443
Total Liabilities	$ 1,010	$ -	$ 4	$ -	$ -	$ -	$ 1,014
Unexpended Appropriations	-	-	$ (376)	-	-	-	$ (376)
Cumulative Results of Operations	$ 11,882	4	613	5	-	-	12,504
Total Net Position	11,882	4	237	5	-	-	12,128
Total Liabilities and Net Position	$ 12,892	$ 4	$ 241	$ 5	$ -	$ -	$ 13,142
Statement of Net Cost For the Period Ended							
Gross Costs	$ 60	$ 11	$ (18)	$ -	$ -	$ (10)	$ 43
Less Earned Revenues	(849)	(5)	(20)		$ -	10	(864)
Net Costs	$ (789)	$ 6	$ (38)	$ -	$ -	$ -	$ (821)
Statement of Changes in Net Position for the Period Ended							
Net Position Beginning of Period	$ 11,093	$ 10	$ 199	$ 5	$ -	$ -	$ 11,307
							-
Appropriations Received	-	-	-	-	-	1	1
Appropriations Used							-
Transfers In/Out Without Reimbursement				9	(9)		-
Net Cost of Operations	789	(6)	38	(9)	9	(1)	820
Change in Net Position	789	(6)	38	-	-	-	821
Net Position End of Period	$ 11,882	$ 4	$ 237	$ 5	$ -	$ -	$ 12,128

NOTE 19 – INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

The data below shows HUD's intragovernmental costs and earned revenue separately from activity with the public. Intragovernmental transactions are exchange transactions made between two reporting entities within the Federal government. Intragovernmental costs are identified by the source of the goods and services; both the buyer and seller are Federal entities. Also note that there may be instances where the revenue may be classified as non-Federal if the goods or services are subsequently sold to the public. Public activity involves exchange transactions between the reporting entity and a non-Federal entity. The following shows HUD's intragovernmental costs and exchange revenue (dollars in millions):

2007	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	Home	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
Intragovernmental Costs	$425	$11	$82	$33	$15	$33	$164	$15	$188		$966
Public Costs	3,465	42	24,558	10,933	1,887	3,798	3,315	1,302	3,520		52,820
Total Costs	$3,890	$53	$24,640	$10,966	$1,902	$3,831	$3,479	$1,317	$3,708		$53,786
Intragovernmental Earned Revenue	($1,407)	($481)	$0	$0	$0	$0	$0	$0	$0		($1,888)
Public Earned Revenue	(114)	(310)						(419)	(21)		(864)
Total Earned Revenue	($1,521)	($791)	$0	$0	$0	$0	$0	($419)	($21)		($2,752)
Net Cost of Operations	$2,369	($738)	$24,640	$10,966	$1,902	$3,831	$3,479	$898	$3,687		$51,034

2006	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	Home	Operating Subsidies	Publicand Indian Housing Loansand Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
Intragovernmental Costs	$534	$11	$80	$30	$13	$36	$179	$22	$103		$1,008
Public Costs	(914)	49	23,747	5,063	1,840	3,564	3,387	1,257	3,770		41,763
Total Costs	($380)	$60	$23,827	$5,093	$1,853	$3,600	$3,566	$1,279	$3,873		$42,771
Intragovernmental Earned Revenue	($1,522)	($548)	$0	$0	$0	$0	$0	$0	($54)		($2,124)
Public Earned Revenue	(179)	(302)						(515)	(23)		(1,019)
Total Earned Revenue	($1,701)	($850)	$0	$0	$0	$0	$0	($515)	($77)		($3,143)
Net Cost of Operations	($2,081)	($790)	$23,827	$5,093	$1,853	$3,600	$3,566	$764	$3,796		$39,628

NOTE 20 - TOTAL COST AND EARNED REVENUE BY BUDGET FUNCTIONAL CLASSIFICATION

The following shows HUD's total cost and earned revenue by budget functional classification for fiscal year 2007 (dollars in millions):

Budget Functional Classification	Gross Cost	Earned Revenue	Net Cost
Intragovernmental:			
Commerce and Housing Credit	$ 2	$ -	$ 2
Community and Regional			
Development	20	2	22
Income Security	496	(2)	494
Administration of Justice	-	-	-
Miscellaneous	-	-	-
Total Intragovernmental	$ 518	$ -	$ 518
With the Public:			
Commerce and Housing Credit	$ 4,328	$ (2,738)	$ 1,590
Community and Regional			
Development	11,195	-	11,195
Income Security	37,699	(14)	37,685
Administration of Justice	46	-	46
Miscellaneous	-	-	-
Total with the Public	$ 53,268	$ (2,752)	$ 50,516
TOTAL:			
Commerce and Housing Credit	$ 4,330	$ (2,738)	$ 1,592
Community and Regional	-	-	-
Development	11,215	2	11,217
Income Security	38,195	(16)	38,179
Administration of Justice	46	-	46
Miscellaneous	-	-	-
TOTAL:	$ 53,786	$ (2,752)	$ 51,034

The following shows HUD's total cost and earned revenue by budget functional classification for fiscal year 2006 (dollars in millions):

Budget Functional Classification	Gross Cost	Earned Revenue	Net Cost
Intragovernmental:			
Commerce and Housing Credit	$ 8	$ -	$ 8
Community and Regional Development	(50)	(50)	(100)
Income Security	501	(4)	497
Administration of Justice	-	-	-
Miscellaneous	-	-	-
Total Intragovernmental	$ 459	$ (54)	$ 405
With the Public:			
Commerce and Housing Credit	$ 64	$ (3,075)	$ (3,011)
Community and Regional Development	5,382	-	5,382
Income Security	36,818	(14)	36,804
Administration of Justice	48	-	48
Miscellaneous	-	-	-
Total with the Public	$ 42,312	$ (3,089)	$ 39,223
TOTAL:			
Commerce and Housing Credit	$ 72	$ (3,075)	$ (3,003)
Community and Regional	-	-	
Development	5,332	(50)	5,282
Income Security	37,319	(18)	37,301
Administration of Justice	48	-	48
Miscellaneous	-	-	-
TOTAL:	$ 42,771	$ (3,143)	$ 39,628

NOTE 21 – NET COSTS of HUD's CROSS-CUTTING PROGRAMS

This footnote provides a categorization of net costs for two of HUD's major program areas whose costs were incurred across multiple programs. Section 8 costs are incurred to assist low- and very low- income families in obtaining decent and safe rental housing. In addition, costs incurred under the Other major program represent HUD's smaller programs. These programs provide assistance to support other HUD objectives such as fair housing and equal opportunity, energy conversation, homeless assistance, housing units rehabilitation, and home ownership.

This following shows the cross-cutting of HUD's major program areas that incur costs across multiple program areas (dollars in millions):

Fiscal Year 2007

HUD's Cross-Cutting Programs	Public and Indian Housing	Housing	Community Planning and Development	Other	Consolidated
Section 8:					
Intragovernmental Gross Costs	$ 61	$ 22	$ -	$ -	$ 83
Intragovernmental Earned Revenues	-	-	-	-	$ -
Intragovernmental Net Costs	$ 61	$ 22	$ -	$ -	$ 83
Gross Costs with the Public	$ 21,648	$ 2,909	$ -	$ -	$ 24,557
Earned Revenues	-	-	-	-	$ -
Net Costs with the Public	$ 21,648	$ 2,909	$ -	$ -	$ 24,557
Net Program Costs	$ 21,709	$ 2,931	$ -	$ -	$ 24,640
Other:					
Intragovernmental Gross Costs	$ 28	$ 40	$ 48	$ 59	$ 175
Intragovernmental Earned Revenues	5	-	(5)	0	-
Intragovernmental Net Costs	$ 33	$ 40	$ 43	$ 59	$ 175
Gross Costs with the Public	$ 569	$ 622	$ 1,812	$ 198	$ 3,201
Earned Revenues	-	(21)	-	-	$ (21)
Net Costs with the Public	$ 569	$ 601	$ 1,812	$ 198	$ 3,180
Net Program Costs	$ 602	$ 641	$ 1,855	$ 257	$ 3,355

Fiscal Year 2006

HUD's Cross-Cutting Programs	Public and Indian Housing	Housing	Community Planning and Development	Other	Consolidated
Section 8:					
Intragovernmental Gross Costs	$ 57	$ 23	$ -	$ -	$ 80
Intragovernmental Earned Revenues	-	-	-	-	$ -
Intragovernmental Net Costs	$ 57	$ 23	$ -	$ -	$ 80
Gross Costs with the Public	$ 18,138	$ 5,593	$ 16	$ -	$ 23,747
Earned Revenues	-	-	-	-	$ -
Net Costs with the Public	$ 18,138	$ 5,593	$ 16	$ -	$ 23,747
Net Program Costs	$ 18,195	$ 5,616	$ 16	$ -	$ 23,827
Other:					
Intragovernmental Gross Costs	$ 27	$ 43	$ 44	$ (15)	$ 99
Intragovernmental Earned Revenues	(46)	-	(4)	(4)	(54)
Intragovernmental Net Costs	$ (19)	$ 43	$ 40	$ (19)	$ 45
Gross Costs with the Public	$ 653	$ 619	$ 1,800	$ 701	$ 3,773
Earned Revenues	-	(23)	-	-	$ (23)
Net Costs with the Public	$ 653	$ 596	$ 1,800	$ 701	$ 3,750
Net Program Costs	$ 634	$ 639	$ 1,840	$ 682	$ 3,795

NOTE 22 – FHA NET COSTS

FHA organizes its operations into two overall program types: MMI/CMHI and GI/SRI. These program types are composed of four major 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 and nonprofit hospitals. 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.

