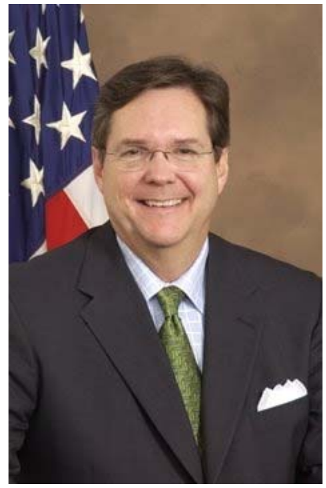
Message from the Chief Financial Officer



November 17, 2008

Fiscal Year 2008 has been a challenging year for the Department. The housing crisis has kept the Department in the news on a daily basis. Legislation to address this issue also brings new responsibilities to the OCFO including front-end risk assessments and funds control plans to ensure that funds are available and used as intended, both effectively and efficiently.

In spite of these challenges, 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 President, Congress, and the American people on our program leadership and our stewardship and management of the public funds entrusted to us.

I am particularly pleased to report that, for the ninth consecutive year, we have received an unqualified, or "clean," opinion with no material weaknesses on the Department's consolidated financial statements from our independent Office of Inspector General auditors. Attainment of an unqualified opinion is a high-water mark for any organization. In HUD's case, this is even more noteworthy because the audit noted the elimination of the two material weaknesses which were first identified in the prior year financial audit. I take this opportunity to extend a special thanks to the HUD staff who were responsible for the tremendous accomplishment of eliminating these material weaknesses within one year! The Department recognizes, however, the need for continuous improvement to maintain this level of success. While recognizing HUD's accomplishment in eliminating the two material weaknesses, the auditors did identify seven significant deficiencies for the Department. Corrective action plans are being developed to address the new deficiencies, and the Department continues to make progress in addressing prior year findings. Overall, though, HUD's favorable "clean" financial audit result affirms our continued commitment to financial and management excellence. Other significant financial management accomplishments in FY 2008 include:

- Received the Certificate of Excellence in Accountability Reporting from the Association of Government Accountants for the second year in a row. This certificate recognizes the Department's excellence in linking budget and performance information in its FY 2007 Performance and Accountability Report.

- Obtained a score of "Green" on four of eight President's Management Agenda initiatives. Most notably, the Department improved its score from "Yellow" to "Green" on the Human Capital Management initiative, retained a "Green" score on Improved Financial Performance, and re-attained a "Green" score on the Initiative to Eliminate Improper Payments. The Department is continuing to make progress on the four remaining Initiatives – Credit Program Management, Competitive Sourcing, Electronic Government, and Performance Improvement – and has action plans in place to drive further improvements in FY 2009.

- Completed HUD’s third assessment of the effectiveness of internal controls over financial reporting, in accordance with the requirements of Appendix A of OMB Circular No. A-123. This is similar to the Sarbanes-Oxley Act requirements for the private sector. Based on the results of that evaluation, the Secretary was able to report, with reasonable assurance, that the Department’s internal controls over financial reporting, as of June 30, 2008, 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.

- Continued its record of receiving “Green” ratings from the Office of Management and Budget on goals for all nine key federal accounting practices, achieving: 100 percent fund balance with Treasury reconciliation, 95 percent suspense account resolution, 98 percent debt management, 99 percent prompt payment, 100 percent interest management, 97 percent electronic funds transfer, 99 percent individual travel card timeliness, 100 percent central travel card timeliness, and 100 percent purchase card timeliness. These ratings placed HUD among the top performers in the federal government.

- Continued the review and clean-up of obligated fund balances associated with terminated programs and expired contracts resulting in the deobligation of approximately $1 billion in excess/overestimated funds identified in FY 2008.

Under the Government Performance and Results Act, we continuously assessed and refined our performance measures, quality of data, and compilation procedures. We refined our procedures to assure our stakeholders that we have the most useful and accurate performance data available that also reflects the benefits to our constituents. We are proud of our many accomplishments, but realize a lot of work remains in this very challenging financial environment. We continually strive to improve our financial stewardship of the resources entrusted to us by the Congress and the American taxpayer. We will continue to promote sound business practices and improve accountability while fulfilling our mission of promoting home ownership, supporting community development, and increasing access to affordable housing free from discrimination.

I want to thank the staff of the Office of the Chief Financial Officer, the FHA Comptroller’s Office, Ginnie Mae’s Office of Finance, the Office of Inspector General, and other HUD program and administrative components that are involved in the stewardship of HUD’s funds. Their continued 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

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 31 U.S.C. 3515(b). 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**, as of September 30, 2008 and 2007, present those resources owned or managed by HUD which are available to provide future economic benefits (assets); amounts owed by HUD that will require payments form those resources or future resources (liabilities); and residual amounts retained by HUD comprising the difference (net position).

The **Consolidated Statement of Net Cost,** which present the net cost of HUD operations for the years ended September 30, 2008 and 2007. HUD's net cost of operations includes the gross costs incurred by HUD less any exchange revenue earned from HUD activities.

The **Consolidated States 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, 2008 and 2007.

The **Combined Statements of Budgetary Resources,** which present the budgetary resources available to HUD during FY 2008 and 2007, the status of these resources at September 30, 2008 and 2007, and the outlay of budgetary resources for the years ended September 30, 2008 and 2007.

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, 2008 and 2007
(Dollars in Millions)

	2008	2007
ASSETS		
Intragovernmental		
Fund Balance with Treasury (Note 4)	$85,539	$69,046
Investments (Note 5)	28,544	31,270
Other Assets (Note 9)	22	8
Total Intragovernmental Assets	$114,106	$100,324
Investments (Note 5)	48	121
Accounts Receivable (Net) (Note 6)	239	256
Credit Program Receivables and Related Foreclosed Property (Note 7)	9,565	9,567
General Property Plant and Equipment (Net) (Note 8)	234	213
Other Assets (Note 9)	845	593
TOTAL ASSETS	**$125,036**	**$111,074**
LIABILITIES		
Intragovernmental Liabilities		
Accounts Payable (Note 10)	$11	$5
Debt (Note 11)	5,608	5,459
Other Intragovernmental Liabilities (Note 14)	1,655	3,808
Total Intragovernmental Liabilities	$7,274	$9,272
Accounts Payable (Note 10)	892	769
Loan Guarantees (Note 7)	19,613	7,551
Debt Held by the Public (Note 11)	729	981
Federal Employee and Veterans' Benefits (Note 12)	85	82
Loss Reserves (Note 13)	550	536
Other Governmental Liabilities (Note 14)	1,378	1,169
TOTAL LIABILITIES	**$30,521**	**$20,360**
COMMITMENTS AND CONTINGENCIES (Notes 17 & 23)		
NET POSITION		
Unexpended Appropriations - Earmarked (Note 18)	($376)	($376)
Unexpended Appropriations	66,832	54,871
Cumulative Results of Operations - Earmarked (Note 18)	14,089	13,266
Cumulative Results of Operations	13,970	22,953
TOTAL NET POSITION	$94,515	$90,714
TOTAL LIABILITIES AND NET POSITION	**$125,036**	**$111,074**

The accompanying notes are an integral part of these statements.