The following table shows Net Costs detail for the Federal Housing Administration (dollars in millions):

	Fiscal Year 2007			Fiscal Year 2006		
	GI/SRI Program	MMI/CMHI Program	Total	GI/SRI Program	MMI/CMHI Program	Total
Costs						
Intragovernmental Gross Costs	$ 141	$ 284	$ 425	$ 147	$ 387	$ 534
Intragovernmental Earned Revenues	(107)	(1,299)	(1,406)	(188)	(1,334)	(1,522)
Intragovernmental Net Costs	$ 34	$ (1,015)	$ (981)	$ (41)	$ (947)	$ (988)
Gross Costs with the Public	$ (1,235)	$ 4,700	$ 3,465	$ (2,049)	$ 1,135	$ (914)
Earned Revenues	(90)	(25)	(115)	(85)	(94)	(179)
Net Costs with the Public	$ (1,325)	$ 4,675	$ 3,350	$ (2,134)	$ 1,041	$ (1,093)
Net Program Costs	$ (1,291)	$ 3,660	$ 2,369	$ (2,175)	$ 94	$ (2,081)

NOTE 23 – COMMITMENTS UNDER HUD'S GRANT, SUBSIDY, AND LOAN PROGRAMS

A. Contractual Commitments

HUD has entered into extensive long-term contractual commitments under its various grant, subsidy and loan programs. These commitments consist of legally binding agreements the Department has entered into to provide grants, subsidies, or loans. Commitments become liabilities when all actions required for payment under an agreement have occurred. The mechanism for funding subsidy commitments generally differs depending on whether the agreements were entered into before or after 1988.

Prior to fiscal 1988, HUD's subsidy programs, primarily the Section 8 program and the Section 235/236 programs, operated under contract authority. Each year, Congress provided HUD the authority to enter into multiyear contracts within annual and total contract limitation ceilings. HUD then drew on and continues to draw on permanent indefinite appropriations to fund the current year's portion of those multiyear contracts. Because of the duration of these contracts (up to 40 years), significant authority exists to draw on the permanent indefinite appropriations. Beginning in fiscal 1988, the Section 8 and the Section 235/236 programs began operating under multiyear budget authority whereby the Congress appropriates the funds "up-front" for the entire contract term in the initial year.

As shown below, appropriations to fund a substantial portion of these commitments will be provided through permanent indefinite authority. These commitments relate primarily to the Section 8 program, and the Section 235/236 rental assistance and interest reduction programs, and are explained in greater detail below.

HUD's commitment balances are based on the amount of unliquidated obligations recorded in HUD's accounting records with no provision for changes in future eligibility, and thus are equal to the maximum amounts available under existing agreements and contracts. Unexpended appropriations and cumulative results of operations shown in the Consolidated Balance Sheet comprise funds in the U.S. Treasury available to fund existing commitments that were provided through "up-front" appropriations, and also include permanent indefinite appropriations received in excess of amounts used to fund the pre-1988 subsidy contracts and offsetting collections.

FHA enters into long-term contracts for both program and administrative services. FHA funds these contractual obligations through appropriations, permanent indefinite authority, and offsetting collections. The appropriated funds are primarily used to support administrative contract expenses, while the permanent indefinite authority and the offsetting collections are used for program services.

The following shows HUD's obligations and contractual commitments under its grant, subsidy, and loan programs as of September 30, 2007 (dollars in millions):

	Undelivered Orders			
Programs	Unexpended Appropriations	Permanent Indefinite or Investment Authority	Offsetting Collection	Undelivered Orders - Obligations, Unpaid
FHA	$ 167	$ 331	$ 751	$ 1,249
GNMA	-	-	-	-
Section 8 Rental Assistance	4,599	9,465	-	14,064
Community Development Block Grants	19,701	-	-	19,701
HOME Partnership Investment Program	5,359	-	-	5,359
Operating Subsidies	908	-	-	908
Low Rent Public Housing Grants and Loans	7,422	1,576	-	8,998
Housing for Elderly and Disabled	5,070	-	-	5,070
Section 235/236	340	4,631	-	4,971
All Other	5,087	2	63	5,152
Total	$ 48,653	$ 16,005	$ 814	$ 65,472

Of the total Section 8 Rental Assistance contractual commitments as of September 30, 2007, $12.3 billion relates to project-based commitments, and $1.8 billion relates to tenant-based commitments.

The following shows HUD's obligations and contractual commitments under its grant, subsidy, and loan programs as of September 30, 2006 (dollars in millions):

	Undelivered Orders			
Programs	Unexpended Appropriations	Permanent Indefinite or Investment Authority	Offsetting Collection	Undelivered Orders - Obligations, Unpaid
FHA	$ 180	$ 370	$ 771	$ 1,321
GNMA	-	-	-	-
Section 8 Rental Assistance	7,567	9,411	-	16,978
Community Development Block Grants	21,368	-	-	21,368
HOME Partnership Investment Program	5,523	-	-	5,523
Operating Subsidies	795	-	-	795
Low Rent Public Housing Grants and Loans	7,879	1,582	-	9,461
Housing for Elderly and Disabled	5,374	-	-	5,374
Section 235/236	429	5,370	-	5,799
All Other	5,670	2	64	5,736
Total	$ 54,785	$ 16,735	$ 835	$ 72,355

Of the total Section 8 Rental Assistance contractual commitments as of September 30, 2006**,** $15.1 billion relates to project-based commitments, and $1.9 billion relates to tenant-based commitments. With the exception of the Housing for the Elderly and Disabled and Low Rent Public Housing Loan Programs (which have been converted to grant programs), Section 235/236, and a portion of "all other" programs, HUD management expects all of the above programs to continue to incur new commitments under authority granted by Congress in future years. However, estimated future commitments under such new authority are not included in the amounts above.

B. Administrative Commitments

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

The following shows HUD's administrative commitments as of September 30, 2007 (dollars in millions):

Programs	Reservations: Unexpended Appropriations	Permanent Indefinite Appropriations	Offsetting Collections	Total Reservations
Section 8 Rental Assistance Project-Based	$ 124	$ 39	-	$ 163
Community Development Block Grants	745	-	-	745
HOME Partnership Investment Program	286	-	-	286
Low Rent Public Housing Grants and Loans	61	-	-	61
Housing for Elderly and Disabled	912	-	-	912
Section 235/236	-	25		25
All Other	586	-	$ 1	587
Total	$ 2,714	$ 64	$ 1	$ 2,779

The following shows HUD's administrative commitments as of September 30, 2006 (dollars in millions):

Programs	Reservations: Unexpended Appropriations	Permanent Indefinite Appropriations	Offsetting Collections	Total Reservations
Section 8 Rental Assistance Project-Based	$ 14	$ 8	-	$ 22
Community Development Block Grants	1,005	-	-	1,005
HOME Partnership Investment Program	234	-	-	234
Low Rent Public Housing Grants and Loans	113	-	-	113
Housing for Elderly and Disabled	921	-	-	921
Section 235/236	-	12		12
All Other	602	-	$ 4	606
Total	$ 2,889	$ 20	$ 4	$ 2,913

NOTE 24 – EFFECTS of HURRICANES KATRINA, RITA, and WILMA

At the end of fiscal year 2005 the damage assessments for hurricane Katrina were not complete and there was not sufficient information for FHA to reasonably estimate the losses or predict the liability. This was subsequently addressed during the preparation of the fiscal year 2007 budget, at which time OMB included additional liability estimates for hurricane Katrina. These additional amounts were apportioned by OMB and recorded by FHA during fiscal year 2006. This adjustment resulted in an additional $250 million added to the GI/SRI re-estimate and an additional $1.1 billion added to the MMI/CMHI re-estimate, which was combined with current year cost estimates for the MMI and GI/SRI funds to provide for the total liability to the LLG and LLR of $3.5 billion.