Consolidated Statement of Net Cost
For The Period Ended September 2008 and 2007
(Dollars in Millions)

	2008	2007
COSTS:		
Federal Housing Administration		
Gross Cost (Note 19)	$11,378	$3,890
Less: Earned Revenue	(1,471)	(1,521)
Net Program Costs	9,907	2,369
Government National Mortgage Association		
Gross Cost (Note 19)	110	53
Less: Earned Revenue	(1,007)	(791)
Net Program Costs	(897)	(738)
Section 8:		
Gross Cost (Note 19)	24,735	24,640
Net Program Costs	24,735	24,640
Low Rent Public Housing Loans and Grants		
Gross Cost (Note 19)	3,238	3,479
Net Program Costs	3,238	3,479
Operating Subsidies:		
Gross Cost (Note 19)	4,150	3,831
Net Program Costs	4,150	3,831
Housing for the Elderly and Disabled		
Gross Cost (Note 19)	1,392	1,317
Less: Earned Revenue	(363)	(419)
Net Program Costs	1,029	898
Community Development Block Grants:		
Gross Cost (Note 19)	8,996	10,966
Net Program Costs	8,996	10,966
HOME:		
Gross Cost (Note 19)	2,013	1,902
Net Program Costs	2,013	1,902
Other:		
Gross Cost (Note 19)	3,872	3,377
Less: Earned Revenue	(33)	(21)
Net Program Costs	3,839	3,356
Costs Not Assigned to Programs:	144	332
Consolidated:		
Gross Cost (Note 19)	$60,028	53,787
Less: Earned Revenue	(2,874)	(2,752)
Net Cost of Operations	**$57,154**	**$51,035**

The accompanying notes are an integral part of these statements.

Consolidated Statement of Changes in Net Position
for the period ending September 2008 and 2007
(Dollars in Millions)

	2008			2007
	EARMARKED FUNDS	ALL OTHER FUNDS	CONSOLIDATED TOTAL	CONSOLIDATED TOTAL
CUMULATIVE RESULTS OF OPERATIONS:				
Beginning of Period	$13,266	$22,953	$36,219	$39,500
Adjustments:				
Corrections of Errors		8	8	(33)
Beginning Balances, As Adjusted	13,266	22,961	36,227	39,467
BUDGETARY FINANCING SOURCES:				
Other Adjustments				2
Appropriations Used	9	49,525	49,534	50,952
Transfers In/Out Without Reimbursement		(628)	(628)	(2,419)
Other				(2)
Other Financing Sources (non-exchange):				
Transfers In/Out Without Reimbursement		(32)	(32)	(843)
Imputed Financing		112	112	97
Total Financing Sources	9	48,977	48,986	47,787
Net Cost of Operations	814	(57,968)	(57,154)	(51,035)
Net Change	823	(8,991)	(8,168)	(3,248)
CUMULATIVE RESULTS OF OPERATIONS	**$14,089**	**$13,970**	**$28,059**	**$36,219**
UNEXPENDED APPROPRIATIONS:				
Beginning of Period	(376)	54,871	54,495	$66,239
Adjustments				
Corrections of Errors		2	2	33
Beginning Balances, As Adjusted	(376)	54,873	54,497	66,272
BUDGETARY FINANCING SOURCES:				
Appropriations Received	9	63,873	63,882	40,175
Appropriations Transfers In/Out		(241)	(241)	(160)
Other Adjustments		(2,149)	(2,149)	(842)
Appropriations Used	(9)	(49,525)	(49,534)	(50,950)
Total Budgetary Financing Sources		11,958	11,958	(11,777)
Unexpended Appropriations	(376)	66,831	66,455	54,495
NET POSITION	**$13,713**	**$80,801**	**$94,514**	**$90,714**

The accompanying notes are an integral part of these statements.

Combined Statement of Budgetary Resources
For the Period Ended September 2008 and 2007
(Dollars in Millions)

	2008		2007	
	Budgetary	NonBudgetary Credit Program Financing Accounts	Budgetary	NonBudgetary Credit Program Financing Accounts
Budgetary Resources:				
Unobligated Balance, Brought Forward	$42,984	$4,219	$48,465	$7,158
Recoveries of Prior Year Unpaid Obligations	940	19	2,674	125
Budget Authority				
Appropriation	63,888		40,181	2
Borrowing Authority	4	940	17	602
Spending Auth from Offsetting Collections				
Earned				
Collected	4,361	14,188	4,647	9,131
Change in Receivable from Fed Sources	(66)	(41)	52	42
Change in Unfilled Customer Orders				
Advance Received	1		(29)	
W/O Advance from Federal Sources	1	(2)	(9)	(2)
Subtotal Budget Authority	68,189	15,085	44,859	9,775
Nonexpenditure Transfers, Net	(2)			
Temporarily Not Available Per PL				
Permanently not available	(11,343)	(691)	(4,268)	(2,315)
Total Budgetary Resources	**$100,768**	**$18,632**	**$91,730**	**$14,742**
Status of Budgetary Resources:				
Obligations Incurred				
Direct	46,634	10,332	48,416	10,523
Reimbursable	753		329	
Subtotal	$47,387	$10,332	$48,745	$10,523
Unobligated Balances				
Apportioned	17,757	2,638	5,712	1,007
Subtotal	17,757	2,638	5,712	1,007
Unobligated Balances Not Available	$35,624	$5,662	$37,273	$3,212
Total Status of Budgetary Resources	**$100,768**	**$18,632**	**$91,730**	**$14,742**
Change in Obligated Balance				
Obligated Balance, Net				
Unpaid Obligations, Brought Forward	65,807	1,342	72,610	1,377
Less: Uncollected Customer Payments from Federal Sources	(344)	(62)	(301)	(22)
Total Unpaid Obligated Balance, Net	65,462	1,280	72,309	1,355
Obligations Incurred, Net	47,386	10,332	48,745	10,523
Less: Gross Outlays	(55,119)	(10,059)	(52,875)	(10,433)
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	(940)	(19)	(2,674)	(125)
Change in Uncollected Customer Payments from Federal Sources	65	43	(43)	(40)
Obligated Balance, Net - End of Period				
Unpaid Obligations	57,133	1,595	65,805	1,342
Less: Uncollected Customer Payments from Federal Sources	(279)	(18)	(344)	(62)
Total Obligated Balance, Net - End of Period	**$56,854**	**$1,577**	**$65,461**	**$1,280**
Net Outlays				
Gross Outlays	55,120	10,060	52,875	10,433
Less: Offsetting Collections	(4,362)	(14,188)	(4,618)	(9,131)
Less: Distributed Offsetting Receipts	(1,541)		(2,807)	
Net Outlays	**$49,217**	**($4,128)**	**$45,450**	**$1,302**

The accompanying notes are an integral part of these statements.