Single Family Hurricane Cost

FHA evaluated all open default cases from the hurricane – impacted areas as of August 31, 2007. The various status categories found for these default cases was used to estimate number of claims and cost fro each category. Based on the above methodology, FHA estimated 2,548 total claims (including failed loss mitigation actions) with an unpaid principal balance of $203.1 million. FHA program offices estimate a 62 percent loss rate for these properties, which is higher than the normal loss rate of 36 percent in the national portfolio. The 62 percent loss rate was taken from the pool of not-for-profit sales in the MMI fund in fiscal year 2006. Based on the above methodology and assumptions the estimated net present value hurricane cost is $139 million.

Multifamily Hurricane Cost

Impacted properties included in the Multifamily hurricane cost estimate were determined from physical inspections conducted by FHA's Office of Multifamily Housing Programs. During fiscal year 2007, it was determined no additional Multifamily liabilities related to Hurricane Katrina were required.

Ginnie Mae guarantees to advance payments of principal and interest on Mortgage Backed Securities (MBS) when the issuer of the pooled mortgages behind the MBS's defaults. Ginnie Mae files the claims for loans defaulted within the defaulted issuer's portfolio to FHA, VA, or RHS. Ginnie Mae has not incurred any losses due to date and does not expect any material future losses.

The Department will provide transitional housing assistance to displaced public housing residents, displaced Section 8 participants, displaced families from other HUD assisted programs, and individuals who were homeless in the disaster affected area prior to Katrina.

The effects of Hurricanes Katrina, Rita, and Wilma in 2005 also resulted in increased funding for the Department for assisting in meeting housing needs of those displaced by the disaster. The following shows the status of budgetary resources information for HUDs programs funded to support disaster relief as of September 30, 2007 (dollars in millions):

	CDBG	Tenant-Based Rental Assistance	Prevention of Resident Displacement	Total
Budgetary Resources				
Unobligated Balance, beginning of period	$5,256	$258	$7	$5,521
Recoveries	-	-	6	6
Budget Authority	-	-		-
Spending Authority from Offsetting Collections	-	-	(10)	(10)
Total Budgetary Resources	$5,256	$258	$3	$5,517
Status of Budgetary Resources				
Obligations Incurred	$5,256	$258	$0	$5,514
Unobligated Balance, available	-	-	1	1
Unobligated Balance, not available	-	-	2	2
Total Status of Budgetary Resources	$5,256	$258	$3	$5,517
Change in Obligated Balance				
Obligated Balance, net beginning of period	11,337	22	$1	$11,360
Obligations Incurred	$5,256	$258	-	5,514
Gross Outlays	(6,064)	(175)	7	(6,232)
Recoveries	-	-	(6)	(6)
Obligated Balance, net end of period	$10,529	$105	$2	$10,636
Net Outlays	6,064	175	3	6,242

The data below displays cumulative activity by state from program inception. The major recipients are listed individually and the remaining states are grouped together and listed as "other". The obligations incurred and gross outlays shown above represents fiscal year activity. Dollars are in millions.

	Obligations	Outlays	Unliquidated
Florida	184	$2	$182
Louisiana	10,600	4,651	$5,949
Mississippi	5,525	1,669	$3,856
Texas	638	114	$524
Other	150	50	$100
Total	$17,097	$6,486	$10,611

The following shows the status of budgetary resources information for HUDs programs funded to support disaster relief as of September 30, 2006 (dollars in millions):

Budgetary Resources				
Unobligated Balance, beginning of period	-	-	$69	$69
Recoveries	-	-	-	-
Budget Authority	$16,673	$390		17,063
Spending Authority from Offsetting Collections	-	-	(26)	(26)
Total Budgetary Resources	$16,673	$390	$43	$17,106
Status of Budgetary Resources				
Obligations Incurred	$11,417	$132	$36	$11,585
Unobligated Balance, available	5,256	258	7	5,521
Unobligated Balance, not available	-	-	-	-
Total Status of Budgetary Resources	$16,673	$390	$43	$17,106
Change in Obligated Balance				
Obligated Balance, net beginning of period	-	-	$10	$10
Obligations Incurred	$11,417	$132	36	11,585
Gross Outlays	(80)	(110)	(45)	(235)
Recoveries	-	-	-	-
Obligated Balance, net end of period	$11,337	$22	$1	$11,360
Net Outlays	80	110	71	261

The data below displays cumulative activity by state from program inception. The major recipients are listed individually and the remaining states are grouped together and listed as "other". The obligations incurred and gross outlays shown above represents fiscal year activity. Dollars are in millions.

	Obligations	Outlays	Unliquidated
Alabama	$73	$1	$72
Georgia	$19	$18	$1
Louisiana	6,260	91	6,169
Mississippi	5,080	53	5,027
Texas	145	63	82
Other	12	7	5
Total	$11,589	$233	$11,356

NOTE 25 – APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

Budgetary resources are usually distributed in an account or fund by specific time periods, activities, projects, objects, or a combination of these categories. Resources apportioned by fiscal quarters are classified as Category A apportionments. Apportionments by any other category would be classified as Category B apportionments. HUD's categories of obligations incurred were as follows (dollars in millions):

	Category A	Category B	Exempt From Apportioment	Total
2007				
Direct	$ 1,265	$ 57,674	$ -	$ 58,939
Reimbursable	11	318	-	329
	$ 1,276	$ 57,992	$ -	$ 59,268
2006				
Direct	$ 1,319	$ 61,827	$ -	$ 63,146
Reimbursable	-	100	-	100
	$ 1,319	$ 61,927	$ -	$ 63,246

NOTE 26 – EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE UNITED STATES GOVERNMENT

The President's Budget containing actual FY 2007 data is not available for comparison to the Statement of Budgetary Resources. Actual FY 2007 data will be available in the Analytical Perspectives section of the Budget of the United States Government, fiscal year 2008.

For fiscal year 2006, an analysis to compare HUD's Statement of Budgetary Resources to the President's Budget of the United States was performed to identify any differences.

The following shows the difference between Budgetary Resources reported in the Statement of Budgetary Resources and the President's Budget for fiscal year 2006 (dollars in millions):

	Budgetary Resources	Obligations Incurred	Net Outlays
Combined Statement of Budgetary Resources	$118,872	$63,246	$39,855
Difference #1 - Offsettig receipts	0	0	717
Difference #2 - Resources related to HUD's expired accounts not reported in the President's Budget	(481)	(87)	0
Difference #3 - Rounding	(4)	3	2
Difference #4 - Tranfer of negative subsidy to GNMA Reserve Receipt account	177	177	0
Difference #5 - Adjustment of GNMA's Financing and Liquidating accounts FY 2006 ending balances	(3)	0	0
SF 133, Report on Budget Execution and Budgetary Resources	$118,561	$63,339	$40,574

NOTE 27 – RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

	2007	2006
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$59,267	$63,246
Spending Authority from Offsetting Collections and Recoveries	(16,630)	(19,076)
Obligations Net of Offsetting Collections	$42,637	$44,170
Offsetting Receipts	(2,808)	(717)
Net Obligations	$39,829	$43,453
Other Resources		
Transfers In/Out Without Reimbursement	($843)	($1,867)
Imputed Financing from Costs Absorbed by Others	96	79
Other Resources	(10)	(8)
Net Other Resources Used to Finance Activites	($757)	($1,796)
Total Resources Used to Finance Activities	$39,072	$41,657
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Change in Budgetary Resources Obligated for Goods/Services/Benefits Ordered but not Provided	$6,904	($3,664)
Credit Program Resources not Included in Net Cost (Surplus) of Operations	14,067	14,632
Other Changes to Net Obligated Resources Not Affecting Net Cost of Operations	(11,582)	(11,037)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	$9,389	($69)
Total Resources Used to Finance the Net Cost of Operations	$48,461	$41,588
Components of Net Cost of Operations Not Requiring/Generating Resources in the Current Period		
Upward/Downward Reestimates of Credit Subsidy Expense	$4,041	$406
Increase in Exchange Revenue Receivable from the Public	(429)	(518)
Change in Loan Loss Reserve	(127)	(739)
Changes in Bad Debt Expenses Related to Credit Reform Receivables	(9)	(5)
Ruduction of Credit Subsidy Expense from Guarantee Endorsements and Modifications	(1,032)	(1,380)
Other	130	276
Total Components of Net Cost of Operations Not Requiring/Generating Resources in the Current Period	2,574	($1,960)
Net Cost of Operations	$51,035	$39,628

In FY 2007, the department reported a net increase in unfunded annual leave liability in the amount of $2 million. This unfunded leave liability is not covered by budgetary resources at the balance sheet date.

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Required Supplementary Stewardship Information

INTRODUCTION

This section provides information on resources entrusted to HUD that do not meet the criteria for information required to be reported or audited in HUD's financial statements but are, nonetheless, important to understand HUD's operations and financial conditions. The stewardship objective requires that HUD report on the broad outcomes of its actions associated with these resources. Such reporting will provide information that will help report users assess the impact of HUD's operations and activities.

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

- Community Planning and Development (CPD),
- Public and Indian Housing (PIH),
- Policy Development and Research (PD&R), and
- Healthy Homes and Lead Hazard Control (HHLHC).

OVERVIEW OF HUD'S MAJOR PROGRAMS

CPD seeks to develop viable communities by promoting integrated approaches that provide decent housing, a suitable living environment, and expanded economic opportunities for low and moderate-income persons. HUD makes stewardship investments through the following CPD programs:

- Community Development Block Grants (CDBG) are provided to State and local communities, which use these funds to support a wide variety of community development activities within their jurisdiction. These activities are designed to benefit low and moderate-income persons, aid in the prevention of slums and blight, and meet other urgent community development needs. State and local communities use the funds as they deem necessary, as long as the use of these funds meet at least one of these objectives. A portion of the funds supports the acquisition or rehabilitation of property owned by State and local governments, while other funds help to provide employment and job training to low and moderate-income persons.
- Disaster Grants help State and local governments recover from major natural disasters. A portion of these funds can be used to acquire, rehabilitate or demolish physical property.
- Housing Investment Partnership (HOME) provides formula grants to States and localities (used often in partnership with local nonprofit groups) to fund a wide range of activities that build, buy, and/or rehabilitate affordable housing for low-income persons.
- YouthBuild grants assist young individuals to obtain education, employment skills, and meaningful work experience in construction trade, enabling them to become more productive and self-sufficient.

PIH ensures safe, decent, and affordable housing, creates opportunities for residents' self-sufficiency and economic independence, and assures the fiscal integrity of all program participants. HUD makes stewardship investments through the following PIH programs:

- The Public Housing (PH) Capital Fund provides grants to Public Housing Agencies (PHAs) to improve the physical conditions and to upgrade the management and operation of existing public housing.
- HOPE VI Revitalization Grants (HOPE VI) are provided to PHAs, to support the improvement of the living environment of public housing residents in distressed public housing units. Some investments support the acquisition or rehabilitation of PHA-owned property, while others help to provide education and job training to residents of the communities targeted for rehabilitation.
- Indian Housing Block Grants (IHBG) provides funds needed to allow tribal housing organizations to maintain existing units and to begin development of new units to meet their critical long-term housing needs.
- Indian Community Development Block Grants (ICDBG) provides funds to Indian organizations to develop viable communities, including decent housing, a suitable living environment, and economic opportunities, principally for low and moderate-income recipients.
- The Public Housing Drug Elimination Program (PHDEP) seeks to eliminate drug-related crime and activities in Public and Indian housing communities. A portion of these funds is used to improve properties owned by the PHAs and thus increase security and prevent crime at the properties. Congress has terminated funding for this program after fiscal year 2001.

PD&R's stewardship responsibilities include maintaining current information to monitor housing needs and housing market conditions, and to support and conduct research on priority housing and community development issues.

HUD makes stewardship investments through the following programs:

- Community Development Work Study (CDWS): Colleges and universities throughout the United Sates use this program to offer financial aid and work experience to students enrolled in a full-time graduate program in community development or a closely related field such as urban planning, public policy, or public administration.
- Partnership for Advancing Technology in Housing (PATH) is a public/private sector initiative which seeks to expand the development and utilization of new technologies in order to make American homes stronger, safer, and more durable; more energy efficient and environmentally friendly; easier to maintain and less costly to operate; and more comfortable and exciting to live in. PATH links key agencies in the federal government with leaders from the home building, product manufacturing, insurance, financial, and regulatory communities in a unique partnership focused on technological innovation in the American housing industry.

The **HHLHC** program seeks to eliminate childhood lead poisoning caused by lead-based paint hazards and to address other children's disease and injuries, such as asthma, unintentional injury, and carbon monoxide poisoning, caused by substandard housing conditions.

- Lead Technical Assistance Division, in support of the departmental lead hazard control program, establishes and coordinates lead-based paint regulations and policy, and supports compliance assistance and enforcement. These programs also support technical assistance and the conduct of technical studies and demonstrations to identify innovative methods to create lead-safe housing at reduced cost. In addition, these programs are designed to increase the awareness of lead professionals, parents, building owners, housing and public health professionals, and others with respect to lead-based paint and related property-based health issues.

RSSI REPORTING - HUD'S MAJOR PROGRAMS

Non-Federal Physical Property

Investment in Non-Federal Physical Property: Non-Federal physical property investments support the purchase, construction, or major renovation of physical property owned by state and local governments. These investments support HUD's strategic goals, which are to increase the availability of decent, safe, and affordable housing in America communities; improve community quality of life and economic vitality; and ensure public trust in HUD. The following table summarizes material program investments in Non-Federal Physical Property. Additional information regarding the following programs' contribution to HUD's goals may be found in Section II of this report.

Investments in Non-Federal Physical Property
Fiscal Year 2003 - 2007
(Dollars in millions)

Program	2003	2004	2005	2006	2007
CPD					
CDBG	$1,206	$1,193	$1,175	$1,170	$1,262
Disaster Grants(1)	$7	$114	$40	$299	$120
HOME	$33	$26	$44	$30	$38
PIH					
ICDBG	N/A	$58	$71	$68	$58
IHBG (2)	$732	$389	$311	$312	$247
HOPE VI (3)	$433	$127	$157	$72	$95
PH Capital Fund	$1,949	$1,758	$1,289	$1,340	$1,793
PHDEP (4)	$0	$0	$0	$0	$0
TOTAL	**$4,360**	**$3,665**	**$3,087**	**$3,290**	**$3,612**

Notes:

1. *Amount reported for fiscal year 2007 represents 9 months of data.*
2. *A restatement of amounts for 2003-2006 reflects the updated figures provided by IHBG Performance Tracking Database.*
3. *A restatement of amounts for 2003-2006 based on HOPE VI's grant funding awarded for the respective year.*
4. *Congress terminated funding for the PHDEP program after fiscal year 2001.*

Human Capital

Investment in Human Capital: Human Capital investments support education and training programs that are intended to increase or maintain national economic productive capacity. These investments support HUD's strategic goals, which are to promote self-sufficiency and asset development of families and individuals; improve community quality of life and economic vitality; and ensure public trust in HUD. The table on the next page summarizes material program investments in Human Capital, for fiscal years 2003 through 2007. Additional information regarding the following programs' contributions to HUD's goals may be found in Section II of this report.

Investments in Human Capital
Fiscal Year 2003 - 2007
(Dollars in millions)

INVESTMENT IN HUMAN CAPITAL					
Program	**2003**	**2004**	**2005**	**2006**	**2007**
CPD					
CDBG	$23	$26	$28	$4	$23
Youthbuild	$19	$21	$22	$22	$23
PIH					
HOPE VI (5)	$35	$10	$13	$6	$8
PD&R					
CDWS (6)	$3	$3	$3	$0	$0
OHHLHC					
Lead Technical Assistance (7)	$1	$0	$0	$0	$0
TOTAL	**$81**	**$60**	**$66**	**$31**	**$54**

Notes:

5. *A restatement of amounts for 2003-2006 based on HOPE VI's grant funding awarded for the respective year.*
6. *Congress did not fund the CDWS in FY 2007.*
7. *Congress did not fund the Lead Technical Assistance program in FY 2007.*

Results of Human Capital Investments: The following table presents the results of or output (number of people trained) of human capital investments made by HUD's CPD, PD&R, and HHLHC programs:

Results of Investments in Human Capital
Number of People Trained
Fiscal Year 2003 - 2007

Program	**2003**	**2004**	**2005**	**2006**	**2007**
CPD					
CDBG	172,416	131,653	122,578	79,833	52,277
Youthbuild	4,123	3,508	4,366	3,929	3,103
PIH					
Hope VI (*see table below*)					
PD&R					
CDWS (3)	95	99	108	0	0
OHHLHC					
Lead Technical Assistance (4)	0	0	0	0	0
TOTAL	**176,634**	**135,260**	**127,052**	**83,762**	**55,380**

HOPE VI Results of Investments in Human Capital: Since the inception of the HOPE VI program in fiscal year 1993, the program has made significant investments in Human Capital related initiatives (i.e., education and training). The following table presents HOPE VI's key cumulative performance information for fiscal years 2006 and 2007, since the program's inception.