Consolidating Balance Sheet
As of September 2008
(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	$12,590	$4,836	$8,877	$28,806	$5,426	$1,186
Investments	19,254	9,290				
Other Assets	21		1	2	1	3
Total Intragovernmental Assets	31,865	14,127	8,877	28,808	5,427	1,189
Investments	48					
Accounts Receivable (Net)	128	26	78		1	
Credit Program Receivables and Related Foreclosed Property	5,506					
General Property Plant and Equipment (Net)		27				
Other Assets	134	709				
TOTAL ASSETS	**$37,681**	**$14,888**	**$8,955**	**$28,808**	**$5,429**	**$1,189**
LIABILITIES						
Intragovernmental Liabilities						
Accounts Payable			$1	$3		
Debt	4,832					
Other Intragovernmental Liabilities	1,530		65	2	1	2
Total Intragovernmental Liabilities	6,362		66	5	1	2
Accounts Payable	585	39	23	31	8	139
Loan Guarantees	19,486					
Debt Held by the Public	52					
Federal Employee and Veterans' Benefits			8	7	3	5
Loss Reserves		550				
Other Governmental Liabilities	438	773	10	7	4	7
TOTAL LIABILITIES	**$26,924**	**$1,362**	**$106**	**$50**	**$15**	**$154**
NET POSITION						
Unexpended Appropriations - Earmarked						
Unexpended Appropriations	411		8,849	28,758	5,414	1,035
Cumulative Results of Operations - Earmarked		13,527				
Cumulative Results of Operations	10,347					
TOTAL NET POSITION	$10,757	$13,527	$8,849	$28,758	$5,414	$1,035
TOTAL LIABILITIES AND NET POSITION	**$37,681**	**$14,888**	**$8,955**	**$28,808**	**$5,429**	**$1,189**

Figures may not add to totals because of rounding.

Consolidating Balance Sheet (continued)
As of September 2008
(Dollars in Millions)

	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Consolidating
ASSETS				
Intragovernmental				
Fund Balance with Treasury	$8,306	$6,861	$8,652	$85,539
Investments				28,544
Other Assets	3		(9)	22
Total Intragovernmental Assets	$8,309	$6,861	$8,642	$114,105
Investments				48
Accounts Receivable (Net)			6	239
Credit Program Receivables and Related Foreclosed Property	1	3,979	79	9,565
General Property Plant and Equipment (Net)			208	234
Other Assets			2	845
TOTAL ASSETS	**$8,310**	**$10,839**	**$8,936**	**$125,036**
LIABILITIES				
Intragovernmental Liabilities				
Accounts Payable			$7	$11
Debt	775			5,608
Other Intragovernmental Liabilities	1	1	53	1,655
Total Intragovernmental Liabilities	$777	$1	$59	$7,274
Accounts Payable	16	10	41	892
Loan Guarantees			128	19,613
Debt Held by the Public	677			729
Federal Employee and Veterans' Benefits	2	2	59	85
Loss Reserves				550
Other Governmental Liabilities	3	8	129	1,378
TOTAL LIABILITIES	**$1,475**	**$20**	**$416**	**$30,521**
NET POSITION				
Unexpended Appropriations - Earmarked			(376)	(376)
Unexpended Appropriations	8,201	5,865	8,299	66,832
Cumulative Results of Operations - Earmarked			563	14,089
Cumulative Results of Operations	(1,365)	4,954	35	13,970
TOTAL NET POSITION	$6,836	$10,819	$8,520	$94,515
TOTAL LIABILITIES AND NET POSITION	**$8,310**	**$10,839**	**$8,936**	**$125,036**

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				
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 (Net)	119	23	102		2	
Credit Program Receivables and Related Foreclosed Property	4,738					
General Property Plant and Equipment (Net)		17				
Other Assets	143	449				
TOTAL ASSETS	**$37,165**	**$13,711**	**$5,453**	**$20,556**	**$5,705**	**$1,108**
LIABILITIES						
Intragovernmental Liabilities						
Accounts Payable			$1	$4		
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**
NET POSITION						
Unexpended Appropriations - Earmarked						
Unexpended Appropriations	544		5,355	20,474	5,677	906
Cumulative Results of Operations - Earmarked		12,620				
Cumulative Results of Operations	20,031					
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
As of September 2007
(Dollars in Millions)

	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Consolidating
ASSETS				
Intragovernmental				
Fund Balance with Treasury	$7,777	$6,255	$8,318	$69,046
Investments				31,270
Other Assets	7		(17)	8
Total Intragovernmental Assets	7,784	6,255	8,302	100,324
Investments				121
Accounts Receivable (Net)	1		9	256
Credit Program Receivables and Related Foreclosed Property	1	4,634	193	9,567
General Property Plant and Equipment (Net)			196	213
Other Assets			1	593
TOTAL ASSETS	**$7,786**	**$10,889**	**$8,701**	**$111,074**
LIABILITIES				
Intragovernmental Liabilities				
Accounts Payable			($1)	$5
Debt	886			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**
NET POSITION				
Unexpended Appropriations - Earmarked			(376)	(376)
Unexpended Appropriations	7,658	6,247	8,010	54,871
Cumulative Results of Operations - Earmarked			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 2008 and 2007
(Dollars in Millions)

2008	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME	Operating Subsidies
PROGRAM COSTS						
Gross Costs	$11,378	$110	$24,735	$8,996	$2,013	$4,150
Less: Earned Revenues	(1,471)	(1,007)				
Net Costs	$9,907	($897)	$24,735	$8,996	$2,013	$4,150
Costs Not Assigned to Programs						
Earned Revenue Not Assigned						
Net Cost of Operations	**$9,907**	**($897)**	**$24,735**	**$8,996**	**$2,013**	**$4,150**

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**

Figures may not add to totals because of rounding.

Consolidating Statement of Net Cost (continued)
For the Period Ended September 2008 and 2007
(Dollars in Millions)

2008	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Consolidating
PROGRAM COSTS				
Gross Costs	$3,238	$1,392	$3,872	$59,884
Less: Earned Revenues		(363)	(33)	(2,874)
Net Costs	$3,238	$1,029	$3,839	$57,011
Costs Not Assigned to Programs			$144	$144
Earned Revenue Not Assigned				
Net Cost of Operations	**$3,238**	**$1,029**	**$3,982**	**$57,154**

2007	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Consolidating
PROGRAM COSTS				
Gross Costs	$3,479	$1,317	$3,377	$53,454
Less: Earned Revenues		(419)	(21)	(2,752)
Net Costs	$3,479	$898	$3,356	$50,702
Costs Not Assigned to Programs			$332	$332
Earned Revenue Not Assigned				
Net Cost of Operations	**$3,479**	**$898**	**$3,688**	**$51,035**

Figures may not add to totals because of rounding.

Consolidating Statement of Changes in Net Position
for the period ended September 2008
(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		$12,620				
- All Other Funds	$20,031					
Beginning Balances	20,031	12,620				
Adjustments						
Corrections of Errors						
- All Other Funds						
Beginning Balances, As Adjusted						
- Earmarked Funds		12,620				
- All Other Funds	20,031					
Total Beginning Balances, As Adjusted	20,031	12,620				
Budgetary Financing Sources:						
Appropriations Used						
- Earmarked Funds		8				
- All Other Funds	435		24,500	8,902	1,957	4,067
Transfers In/Out Without Reimbursement						
- All Other Funds	(614)					
Other Budgetary Financing Sources						
- All Other Funds			235	94	56	83
Other Financing Sources:						
Transfers In/Out Without Reimbursement						
- All Other Funds	387					
Others						
- Earmarked Funds		1				
- All Other Funds	14					
Total Financing Sources						
- Earmarked Funds		9				
- All Other Funds	222		24,735	8,996	2,014	4,150
Total Financing Sources	222	9	24,735	8,996	2,014	4,150
Net Cost of Operations						
- Earmarked Funds		897				
- All Other Funds	(9,907)		(24,735)	(8,996)	(2,014)	(4,150)
Net Change						
- Earmarked Funds		906				
- All Other Funds	(9,684)					
Total All Funds						
- Earmarked Funds		13,527				
- All Other Funds	10,347					
Total All Funds	**$10,347**	**$13,527**				

Figures may not add to totals because of rounding.