Key Results of HOPE VI Program Activities
Fiscal Year 2006 and 2007

HOPE VI Service	2006 Enrolled	2006 Completed	% Completed	2007 Enrolled	2007 Completed	% Completed
Employment Preparation, Placement, & Retention	68,552	N/A	N/A	72,890	N/A	N/A
Job Skills Training Programs	26,837	14,091	53%	29,777	16,205	54%
High School Equivalent Education	14,293	3,907	27%	15,305	4,272	28%
Entrepreneurship Training	3,118	1,235	40%	3,229	1,304	40%
Homeownership Counseling	13,023	5,692	44%	14,252	6,533	46%

Research and Development

Investments in Research and Development: Research and development investments support (a) the search for new knowledge, and (b) the refinement and application of knowledge or ideas, pertaining to development of new or improved products or processes. Research and development investments are intended to increase economic productive capacity or yield other future benefits. As such, these investments support HUD's strategic goals, which are to increase the availability of decent, safe, and affordable housing in America communities; and ensure public trust in HUD. The following table summarizes HUD's research and development investments. Additional information regarding the following programs' contributions to HUD's goals may be found in Section II of this report.

Investments in Research and Development
Fiscal Year 2003 - 2007
(Dollars in millions)

Program	2003	2004	2005	2006	2007
PD&R					
PATH (8)	$8	$8	$8	$5	$0
OHHLHC					
Lead Hazard Control	$9	$6	$5	$11	$5
TOTAL	**$17**	**$14**	**$13**	**$16**	**$5**

Notes:
8. *PATH did not receive any appropriation in FY 2007.*

Results of Investments in Research and Development: At the end of fiscal year 2007, PATH program had over 165 updated technology listings in its technology inventory. During fiscal year 2007, PATH awarded one technology development project, one project providing information to builders and researchers, and one project which require demonstrations of the use of technologies.

In support of HUD's lead hazard control initiatives, the HHLHC program has conducted various studies. As indicated in the following table, such studies have contributed to an overall reduction in the per-housing unit cost of lead hazard evaluation and control efforts. These studies have also lead to the identification of the prevalence of related hazards.

Per-Housing Unit Cost of Lead Hazard Evaluation and Control
Fiscal Year 2003 – 2007

Program	2003	2004	2005	2006	2007
OHHLHC					
Lead Hazard Control (1)	$4,827	$4,577	$6,650	$4,926	$4,900
TOTAL	**$4,827**	**$4,577**	**$6,650**	**$4,926**	**$4,900**

Notes:

1. *The fiscal year 2007, 4th quarter per-housing unit cost is based on an extrapolation of fiscal year 2007, 1st – 3rd quarter data. OHHLHC anticipates that full year actual data, which becomes available the first week of November 2007, will show that the grant program will exceed its goal of making 10,500 units lead safe. As a result, OHHLHC anticipates a downward adjustment of the unit cost.*

Required Supplementary Information (Unaudited)

Intragovernmental Balances

HUD's Intragovernmental amounts represent transactions with other federal entities included in the government's annual report. These transactions include assets, liabilities and earned revenues as follows:

September 30, 2007 (dollars in millions):

Intragovernmental Assets:

Trading Partner	Fund Balance	Accounts Receivable	Investments	Other Assets	Total
Department of Treasury	$ 69,046	$ -	$ 31,270	$ -	$ 100,316
Department of Commerce	-	-	-	$ 1	$ 1
Department of Justice	-	-	-	7	$ 7
Total	$ 69,046	$ -	$ 31,270	$ 8	$ 100,324

Intragovernmental Liabilities:

Trading Partner	Accounts Payable	Debt	Other	Total
Department of Treasury	$ -	$ 5,459	$ 3,763	$ 9,222
General Service Administration	$ 5	$ -	$ -	5.00
Other Agencies	-	-	45	45
Total	-	$ 5,459	$ 3,808	$ 9,272

Intragovernmental Earned Revenues and Related Costs:

Trading Partner	Earned Revenue
Department of Treasury	$ 1,895
Other Agencies	(7)
Total	$ 1,888

Budget Functional Classification	Gross Cost to Generate Revenue
Commerce and Housing Credit	$ -
Community and Regional Dev	-
Income Security	-

September 30, 2006 (dollars in millions):

Intragovernmental Assets:

Trading Partner	Fund Balance	Accounts Receivable	Investments	Other Assets	Total
Department of Treasury	$ 81,395	$ -	$ 30,426	$ -	$ 111,821
Department of Commerce	-	-	-	$ 16	$ 16
Department of Justice	-	-	-	10	$ 10
Total	$ 81,395	$ -	$ 30,426	$ 26	$ 111,847

Intragovernmental Liabilities:

Trading Partner	Accounts Payable	Debt	Other	Total
Department of Treasury	$ -	$ 7,249	$ 2,643	$ 9,892
Other Agencies	-	-	27	27
Total	-	$ 7,249	$ 2,670	$ 9,919

Intragovernmental Earned Revenues and Related Costs:

Trading Partner	Earned Revenue
Department of Treasury	$ 2,075
Other Agencies	49
Total	$ 2,124

Budget Functional Classification	Gross Cost to Generate Revenue
Commerce and Housing Credit	$ -
Community and Regional Dev	-
Income Security	-
Total	$ -

U.S. Department of Housing and Urban Development
Office of Inspector General
451 7th St., S.W.
Washington, D.C. 20410-4500

INDEPENDENT AUDITOR'S REPORT[1]

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

In accordance with the Chief Financial Officers (CFO) Act of 1990, the Department has prepared the accompanying consolidated balance sheets of the Department of Housing and Urban Development (HUD) as of September 30, 2007 and 2006 and the related consolidated statements of net cost, changes in net position, and the combined statement of budgetary resources for the fiscal years then ended. We are required by the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994 and implemented by Office of Management and Budget (OMB) Bulletin 07-04, *Audit Requirements for Federal Financial Statements,* to audit HUD's principal financial statements or select an independent auditor to do so. The objective of our audit was to express an opinion on the fair presentation of these principal financial statements. With respect to the fiscal years 2007 and 2006 financial statements, we did not audit the financial statements of the Federal Housing Administration (FHA) and the Government National Mortgage Association (Ginnie Mae) for the periods ending September 30, 2007 and 2006, whose statements reflected total assets constituting 46 and 41 percent, respectively, of the related consolidated totals. Other auditors, whose reports have been furnished to us, audited those statements and our opinion on the fiscal year 2007 and 2006 financial statements, insofar as it relates to the amounts included for FHA and Ginnie Mae as of September 30, 2007 and 2006, is based solely on the reports of the other auditors. In connection with our audit, we also considered HUD's internal control over financial reporting and tested HUD's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on its principal financial statements.

Opinion on the Fiscal Years 2007 and 2006 Financial Statements

In our opinion, based on our audit and the reports of other auditors, the accompanying fiscal years 2007 and 2006 principal financial statements present

[1] This report is supplemented by a separate report issued by HUD-OIG to provide a more detailed discussion of the internal control and compliance issues included in this report and to provide specific recommendations to HUD management. The report is available at the HUD, OIG Internet site at http://www.hud.gov/oig/oigindex.html and is titled: Additional Details to Supplement Our Report on HUD's Fiscal Years 2007 and 2006 Financial Statements (2008-FO-0003, dated November 14, 2007).

fairly, in all material respects, the financial position of HUD as of September 30, 2007 and 2006 and its net costs, changes in net position, and budgetary resources for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

The other auditors' and our audits also disclosed:

- Material weaknesses in internal controls in fiscal year 2007 related to the need to
  - Develop a risk assessment and systems development plan for FHA's Home Equity Conversion Mortgage (HECM) systems and transactions; and
  - Enhance the HECM credit subsidy cash flow model.

- Significant deficiencies in internal controls in fiscal year 2007 related to the need to
  - Comply with federal financial management systems requirements;
  - Continue improvements in the oversight and monitoring of subsidy calculations and intermediaries program performance;
  - Improve the budgeting and funds control process for Section 8 project-based contracts;
  - Improve the processes for reviewing obligation balances;
  - Further strengthen controls over HUD's computing environment;
  - Improve personnel security practices for access to the Department's critical financial systems;
  - Strengthen FHA system security controls; and
  - Improve Ginnie Mae's program compliance and controls regarding monitoring of issuers.

OMB Bulletin No. 07-04 requires that we report discrepancies between management and independent auditors regarding material weaknesses on internal control over reporting not disclosed in the Agency's Performance and Accountability Report. HUD and FHA disagreed with the assessment that the first two weaknesses in internal controls over financial reporting described above were material weaknesses. The Department and FHA reported no material weaknesses for their Federal Managers' Financial Integrity Act reporting in the Fiscal Year 2007 Performance and Accountability Report and the FHA Fiscal Year 2007 Annual Management Report, respectively.

Most of these control weaknesses were reported in prior efforts to audit HUD's financial statements and some represent long-standing problems. Our findings also include the following instance of non-compliance with applicable laws and regulations, and provisions of contract and grant agreements, that is required to be reported herein under *Government Auditing Standards* or OMB Bulletin 07-04.

- HUD did not substantially comply with the Federal Financial Management Improvement Act. In this regard, HUD's financial management systems did not substantially comply with Federal Financial Management Systems Requirements. In addition, FHA was not in full compliance with Federal Accounting Standards.

Consolidating Financial Information

We conducted our audit for the purpose of forming an opinion on the consolidated principal financial statements taken as a whole. HUD has presented consolidating balance sheets and related consolidating statements of net costs and changes in net position, and combining statements of budgetary resources as supplementary information in its *Fiscal Year 2007 Performance and Accountability Report.* The consolidating and combining financial information is presented for purposes of additional analysis of the financial statements rather than to present the financial position, changes in net position, budgetary resources, and net costs of HUD's major activities. The consolidating and combining financial information is not a required part of the principal financial statements. The fiscal years 2007 and 2006 financial information has been subjected to the auditing procedures applied to the principal financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Required Supplementary Information

In its *Fiscal Year* 2007 *Performance and Accountability Report*, HUD presents "Required Supplemental Stewardship Information," specifically, information on investments in non-Federal physical property and human capital. In addition, HUD presents a Management Discussion and Analysis of Operations. This information is not a required part of the basic financial statements but is supplementary information required by the Federal Accounting Standards Advisory Board and OMB Circular Number A-136. We did not audit and do not express an opinion on this information; however, we applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information.

Additional details on the other auditors' and our findings regarding HUD's internal controls are summarized below and were provided in separate reports to HUD management. These additional details also augment the discussions of the instance in which HUD had not complied with applicable laws and regulations, the information regarding our audit objectives, scope, and methodology, and recommendations to HUD management resulting from our audit.

Material Weaknesses

A Risk Assessment and Systems Development Plan Are Needed for FHA's HECM Systems and Transaction Controls. FHA maintains a number of different system platforms for processing HECM endorsements, premiums, claims and assigned notes. These systems are not automatically integrated and require significant compensating manual controls to ensure the accuracy and reliability of financial information being reported in the general ledger. They are neither compliant with federal loan financial management system requirements nor with federal information technology security requirements, including regulations for the safeguarding of personally identifiable information. The HECM program is growing rapidly, comprises almost 20 percent of the $905 million single family upfront premium collections and has resulted in over $500 million in HECM notes now assigned and being serviced by FHA. The balance of assigned notes is estimated by FHA to exceed $1 billion within one year. FHA's auditor believes this growth in a manually intensive control environment greatly increases the risk of material errors in financial reporting.

HECM Credit Subsidy Cash Flow Model Needs Enhancement. FHA has developed a cash flow model to estimate the net present value of future HECM cash flows, which is recorded as a Liability for Guaranteed Loans in the Principal Financial Statements. This model contains projected cash flows for premiums, pre-foreclosure sales claims, mortgage note assignments, terminations, post-assignment drawdowns and terminated loan note recoveries. FHA uses the limited historical experience available and management assumptions to calculate the conditional rates for most of these complex HECM loan events. FHA's auditor noted significant discrepancies between projected and actual program events, which may be caused by changes in interest rates and other external variables. FHA's auditor found management has not effectively documented its assessment of statistical correlations between these various macroeconomic variables that appear to be having a significant impact on the program's experience, including house price appreciation, short term interest rates, and borrower characteristics including gender, age, and mobility patterns due to the limited historical experience for the program. FHA also had not effectively documented its sensitivity analysis of the model and did not have an effective process to document its conclusions regarding the results of its validation review and what changes to the model are needed to improve the model's predictability.

FHA's auditor also found that the model contained improper calculations relating to terminated note recoveries and was not compliant with federal accounting standards regarding OMB discounting requirements for cash flow models for direct loan and loan guarantee programs. FHA has adjusted their financial statements to reflect the material adjustments to the related Liability for Guaranteed Loans caused by these errors.

Significant Deficiencies

HUD Financial Management Systems Need to Comply with Federal Financial Management System Requirements. As reported in prior years, HUD is not in full compliance with federal financial management requirements. Specifically, it has not completed development of an adequate integrated financial management system. HUD is required to implement a unified set of financial systems and the financial portions of mixed systems encompassing the software, hardware, personnel, processes (manual and automated), procedures, controls, and data necessary to carry out financial management functions, manage financial operations of the agency, and report on the agency's financial status to central agencies, Congress, and the public. As currently configured, HUD financial management systems do not meet the test of being unified. The Federal Financial System Integration Office defines "unified" as meaning that the systems are planned for and managed together, operated in an integrated fashion, and linked electronically to efficiently and effectively provide agency wide financial system support necessary to carry out the agency's mission and support the agency's financial management needs.

HUD Management Must Continue to Improve Oversight and Monitoring of Subsidy Calculations and Intermediaries' Program Performance. Since 1996, we have reported on weaknesses with the monitoring of the housing assistance programs' delivery and the verification of subsidy payments. We focused on the impact these weaknesses had on HUD's ability to (1) ensure intermediaries are correctly calculating housing subsidies and (2) verify tenant income and billings for subsidies. During the past several years, HUD has made progress in correcting this deficiency. However, HUD's continued commitment to the implementation of a comprehensive program to reduce erroneous payments will be essential to ensuring that HUD's intermediaries are properly carrying out their responsibility to administer assisted housing programs according to HUD requirements.

The Department has demonstrated improvements in its internal control structure to address the significant risk that HUD's intermediaries are not properly carrying out their responsibility to administer assisted housing programs according to HUD requirements. HUD's increased and improved monitoring has resulted in a significant decline in improper payment estimates over the last five years. However, HUD needs to continue to place emphasis on its on-site monitoring and technical assistance to ensure that acceptable levels of performance and compliance are achieved and periodically assess the accuracy of intermediaries rent determinations, tenant income verifications, and billings.

HUD Needs to Improve its Budgeting and Funds Control Over Section 8 Project-based Contracts. HUD's systems and controls for accounting, processing payments, monitoring, and budgeting for Section 8 project-based contracts need to be improved. HUD has been hampered in their ability to estimate funding requirements, process timely payments to project-based landlords, and to recapture excess funds in a timely manner. This is evidenced in HUD's long-term challenges in paying Section 8 project-based landlords on a timely basis and properly monitoring and accurately accounting and budgeting for contract renewals. These historic problems with the Section 8 project-based program were further exacerbated and highlighted in fiscal year 2007 due to a change in the interpretation of the contract language used in the Section 8 project-based renewal contracts and the movement of Section 8 project-based contracts from the HUDCAPS accounting system to the Program Accounting System.

HUD Needs to Improve Processes for Reviewing Obligation Balances. HUD needs to improve controls over the monitoring of obligation balances to ensure they remain needed and legally valid as of the end of the fiscal year. HUD's procedures for identifying and deobligating funds that are no longer needed to meet its obligations were not always effective. This has been a long-standing weakness. Our review of the 2007 year-end obligation balances showed $342.3 million in excess funds that could be recaptured. We have been reporting deficiencies in this area for several years and while HUD has been working to implement improved procedures and information systems, progress has been slow.

Controls over HUD's Computing Environment Can Be Further Strengthened. HUD's computing environment, data centers, networks, and servers provide critical support to all facets of the Department's programs, mortgage insurance, servicing, and administrative operations. In prior years, we reported on various weaknesses with general system controls and controls over certain applications, as well as weak security management. These deficiencies increase risks associated with safeguarding funds, property, and assets from waste, loss, unauthorized use, or misappropriation. We evaluated selected information system general controls of the Department's computer systems on which HUD's financial systems reside. Our review found information systems control weaknesses that could negatively affect the integrity, confidentiality, and availability of computerized data.

Weak Personnel Security Practices Continue to Pose Risks of Unauthorized Access to the Department's Critical Financial Systems. For several years, we have reported that HUD's personnel security practices over access to critical and sensitive systems have been inadequate. Various deficiencies in HUD's information technology personnel security program were found and recommendations were proposed to correct the problems noted. However, the risk of unauthorized access to HUD's financial systems remains a critical issue. OIG followed up on previously reported information technology personnel security weaknesses and deficiencies and found that deficiencies still exist.

FHA System Security Controls Need to be Strengthened. FHA has not yet implemented a federal information security risk management framework in accordance with federal standards. FHA's information system security officer did not have authority and processes in place to ensure FHA system security meets federal and Departmental requirements. FHA program offices and system owners also did not fully understand their system security responsibilities due to an ineffective organizational authority, insufficient staff resources, and inadequate security training. FHA has also not yet resolved a number of system vulnerabilities that result in weakened controls over financial system data.