Consolidating Statement of Changes in Net Position
for the period ended September 2008
(Dollars in Millions)

Cumulative Results of Operations

	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Consolidating
Net Position - Beginning of Period				
- Earmarked Funds			$645	$13,266
- All Other Funds	($1,696)	$4,602	16	22,953
Beginning Balances	(1,696)	4,602	661	36,219
Adjustments				
Corrections of Errors				
- All Other Funds			9	8
Beginning Balances, As Adjusted				
- Earmarked Funds			645	13,266
- All Other Funds	(1,696)	4,602	25	22,963
Total Beginning Balances, As Adjusted	**(1,696)**	**4,602**	**670**	**36,228**
Budgetary Financing Sources:				
Appropriations Used				
- Earmarked Funds			1	9
- All Other Funds	3,503	1,334	4,827	49,525
Transfers In/Out Without Reimbursement				
- All Other Funds		(14)	(1)	(628)
Other Budgetary Financing Sources				
- All Other Funds	67	61	(595)	
Other Financing Sources:				
Transfers In/Out Without Reimbursement				
- All Other Funds			(419)	(32)
Imputed Financing From Costs Absorbed from Others				
- Earmarked Funds				
- All Other Funds			97	112
Total Financing Sources				
- Earmarked Funds			1	9
- All Other Funds	3,569	1,381	3,909	48,977
Total Financing Sources	**3,569**	**1,381**	**3,909**	**48,985**
Net Cost of Operations				
- Earmarked Funds			(83)	814
- All Other Funds	(3,239)	(1,029)	(3,899)	(57,968)
Net Change				
- Earmarked Funds			(83)	824
- All Other Funds	331	351	10	(8,993)
Total All Funds				
- Earmarked Funds			563	14,089
- All Other Funds	(1,365)	4,954	35	13,970
Total All Funds	**($1,365)**	**$4,954**	**$598**	**$28,059**

Figures may not add to totals because of rounding.

Consolidating Statement of Changes in Net Position
for the period ended September 2008
(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	$544		$5,355	$20,474	$5,677	$906
Beginning Balances	544		5,355	20,474	5,677	906
Adjustments						
Corrections of Errors						
- All Other Funds						
Beginning Balances, As Adjusted						
- Earmarked Funds						
- All Other Funds	544		5,355	20,474	5,677	906
Total Beginning Balances, As Adjusted	**544**		**5,355**	**20,474**	**5,677**	**906**
Budgetary Financing Sources						
Appropriations Received						
- Earmarked Funds		8				
- All Other Funds	627		29,443	17,586	1,704	4,200
Appropriations Transfers In/Out						
- Earmarked Funds						
- All Other Funds	(276)		(10)	(1)	(3)	
Other Adjustments (Rescissions, etc)						
- Earmarked Funds						
- All Other Funds	(50)		(1,438)	(399)	(6)	(3)
Appropriations Used						
- Earmarked Funds		(8)				
- All Other Funds	(435)		(24,474)	(8,902)	(1,957)	(4,067)
Other Financing Sources:						
Total Financing Sources						
- Earmarked Funds						
- All Other Funds	(133)		3,520	8,284	(263)	129
Total Financing Sources	**(133)**		**3,520**	**8,284**	**(263)**	**129**
Net Change						
- Earmarked Funds						
- All Other Funds	(133)		3,520	8,284	(263)	129
Total All Funds						
- **Earmarked Funds**						
- All Other Funds	411		8,849	28,758	5,414	1,035
Total All Funds	**$411**		**$8,849**	**$28,758**	**$5,414**	**$1,035**

Figures may not add to totals because of rounding.

Consolidating Statement of Changes in Net Position
for the period ended September 2008
(Dollars in Millions)

Unexpended Appropriations

	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Consolidating
Net Position - Beginning of Period				
- Earmarked Funds			($376)	($376)
- All Other Funds	$7,658	$6,247	8,010	54,871
Beginning Balances	7,658	6,247	7,634	54,495
Adjustments				
Corrections of Errors				
- Earmarked Funds				
- All Other Funds			2	2
Beginning Balances, As Adjusted				
- Earmarked Funds			(376)	(376)
- All Other Funds	7,658	6,247	8,012	54,873
Total Beginning Balances, As Adjusted	**7,658**	**6,247**	**7,636**	**54,497**
Budgetary Financing Sources				
Appropriations Received				
- Earmarked Funds			1	9
- All Other Funds	4,082	972	5,259	63,873
Appropriations Transfers In/Out				
- Earmarked Funds				
- All Other Funds	(17)	(2)	68	(241)
Other Adjustments (Rescissions, etc)				
- Earmarked Funds				
- All Other Funds	(20)	(18)	(215)	(2,149)
Appropriations Used				
- Earmarked Funds			(1)	(9)
- All Other Funds	(3,503)	(1,334)	(4,827)	(49,525)
Other Financing Sources:				
Total Financing Sources				
- Earmarked Funds				
- All Other Funds	543	(382)	286	11,958
Total Financing Sources	**543**	**(382)**	**286**	**11,958**
Net Change				
- Earmarked Funds				
- All Other Funds	543	(382)	286	11,958
Total All Funds				
- Earmarked Funds			(376)	(376)
- All Other Funds	8,201	5,865	8,299	66,831
Total All Funds	**$8,201**	**$5,865**	**$7,923**	**$66,455**

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						
Corrections of Errors						
- 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 (Rescissions, etc.)						
- 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						
- All Other Funds	(1,013)					
Other Budgetary Financing Sources						
- All Other Funds			195	72	32	79
Other Financing Sources:						
Transfers In/Out Without Reimbursement						
- All Other Funds	(445)					
Imputed Financing From Costs Absorbed from Others						
- 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	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				
Corrections of Errors				
- 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 (Recissions, etc.)				
- 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				
- All Other Funds		(1,405)	(1)	(2,419)
Other Budgetary Financing Sources				
- All Other Funds	113	37	(530)	(2)
Other Financing Sources:				
Transfers In/Out Without Reimbursement				
- All Other Funds			(398)	(843)
Imputed Financing From Costs Absorped from Others				
- All Other Funds			60	97
Total Financing Sources				
- Earmarked Funds			1	1
- All Other Funds	3,815	(89)	3,725	47,786
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)	(51,796)
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
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						
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
Total 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 (Rescissions, 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)
Other Financing Sources:						
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	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				
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
Total 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 (Rescissions, 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)
Other Financing Sources:				
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 2008
(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
Budgetary Resources:							
Unobligated Balance, Brought Forward	$22,843	$13,096	$1,202	$786	$321	$3	$224
Recoveries of Prior Year Unpaid Obligations	72		498	16	10	1	25
Budget Authority							
Appropriation	627	8	29,443	17,586	1,704	4,200	4,082
Borrowing Authority	3						1
Spending Authority from Offsetting Collections							
Earned							
Collected	1,636	1,562					99
Change in Receivable from Fed Sources	(25)	(40)					
Change in Unfilled Customer Orders							
Advanced Received							
W/O Advance from Federal Sources							
Subtotal	2,241	1,531	29,443	17,586	1,704	4,200	4,183
Non Expenditure Transfers, Net	(41)		(10)	(1)	(3)		(17)
Permanently not available	(293)		(7,956)	(398)	(5)	(2)	(1,124)
Total Budgetary Resources	**$24,821**	**$14,626**	**$23,176**	**$17,989**	**$2,027**	**$4,202**	**$3,291**
Status of Budgetary Resources:							
Obligations Incurred							
Direct	$5,274	$8	$22,561	$4,854	$1,647	$4,200	$3,052
Reimbursable		645					
Subtotal	5,274	653	22,561	4,854	1,647	4,200	3,052
Unobligated Balances							
Apportioned	365		480	13,116	375		220
Subtotal	$365		$480	$13,116	$375		$220
Unobligated Balances Not Available	19,183	13,973	135	19	4	2	19
Total Status of Budgetary Resources	**$24,821**	**$14,626**	**$23,176**	**$17,989**	**$2,027**	**$4,202**	**$3,291**

Figures may not add to totals because of rounding.

Combining Statement of Budgetary Resources (continued)
For the Period Ended September 2008
(Dollars in Millions)

	Housing for the Elderly and Disabled	All Other	Budgetary Total	Federal Housing Administration Non Budgetary	Other NonBudgetary Credit Program Accounts	NonBudgetary Credit Program Financing Accounts	Total
Budgetary Resources:							
Unobligated Balance, Brought Forward	$1,179	$3,332	$42,984	$4,077	$143	$4,219	$47,203
Recoveries of Prior Year Unpaid Obligations	25	293	940	19		19	959
Budget Authority							
Appropriation	972	5,265	63,888				63,888
Borrowing Authority			4	940		940	944
Spending Authority from Offsetting Collections							
Earned							
Collected	998	66	4,361	14,160	27	14,188	18,549
Change in Receivable from Fed Sources		(1)	(66)	(41)		(41)	(107)
Change in Unfilled Customer Orders							
Advanced Received		1	1				1
W/O Advance from Federal Sources		1	1		(2)	(2)	(1)
Subtotal	1,970	5,332	68,189	15,059	26	15,085	83,273
Non Expenditure Transfers, Net	(2)	72	(2)				(3)
Permanently not available	(32)	(1,533)	(11,343)	(691)		(691)	(12,033)
Total Budgetary Resources	**$3,139**	**$7,496**	**$100,768**	**$18,464**	**$168**	**$18,632**	**$119,400**
Status of Budgetary Resources:							
Obligations Incurred							
Direct	$1,038	$4,000	$46,634	$10,316	$16	$10,332	$56,966
Reimbursable		107	753				752
Subtotal	1,038	4,107	47,387	10,316	16	10,332	57,718
Unobligated Balances							
Apportioned	978	2,222	17,757	2,622	16	2,638	20,395
Subtotal	$978	$2,222	$17,757	$2,622	$16	$2,638	$20,395
Unobligated Balances Not Available	1,124	1,167	35,624	5,526	136	5,662	41,286
Total Status of Budgetary Resources	**$3,139**	**$7,496**	**$100,768**	**$18,464**	**$168**	**$18,632**	**$119,400**

Figures may not add to totals because of rounding.

Combining Statement of Budgetary Resources (continued)
For the Period Ended September 2008
(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
Change in Obligated Balance							
Obligated Balance, Net							
Unpaid Obligations, Brought Forward	$954	$129	$14,067	$19,768	$5,379	$1,097	$9,129
Less: Uncollected Customer Payments from Federal Sources	(263)	(77)					
Total Unpaid Obligated Balance, Net	**692**	**52**	**14,067**	**19,768**	**5,379**	**1,097**	**9,129**
Obligations Incurred, Net	5,274	653	22,561	4,854	1,647	4,200	3,052
Less: Gross Outlays	(5,293)	(650)	(24,467)	(8,935)	(1,969)	(4,113)	(3,518)
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	(72)		(498)	(16)	(10)	(1)	(25)
Change in Uncollected Customer Payments from Federal Sources	25	40					
Obligated Balance, Net - End of Period							
Unpaid Obligations	863	131	11,663	15,671	5,047	1,184	8,638
Less: Uncollected Customer Payments from Federal Sources	(238)	(37)					
Total Obligated Balance, Net - End of Period	**626**	**95**	**11,663**	**15,671**	**5,047**	**1,184**	**8,638**
Net Outlays							
Gross Outlays	5,293	650	24,467	8,935	1,969	4,113	3,518
Less: Offsetting Collections	(1,636)	(1,562)					(100)
Less: Distributed Offsetting Receipts	(1,511)		(11)				
Net Outlays	**$2,147**	**($912)**	**$24,456**	**$8,935**	**$1,969**	**$4,113**	**$3,418**

Figures may not add to totals because of rounding.

Combining Statement of Budgetary Resources (continued)
For the Period Ended September 2008
(Dollars in Millions)

	Housing for the Elderly and Disabled	All Other	Budgetary Total	Federal Housing Administration Non Budgetary	Other NonBudgetary Credit Program Accounts	NonBudgetary Credit Program Financing Accounts	Total
Change in Obligated Balance							
Obligated Balance, Net							
Unpaid Obligations, Brought Forward	$5,076	$10,207	$65,807	$1,342		$1,342	$67,149
Less: Uncollected Customer Payments from Federal Sources		(5)	(344)	(44)	(18)	(62)	(406)
Total Unpaid Obligated Balance, Net	**5,076**	**10,202**	**65,462**	**1,298**	**(18)**	**1,280**	**66,743**
Obligations Incurred, Net	1,038	4,107	47,386	10,316	16	10,332	57,718
Less: Gross Outlays	(1,330)	(4,844)	(55,119)	(10,043)	(16)	(10,059)	(65,180)
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	(25)	(293)	(940)	(19)		(19)	(959)
Change in Uncollected Customer Payments from Federal Sources			65	42	2	43	108
Obligated Balance, Net - End of Period							
Unpaid Obligations	4,759	9,177	57,133	1,595		1,595	58,728
Less: Uncollected Customer Payments from Federal Sources		(5)	(279)	(2)	(16)	(18)	(297)
Total Obligated Balance, Net - End of Period	**4,759**	**9,172**	**56,854**	**1,593**	**(16)**	**1,577**	**58,431**
Net Outlays							
Gross Outlays	1,330	4,844	55,120	10,043	16	10,060	65,180
Less: Offsetting Collections	(998)	(67)	(4,362)	(14,160)	(27)	(14,188)	(18,550)
Less: Distributed Offsetting Receipts		(19)	(1,541)				(1,541)
Net Outlays	**$332**	**$4,758**	**$49,217**	**($4,117)**	**($11)**	**($4,128)**	**$45,089**

Figures may not add to totals because of rounding.