Ginnie Mae Should Improve Programs Compliance and Controls Regarding Monitoring of Issuers. Ginnie Mae needs to strengthen monitoring in the Mortgage-Backed Securities (MBS) program. Improvements are needed to (1) assure more effective follow up of the automated matching process with insurer loan data, (2) ensure the risk for issuer default is minimized, and (3) provide for segregating incompatible duties in MBS's monitoring process from the issuer approval and other securities revenue production process.

Compliance with Laws and Regulations

HUD Did Not Substantially Comply with the Federal Financial Management Improvement Act. In its *Fiscal Year 2007 Performance and Accountability Report*, HUD reports that 2 of its 42 financial management systems do not comply with the requirements of the Federal Financial Management Improvement Act and OMB Circular A-127, *Financial Management Systems*. Even though 40 individual systems have been certified as compliant with federal financial management systems requirements, collectively and in the aggregate, deficiencies still exist.

FHA's auditor reported as a material weakness that *FHA's systems for processing Home Equity Conversion Mortgage transactions need improvement*. In addition we report as a significant deficiency that *HUD Financial Management Systems Need to Comply with Federal Financial Management Systems Requirements.* The material weakness and significant deficiency address how FHA and HUD's financial management systems remain substantially noncompliant with federal financial management requirements.

We continue to report as significant deficiencies that (1) *Controls over HUD's Computing Environment Can Be Further Strengthened and (2) Weak Personnel Security Practices Continue to Pose Risks of Unauthorized Access to the Department's Critical Financial Systems.* These significant deficiencies discuss how weaknesses with general controls and certain application controls, and weak security management increase risks associated with safeguarding funds, property, and assets from waste, loss, unauthorized use or misappropriation.

Also, OIG audit reports have disclosed that security over financial information was not provided in accordance with OMB Circular A-130 *Management of Federal Information Resources*, Appendix III and the Federal Information Security Management Act.

In addition, FHA's auditor reported a material weakness with respect to the HECM program credit subsidy cash flow model. The model contained improper calculations relating to terminated note recoveries and was not compliant with federal accounting standards regarding OMB discounting requirements for cash flow models for direct loan and loan guarantee programs.

Results of the Audit of FHA's Financial Statements

The independent certified public accounting firm of Urbach Kahn and Werlin LLP performed a separate audit of FHA's fiscal years 2007 and 2006 financial statements. Their report on FHA's financial statements, dated October 29, 2007[1] includes an unqualified opinion on FHA's financial statements, along with discussions of two material weaknesses and one significant deficiency.

[2] Urbach Kahn and Werlin LLP's report on FHA, Audit of Federal Housing Administration Financial Statements for Fiscal Years 2007 and 2006 (2008-FO-0002, dated November 08, 2007) was incorporated into this report.

Results of the Audit of Ginnie Mae's Financial Statements

The independent public accounting firm of Carmichael, Brasher, Tuvell and Company performed a separate audit of the Ginnie Mae's financial statements for fiscal years 2007. Carmichael, Brasher, Tuvell and Company's report on Ginnie Mae's financial statements, dated November 06, 2007,[2] includes an unqualified opinion on these financial statements. In addition, the audit results indicate there was one significant deficiency with Ginnie Mae's internal controls.

Objectives, Scope and Methodology

The accompanying principal financial statements are the responsibility of HUD management. Our responsibility is to express an opinion on these principal financial statements. As part of our audit, we considered HUD's internal controls over financial reporting by obtaining an understanding of the design effectiveness of internal controls, determined whether they have been placed in operation, assessed control risks, and performed tests of the reporting entity's internal controls to determine our audit procedures for the purpose of expressing our opinion on the principal financial statements and not to provide assurance on those internal controls. Consequently, we do not provide an opinion on internal controls. We conducted our audit in accordance with *Government Auditing Standards,* and the requirements of OMB Bulletin 07-04. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion on the financial statements.

We also tested HUD's compliance with laws, regulations, and provisions of contract and grant agreements that could have a direct and material effect on the financial statements. However, our consideration of HUD's internal controls and our testing of its compliance with laws, regulations, and provisions of contract and grant agreements were not designed to and did not provide sufficient evidence to express an opinion on such matters and would not necessarily disclose all matters that might be material

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[2] Carmichael, Brasher, Tuvell and Company's report on Ginnie Mae, Audit of Government National Mortgage Association Financial Statements for Fiscal Years 2007 and 2006 (2008-FO-0001, dated November 07, 2007) was incorporated into this report.

weaknesses, significant deficiencies or noncompliance with laws, regulations, and provisions of contract and grant agreements. Accordingly, we do not express an opinion on HUD's internal controls or on its compliance with laws, regulations, and provisions of contract and grant agreements.

With respect to internal controls related to performance measures to be reported in the Management's Discussion and Analysis and HUD's *Fiscal Year 2007 Performance and Accountability Report*, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin 07-04. Our procedures were not designed to provide assurance on internal control over reported performance measures and, accordingly, we do not provide an opinion on such controls.

Agency Comments and Our Evaluation

On October 31, 2007, we provided a draft of the internal control and compliance sections of our report to the CFO and appropriate assistant secretaries and other Departmental officials for review and comment, and requested that the CFO coordinate a Department-wide response. The CFO responded in a memorandum dated November 2, 2007, which is included in its entirety in our separate report. Except for the report's conclusion on HUD's compliance with the Federal Financial Management Improvement Act and the material weakness on FHA's systems for processing HECM transactions, the Department generally agreed with our presentation of findings and recommendations subject to detailed comments included in the memorandum. The Department's response was considered in preparing the final version of this report.

This report is intended for the information and use of the management of HUD, OMB, the Government Accountability Office, and the U.S. 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. In addition to a separate report detailing the internal control and compliance issues included in this report and providing specific recommendations to HUD management, we noted other matters involving internal control over financial reporting and its operation that we are reporting to HUD management in a separate "management letter."

James A. Heist
Assistant Inspector General for Audit

November 14, 2007

Secretary's Audit Resolution Report to Congress

This information on the Department of Housing and Urban Development's audit resolution and follow-up activity covers the period October 1, 2006, through September 30, 2007. It is required by Section 106 of the Inspector General Act Amendments (Public Law 100-504), and provides information on the status of audit recommendations without management decisions and recommendations with management decisions, but no final action. The report also furnishes statistics on the total number of audit reports and dollar value of disallowed costs for FY 2007, and statistics on the total number of audit reports and dollar value of recommendations that funds be put to better use.

Audit Resolution Highlights

During FY 2007, the Department achieved 908 approved management decisions and successfully implemented 824 recommendations. The Department also made good progress in reducing its inventory of significantly overdue final actions, which are those recommendations greater than 12 months overdue. HUD began the year with 7 recommendations greater than 12 months overdue. At the mid-year point, an additional 57 recommendations that would become significantly overdue if not addressed by the end of the year were also identified and targeted. This inventory was successfully addressed and the Department ended the year with just one significantly overdue recommendation. This achievement was the result of a multi-year and concerted Department-wide effort to address and prevent overdue recommendations.

Recommendations Without Management Decisions

The Department is statutorily required to provide a management decision (an action plan with milestones) for each audit recommendation within 6 months of report issuance by the Inspector General.

FY 2007 began with a total of 350 recommendations without a management decision. During the year, 885 recommendations requiring management decisions were added to our active workload, and timely management decisions were made on a total of 908 recommendations. FY 2007 ended with 327 recommendations without management decisions, with just three recommendations beyond the statutory period of six months.

Summary of Recommendations Without Management Decisions
October 1, 2006 – September 30, 2007

Opening Inventory	350
New Audit Recommendations Requiring Decisions	885
Management Decisions Made	(908)
Audit Recommendations Awaiting Management Decisions	327
Audit Recommendations Beyond Statutory Period	3

Recommendations With Management Decision But No Final Action Taken

The Department began the year with an inventory of 964 management decisions requiring final action. During the year, 908 additional management decisions were made, the Department completed final action on a total of 824 recommendations. The total number of audit recommendations with management decisions, but final actions not yet completed at the end of the year, was 1048. Of these 1048 recommendations, 101 were under active multi-year repayment plans that remain open until the collection activities are completed.

At the beginning of FY 2007, the Department established an annual performance goal for each program office within HUD to reduce the Departmental opening balance of final actions that were more than 12 months overdue by 50 percent. At the beginning of FY 2007, there were 7 final actions that were more than 12 months overdue. At the end of FY 2007, there was only one final action that was more than 12 months overdue. All program offices met or exceeded their annual performance goals.

Summary of Recommendations With
Management Decisions and No Final Action
October 1, 2006 – September 30, 2007

Opening Inventory	964[1]
Management Decisions Made During FY 2007	908
Sub-Total No Final Action at End of Period	1,872
Final Action Taken	(824)
Audit Recommendations Reopened During Period	
(Without Final Action)	-0-
Total Audit Recommendations	
Requiring Final Actions	1048[2]

[1] *The opening balance was decreased from 965 to 964 due to a retroactive/truncation entry that did not have any financial impact since it did not involve any costs.*

[2] *The Department had 59 audits with 101 recommendations under current repayment plans. These recommendations are considered open and count in the audit inventory until final repayment is made.*

Status of Audits With Disallowed Costs

As of October 1, 2007, there were 200 audits with management decisions on which final action had not been taken, with a dollar value of disallowed costs totaling $310 million. During FY 2007, management decisions were made for 94 audits with disallowed costs totaling approximately $87.8 million. The Department had 93 audits in which final action was taken during the fiscal year, with approximately $30.6 million in recoveries and $35.8 million in write-offs. As of September 30, 2007, there were 201 audit reports with recommendations involving disallowed costs awaiting final action, with an associated value of approximately $331.8 million.

Note that the Inspector General Act requires reporting at the audit report level versus the individual recommendation level. At the audit report level, total disallowed costs in the report are reported as open until all recommendations in a report are closed. When reporting is done at the more detailed recommendation level, the $331.8 million of disallowed costs awaiting final action are reduced by $71.4 million (see the notation below corresponding to footnote 4).

Management Report on Final Actions on Audits With Disallowed Costs
For the Fiscal Year End 9/30/07

Classification	Number of Audit Reports	Disallowed Costs
A. Audit reports with management decisions on which final action had not been taken at the beginning of the period.	200	$310,391,896
B. Audit reports on which management decisions were made during the period.	94	$ 87,812,550
C. Total audit reports pending final action during period.	294	$398,204,446
D. Audit reports on which final action was taken during the period.		
1. Recoveries	81[1]	$30,617,169
(a) Collections and offsets	62	$19,502,413
(b) Property	2	267,495
(c) Other	24	$10,838,261
2. Write-offs	45	$35,763,766
3. Total of 1 and 2	93[2]	$66,380,935
E. Audit reports needing final action at the end of the period (subtract D3 from C)	201[3]	$331,823,511
	(423)[4]	($260,374,847)

[1] Audit reports are duplicated in D.1.(a) and D.1.(c), thus the total is reduced by 7.
[2]Audit reports are duplicated in both D.1 and D.2; thus the total is reduced by 33.
[3] Litigation, legislation, or investigation is pending for 28 audit reports with costs totaling $107,831,902.
[4] The figures in brackets represent data at the recommendation level as compared to the report level.

Status of Audits With Recommendations That Funds Be Put to Better Use

At the beginning of FY 2007, there were 126 audits with management decisions on which final action had not been taken with recommendations to put funds to better use (i.e., used more efficiently), with a dollar value of approximately $3.1 billion. During FY 2007, management decisions were made for 82 audits with funds put to better use costs totaling approximately $889 million. The Department had 66 recommendations for which final action was taken during the fiscal year with a dollar value of $668 million, and 12 recommendations totaling $538 million that management concluded should not or could not be implemented. At the end of the year, there were 138 audits with recommendations to put funds to better use awaiting final action with an associated value of approximately $2.81 billion.

Note that the Inspector General Act requires reporting at the audit report level versus the individual recommendation level. At the audit report level, total funds put to better use in the report are reported as open until all recommendations in a report are closed. When reporting is done at the more detailed recommendation level, the $2.81 billion of funds put to better use costs awaiting final action is reduced by $1.88 billion, leaving an open balance of $929 million (see the notation below corresponding to footnote 3).

Management Report on Final Action On Audits With Recommendations That Funds Be Put to Better Use For The Fiscal Year Ended 9/30/07

Classification	Number of Audit Reports	Funds Put to Better Use
A. Audit reports with management decisions on which final action had not been taken at the beginning of the period.	126	$3,126,397,917
B. Audit reports on which management decisions were made during the period.	82	$889,381,159
C. Total audit reports pending final action during period (Total of A and B).	208	$4,015,779,076
D. Audit reports on which final action was taken during the period		
1. Value of recommendations implemented (completed)	66	$667,980,363
2. Value of recommendations that management concluded should not or could not be implemented	12	$538,402,881
3. Total of 1 and 2	70[1]	$1,206,383,244
E. Audit reports needing final action at the end of the period (Subtract D3 from C).	138[2]	$2,809,395,832
	(122)[3]	($929,342,842)

[1] *Audit reports are duplicated in D.1. and D.2, thus the total is reduced by 8.*

[2] *Litigation, legislation, or investigation is pending for 15 audit reports with costs totaling $255,635,867.*

[3] *The figures in brackets represent data at the recommendation level as compared to the report level.*

Delinquent Debt Collection

Fiscal Year Ending	Total Debt (In millions)	Delinquent Debt (In millions)	Delinquent Debt Collections (In millions)
2007*	$10,716	$607	$191

**The above totals reflect FY 2007 data from the Third Quarter Treasury Report on Receivables Due from the Public. The Treasury Report on Receivables for the Fourth Quarter was not available in time for incorporation into this report. The vast majority of these totals are comprised of debts from FHA and Housing programs. Less than one percent of delinquent debt originates from all other HUD programs. The Housing Financial Operations Center in Albany, New York, administers the vast majority of delinquent, eligible debts that HUD refers to the Department of the Treasury.*

HUD's Financial Operations Center remains committed to maximizing collections on delinquent debts using all available collection tools. The Center continues to work closely with systems contractors and the Department of the Treasury to maintain the systems and processes that assure continued full compliance with the Debt Collection Improvement Act of 1996 (DCIA).

During FY 2007, HUD added single family partial claim debts to the Center's debt portfolio. The intent of this action was to increase collections by exposing these debts to all DCIA mandated collection tools. To date, HUD has referred over 5,100 partial claim debts to the Center, resulting in FY 2007 collections in excess of $3.9 million.

Also, during FY 2007, the Center submitted $43.1 million of new delinquent debts to Treasury's national delinquent debtor database for potential offset via the Treasury Offset Program. At the end of FY 2007, a total of 14,385 debtors, representing $209.8 million owed, were eligible for offset by Treasury. This program is a centralized offset program, administered by Treasury's Financial Management Service, to collect delinquent debts owed to federal agencies. Offset collections during FY 2007 totaled $7.7 million for the Department.

During FY 2007, the Center also referred $30.7 million of new debts to Treasury for cross-servicing. At the end of 2007, 4,790 debts amounting to $64.2 million were at cross-servicing. Cross-servicing is the process whereby federal agencies refer delinquent debts to Treasury's Financial Management Service for collection. The DCIA requires that all eligible debts be referred to Treasury for offset and for cross-servicing when they are 180 days delinquent.

Overall, HUD mailed a total of 7,528 "Notice of Intent" letters to delinquent debtors advising them that their debts were past due. These notices provide debtors with the right to establish repayment plans or appeal the enforceability of debts through the HUD Office of Appeals, or for federal employees, through an Administrative Law Judge. Debtors who fail to make payment arrangements or exercise their appeal rights are referred to Treasury, where they are subjected to aggressive collection efforts, including offset of federal payments, referral to private collection agencies, and administrative wage garnishment.

The Center continued to improve the management of its debt caseload with the assistance of the U.S. Court's Public Access to Court Electronic Records system. This system offers inexpensive, fast, and comprehensive bankruptcy case information on active and recently closed cases, and has allowed HUD to more efficiently handle accounts where the debtor has filed bankruptcy.

Among federal agencies, HUD continued to spearhead the use of administrative wage garnishment as a tool for the collection of debt. HUD has used this tool, via Treasury's cross-servicing Program, since 2002. Treasury reported $1.6 million in administrative wage garnishment collections for HUD debt during FY 2007, with 291 active Wage Garnishment Orders in place at the end of the fiscal year. During FY 2007, the Center collected an additional $660,300 via its direct administrative wage garnishment program for delinquent debts that Treasury returned to HUD following cross-servicing action.

During FY 2007, the Center continued suspension of all active collections against debtors located within the FEMA-designated areas for the Hurricane Katrina disaster. Since the debtors are in various stages of recovery, the Department is still in the process of re-evaluating the overall debt process with respect to the affected debtors.

Additional HUD debt collection initiatives during FY 2007 included: system enhancements to improve reporting to HUD's Credit Alert Interactive Voice Response System, use of the Electronic On-line Solutions for Complete and Accurate Reporting System to respond to 1,744 consumer disputes that were filed with credit bureaus regarding HUD's credit reporting of delinquent debts, and a reconciliation of HUD's records with Treasury's FedDebt collection system.