Combining Statement of Budgetary Resources
For the Period Ended September 2007
(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
Budgetary Resources:							
Unobligated Balance, Brought Forward	$22,390	$12,368	$2,242	$6,265	$270	$2	$416
Recoveries of Prior Year Unpaid Obligations	89		2,065	24	6	1	22
Budget Authority							
Appropriation	1,252		21,903	3,772	1,757	3,864	3,061
Borrowing Authority	15						2
Contract Authority							
Spending Authority from Offsetting Collections							
Earned							
Collected	2,057	1,060				2	94
Change in Receivable from Fed Sources	56	(4)					
Change in Unfilled Customer Orders							
Advanced Received							
W/O Advance from Federal Sources							
Subtotal	3,380	1,056	21,903	3,772	1,757	3,866	3,156
Non Expenditure Transfers, Net	(609)		(7)	(2)	(1)		(11)
Temporarily Not Available Per PL							
Permanently not available	(291)		(1,464)	(28)			(107)
Total Budgetary Resources	**$24,959**	**$13,425**	**$24,739**	**$10,032**	**$2,032**	**$3,869**	**$3,476**
Status of Budgetary Resources:							
Obligations Incurred							
Direct	$2,116		$23,537	$9,246	$1,711	$3,865	$3,252
Reimbursable		329					
Subtotal	2,116	329	23,537	9,246	1,711	3,865	3,252
Unobligated Balances							
Apportioned	187		943	766	317		206
Subtotal	187		943	766	317		206
Unobligated Balances Not Available	22,656	13,095	259	20	5	4	18
Total Status of Budgetary Resources	**$24,959**	**$13,425**	**$24,739**	**$10,032**	**$2,032**	**$3,869**	**$3,476**

Figures may not add to totals because of rounding.

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

	Housing for the Elderly and Disabled	All Other	Budgetary Total	Federal Housing Administration Non Budgetary	Other NonBudgetary Credit Program Accounts	NonBudgetary Credit Program Financing Accounts	Total
Budgetary Resources:							
Unobligated Balance, Brought Forward	$1,241	$3,270	$48,465	$7,032	$126	$7,158	$55,623
Recoveries of Prior Year Unpaid Obligations	24	442	2,674	125		125	2,798
Budget Authority							
Appropriation	971	3,601	40,181	2		2	40,183
Borrowing Authority			17	602		602	619
Contract Authority							
Spending Authority from Offsetting Collections							
Earned							
Collected	1,348	86	4,647	9,104	28	9,131	13,778
Change in Receivable from Fed Sources			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)
Subtotal	2,319	3,649	44,859	9,745	30	9,775	54,634
Non Expenditure Transfers, Net	(1)	631					(0)
Temporarily Not Available Per PL							
Permanently not available	(1,405)	(972)	(4,268)	(2,315)		(2,315)	(6,583)
Total Budgetary Resources	**$2,178**	**$7,020**	**$91,730**	**$14,586**	**$156**	**$14,742**	**$106,472**
Status of Budgetary Resources:							
Obligations Incurred							
Direct	$1,000	$3,688	$48,416	$10,510	$14	$10,523	$58,938
Reimbursable			329				329
Subtotal	1,000	3,688	48,745	10,510	14	10,523	59,268
Unobligated Balances							
Apportioned	1,052	2,242	5,712	993	14	1,007	6,720
Subtotal	$1,052	$2,242	$5,712	$993	$14	$1,007	$6,720
Unobligated Balances Not Available	126	1,090	37,273	3,084	128	3,212	40,485
Total Status of Budgetary Resources	**$2,178**	**$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)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME	Operating Subsidies	Public and Indian Housing Loans & Grants
Change in Obligated Balance							
Obligated Balance, Net							
Unpaid Obligations, Brought Forward	$980	$112	$16,986	$21,413	$5,550	$940	$9,610
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**
Obligations Incurred, Net	2,116	329	23,537	9,246	1,711	3,865	3,252
Less: Gross Outlays	(2,053)	(313)	(24,392)	(10,867)	(1,876)	(3,708)	(3,711)
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)
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
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**
Net Outlays							
Gross Outlays	$2,053	$313	$24,392	$10,867	$1,876	$3,708	$3,711
Less: Offsetting Collections	(2,057)	(1,060)				(2)	(94)
Less: Distributed Offsetting Receipts	(2,759)		(13)				
Net Outlays	**($2,763)**	**($747)**	**$24,379**	**$10,867**	**$1,876**	**$3,706**	**$3,617**

Figures may not add to totals because of rounding.

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

	Housing for the Elderly and Disabled	All Other	Budgetary Total	Federal Housing Administration Non Budgetary	Other NonBudgetary Credit Program Accounts	NonBudgetary Credit Program Financing Accounts	Total
Change in Obligated Balance							
Obligated Balance, Net							
Unpaid Obligations, Brought Forward	$5,385	$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	**$5,385**	**$11,619**	**$72,309**	**$1,370**	**($16)**	**$1,355**	**$73,664**
Obligations Incurred, Net	1,000	3,688	48,745	10,510	14	10,523	59,268
Less: Gross Outlays	(1,284)	(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	(24)	(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	5,076	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	**$5,076**	**$10,202**	**$65,461**	**$1,298**	**($18)**	**$1,280**	**$66,742**
Net Outlays							
Gross Outlays	$1,284	$4,672	$52,875	$10,420	$14	$10,433	$63,309
Less: Offsetting Collections	(1,348)	(57)	(4,618)	(9,104)	(28)	(9,131)	(13,749)
Less: Distributed Offsetting Receipts		(36)	(2,807)				(2,808)
Net Outlays	**($64)**	**$4,579**	**$45,450**	**$1,316**	**($14)**	**$1,302**	**$46,751**

Figures may not add to totals because of rounding.

NOTES TO FINANCIAL STATEMENTS

September 30, 2008 and 2007

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 fund 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 a "Community Development Fund" for emergency expenses to respond to the September 11, 2001 terrorist attacks on the United States. Of the amounts appropriated, $177.8 million and $231.5 million were expensed as of September 30, 2008 and 2007, respectively. Any remaining un-obligated balances shall remain available until expended. The United States Congress appropriated $17.5 billion in FY 2008 and $150 million in emergency supplemental appropriations in FY 2005 for the "Community Development Fund" for emergency expenses to respond to the Hurricane Katrina relief efforts. Of the amounts appropriated, $4.6 billion and $6.2 billion were disbursed as of September 30, 2008 and 2007, 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. The programs provide 8.00 percent of HUD's consolidated revenues and financing sources for fiscal 2008 and 7.59 percent of HUD's consolidated revenues and financing sources for fiscal 2007.

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. HUD has two transfer appropriations, the Appalachian Regional Committee and Surface Transportation Projects. These transfer appropriations perform their own financial reporting and, therefore, are not included in the consolidation.

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.

On July 30, the President signed into law the Housing and Economic Recovery Act of 2008, Pub. L. 110-289, 122 Stat. 2654 (HERA), which amended the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 and the Federal Home Loan Bank Act (1992 Act). One of the provisions of HERA created the Federal Housing Finance Agency (FHFA), which is empowered with regulatory oversight of Fannie Mae, Freddie Mac and the Federal Home Loan Banks (collectively, regulated entities). The formation of this new agency comprises the transfer of personnel, property, and program activities of the Federal Housing Enterprise Oversight (OFHEO); the Federal Housing Finance Board (FHFB), which provides oversight for the Federal Home Loan Banks, and certain employees and activities of the Department of Housing and Urban Development (HUD) related to the regulation of the housing mission of Fannie Mae and Freddie Mac.

Specifically, (1) the transfer of FHFA and OFHEO employees is to be accomplished not later than one year after enactment of HERA, and the transfer of the certain HUD employees will take place after such employees are identified for transfer; (2) the funds of both OFHEO and FHFB became funds of FHFA upon enactment of HERA; (3) FHFA may use the property of OFHEO and FHFB to facilitate the transfer of functions and such property is transferred to FHFA upon abolishment of FHFB and OFHEO. OFHEO and FHFB continue to exist for the sole purpose of winding up their affairs until they are abolished one year after enactment of HERA.

As noted above, upon enactment of HERA, the funds of both OFHEO and FHFB are treated as amounts received from assessments by FHFA of the regulated entities. These funds may be used to provide for reasonable expenses (including administrative and start-up costs) of FHFA, and for use by FHFA in the windup of the affairs of OFHEO and FHFB. As a practical matter, funds from OFHEO and the FHFB were kept in their respective Treasury funds. Also, a simplified accounting structure was created for FHFA within OFHEO's accounting system to segregate and track the non-personnel expenses for FHFA. At the end of FY 2008 OFHEO transferred $6.2 million and FHFB transferred $.1 million of assessment collections to FHFA to fund the non-personnel obligations incurred by FHFA during the August to September period.

OFHEO's transfer of $6.2 million is reflected in the Balance Sheet, the Statement of Changes in Net Position and in the Statement of Budgetary Resources. These non-personnel obligations are comprised of $6.1 million for the regulation of Fannie Mae and Freddie Mac, including $5.5 million for legal services related to the Enterprises' conservatorships, and $.1 million for start-up and overhead costs. FHFA incurred $1.0 million in personnel costs from OFHEO related to FHFA activities. These personnel costs were paid directly from OFHEO's fund as they were incurred.

Under the authority of the Federal Home Loan Bank Act, as amended by HERA, FHFA placed Fannie Mae and Freddie Mac under conservatorship on September 6, 2008, to stabilize the two entities with the objective of maintaining normal business operations and restoring safety and soundness. FHFA, as conservator, assumed the power of board and management. As conservator, FHFA appointed a Chief Executive Officer for each enterprise and new boards of directors are being formed. FHFA delegated to the Enterprises certain business and operational authority. FHFA personnel monitor the operations of the enterprises.

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 and budgetary bases of accounting. Under the accrual method, HUD recognizes revenues when earned, and expenses when a liability is incurred, without regard to receipt or payment of cash. Generally, procedures for HUD's major grant and subsidy programs require recipients to request periodic disbursement concurrent with incurring eligible costs. Budgetary accounting facilitates compliance with legal requirements on the use of federal funds.

The department's disbursement policy permits grantees/recipients to request funds to meet immediate cash needs to reimburse themselves for eligible incurred expenses and eligible expenses expected to be received and paid within three days or as subsidies 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 days 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 No. 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 accounts 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 estimated the September 30, 2008, Capital Ratio at 3.0 percent and the September 30, 2007 Capital Ratio at 6.40 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.

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. With the transfer of assigned mortgage notes under the 601 program, FHA obtains ownership interest in the private-sector entities. 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 [Section 542(c)] is a program available to lenders where the lender shares the risk in a property by issuing debentures for claim amount paid by FHA on defaulted insured loans. If FHA's risk is over 50%, HUD must review and approve the underwriting standards, terms, and conditions of the loan. If the loan defaults FHA pays the lender 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.

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, Managerial Cost Accounting Concepts and Standards for the Federal Government, 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 $85 million as of September 30, 2008 and $82 million as of September 30, 2007. 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 was $43 million. The amount for fiscal 2008 was $32 million.

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 $680.2 million as of September 30, 2008, and $425.9 million as of September 30, 2007 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

HUD entered into a reimbursable agreement with the Department of Commerce in Fiscal Year 2007. An $11 million dollar advance for reimbursable activity was incorrectly recorded in HUD's Financial Reporting System used to generate HUD's Financial Statements in Fiscal Year 2007. The $11 million dollar error created an understatement of assets on the Balance Sheet and overstated expenses on the Statement of Net Cost and Statement of Changes in Net Position for Fiscal Year 2007. CFO Management concluded that the financial statement error was not material and therefore no restatement of HUD's Fiscal Year 2007 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, 2008 and 2007 were as follows (dollars in millions):

Description	2008			2007		
	Entity	Non-Entity	Total	Entity	Non-Entity	Total
Intragovernmental						
Fund Balance with Treasury (Note 4)	$ 83,916	$ 1,623	$ 85,539	$ 66,141	$ 2,905	$ 69,046
Investments (Note 5)	28,536	8	28,544	31,265	5	31,270
Other Assets (Note 9)	22	-	22	8	-	8
Total Intragovernmental Assets	$ 112,474	$ 1,631	$ 114,105	$ 97,414	$ 2,910	$ 100,324
Investments (Note 5)	48	-	48	121	-	121
Accounts Receivable (net) (Note 6)	183	56	239	186	70	256
Loan Receivables and						
Related Foreclosed Property (net) (Note 7)	9,565	-	9,565	9,567	-	9,567
General Property, Plant, and Equipment (net) (Note 8)	234	-	234	213	-	213
Other Assets (Note 9)	742	103	845	483	110	593
Total Assets	$ 123,246	$ 1,790	$ 125,036	$ 107,984	$ 3,090	$ 111,074

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, 2008 and 2007 were as follows (dollars in millions):

Description	2008	2007
Revolving Funds	$ 17,126	$ 11,418
Appropriated Funds	66,802	54,757
Trust Funds	4	5
Other	1,607	2,866
Total - Fund Balance	$ 85,539	$ 69,046

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, 2008, were as follows (dollars in millions):

Status of Resources - 2008

Description	Unobligated Available	Unobligated Unavailable	Obligated Not Yet Disbursed	Unfilled Customer Orders	Status of Total Resources	Fund Balance	Other Authority	Total Resources
FHA	$ 2,987	$ 24,707	$ 2,458	$ (240)	$ 29,912	$ 11,079	$ 18,834	$ 29,913
GNMA	-	13,973	131	(37)	14,067	4,836	9,231	14,067
Section 8 Rental Assistance	480	135	11,663	-	12,278	8,865	3,413	12,278
CDBG	13,116	19	15,671	-	28,806	28,806	-	28,806
HOME	375	4	5,047	-	5,426	5,426	-	5,426
Operating Subsidies	-	2	1,184	-	1,186	1,186 0	-	1,186
PIH Loans and Grants	220	19	8,638	-	8,877	8,306	571	8,877
Section 202/811	978	1,124	4,759	-	6,861	6,861	-	6,861
Section 235/236	10	771	4,294	-	5,075	975	4,099	5,074
All Other	2,229	532	4,883	(20)	7,624	7,625	(2)	7,623
Total	$ 20,395	$ 41,286	$ 58,728	$ (297)	$ 120,112	$ 83,966	$ 36,146	$ 120,111

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	$ 2,987	$ 5,874	$ 2,458	$ (240)	$ 11,079	$ 1,511	$ -	$ 12,590
GNMA	-	4,742	131	(37)	4,836		-	4,836
Section 8 Rental Assistance	443	135	8,287		8,865	11	-	8,876
CDBG	13,116	19	15,671		28,806		-	28,806
HOME	375	4	5,047		5,426		-	5,426
Operating Subsidies	-	2	1,184		1,186		-	1,186
PIH Loans and Grants	220	19	8,067		8,306		-	8,306
Section 202/811	978	1,124	4,759		6,861		-	6,861
Section 235/236	1	2	972		975		-	975
All Other	2,228	532	4,886	(20)	7,626	51	-	7,677
Total	$ 20,348	$ 12,453	$ 51,462	$ (297)	$ 83,966	$ 1,573	$ -	$ 85,539

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	$ -	$ 18,834	$ -	$ -	$ -	$ 18,834
GNMA		9,231				9,231
Section 8 Rental Assistance	37	-	3,376		3,413	
PIH Loans and Grants	-	-	571		571	
Section 235/236	8	769	3,322		4,099	
All Other	-	-	(3)		(3)	
Total	$ 45	$ 28,834	$ 7,266	$ -	$ 8,080	$ 28,065

Status of Receipt Account Balances

Description	Fund Balance
FHA	$ 1,511
Section 8 Rental Assistance	11
All Other	51
Total	$ 1,573

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	(76)	13,148	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 0	-	1,100
PIH Loans and Grants	206	18	9,129	-	9,353	7,777	1,576	9,353
Section 202/811	1,052	126	5,076	-	6,254	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	$ 6,720	$ 40,485	$ 67,147	$ (99)	$ 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	-	4,380	129	(76)	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
PIH Loans and Grants	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	$ 8,552	$ 51,474	$ (99)	$ 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	$ -	$ 22,415	$ -	$ -	$ -	$ 22,415
GNMA	-	8,715	-	-	-	8,715
Section 8 Rental Assistance	410	57	9,465	-	9,932	-
Grants	-	-	1,576	-	1,576	-
Section 235/236	26	737	4,631	-	5,394	-
All Other	-	8	1	-	9	-
Total	$ 436	$ 31,932	$ 15,673	$ -	$ 16,911	$ 31,130

Status of Receipt Account Balances

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

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 2008 ranged from 2.63 percent to 7.25 percent. During fiscal year 2007 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, 2008 and 2007 were as follows (dollars in millions):

	Cost	Amortized (Premium)/ Discount, Net	Accrued Interest	Net Investments	Market Value
FY2008	$ 28,237	$ 39	$ 269	$ 28,544	$ 29,745
FY2007	$ 30,893	$ 62	$ 315	$ 31,270	$ 31,723

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 and Risk Sharing Debentures in fiscal years 2008 and 2007 as discussed in Note 2G. The following table presents financial data on FHA's investments Section 601 and Risk Sharing Debentures as of September 30, 2008 and 2007 (dollars in millions):

(Dollars in Millions)	Beginning Balance	New Acquisitions	Share of Earnings or Losses	Return of Investment	Redeemed	Ending Balance
2008						
601 Program	$ 41	$ -	$ (4)	$ (19)	$ -	$ 18
Risk Sharing Debentures	80	-	-	-	(50)	30
Total	$ 121	$ -	$ (4)	$ (19)	$ (50)	$ 48
2007						
601 Program	$ 98	$ -	$ (1)	$ (56)	$ -	$ 41
Risk Sharing Debentures	-	80	-	-	-	80
Total	$ 98	$ 80	$ (1)	$ (56)	$ -	$ 121

The fiscal year for Section 601 Program investments is from December 1 to November 30 for 2008 and a combination of December 1 to November 30 and January 1 to December 31 for 2007. The condensed, audited financial information is as follows:

(Dollars in Millions)	December 31, 2007	December 31, 2006
Total assets, primarily mortgage loans	$ 107	$ 258
Liabilities	-	2
Partners' capital	107	256
Total liabilities and partners' capital	$ 107	$ 258
Revenues	7	78
Expenses	(5)	(23)
Net Income	$ 2	$ 55

NOTE 6 - ACCOUNTS RECEIVABLE (NET)

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 (PHAs 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, 2008 and 2007, HUD was due $52 million and $62 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, 2008 and 2007 (dollars in millions):

	2008			2007		
Description	Gross Accounts Receivable	Allowance for Loss	Total, Net	Gross Accounts Receivable	Allowance for Loss	Total, Net
Public						
Section 8 Settlements	$ 73	$ (47)	$ 26	$ 82	$ (42)	$ 40
Bond Refundings	54	(2)	52	65	(3)	62
Other Receivables:						
FHA	131	(3)	128	124	(5)	119
Other Receivables	43	(10)	33	49	(14)	35
Total Assets	$ 301	$ (62)	$ 239	$ 320	$ (64)	$ 256

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

HUD reports direct loan obligations or loan guarantee commitments made prior to fiscal 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 2008 and 2007:

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

1. FHA
   a) MMI/CMHI Direct Loan Program
   b) GI/SRI Direct Loan Program
   c) MMI/CMHI Loan Guarantee Program
   d) GI/SRI Loan Guarantee Program

e) HECM

2. Ginnie Mae
3. Housing for the Elderly and Disabled
4. Low Rent Public Housing Loan Fund
5. 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 Pre and Post Credit Reform Act 1990 (dollars in millions):

2008

Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property	Value of Assets Related to Direct Loans
FHA					
a) MMI/CHMI Direct Loan Program	$ 1	$ -	$ (4)	$ -	$ (3)
b) GI/SRI Direct Loan Program	13	4	(5)	-	12
Housing for the Elderly and Disabled	3,943	48	(12)	-	3,979
Low Rent Public Housing Loans	1	1	-	-	2
All Other					
a) CPD Revolving Fund	5	-	(5)	1	1
b) Flexible Subsidy Fund	626	10	(559)	-	77
Total	$ 4,589	$ 63	$ (585)	$ 1	$ 4,068

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					
a) MMI/CHMI Direct Loan Program	$ 2	$ 1	$ (4)	$ -	$ (1)
b) GI/SRI Direct Loan Program	15	4	(6)	-	13
Housing for the Elderly and Disabled	4,594	56	(17)	1	4,634
Low Rent Public Housing Loans	1	1	-	-	2
All Other					
a) CPD Revolving Fund	655	11	(475)	1	192
Total	$ 5,267	$ 73	$ (502)	$ 2	$ 4,840

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

2008

	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Current Year Allowance for Loan and Interest Losses	Foreclosed Property, Net	Defaulted Guaranteed Loans Receivable, Net
FHA					
a) MMI/CMHI Funds	$ 16	$ 3	$ (2)	$ 9	$ 26
b) GI/SRI Funds, Excluding HECM	2,796	182	(744)	5	2,239
c) GI/SRI Funds, HECM	5	2	-	1	8
Total	$ 2,817	$ 187	$ (746)	$ 15	$ 2,273

2007

	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Current Year Allowance for Loan and Interest Losses	Foreclosed Property, Net	Defaulted Guaranteed Loans Receivable, Net
FHA					
a) MMI/CMHI Funds	$ 10	$ 4	$ (2)	$ 4	$ 16
b) GI/SRI Funds, Excluding HECM	2,974	206	(802)	4	2,382
c) GI/SRI Funds, HECM	5	2	-	-	7
Total	$ 2,989	$ 212	$ (804)	$ 8	$ 2,405

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

2008

	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					
a) MMI/CMHI Funds	$ 403	$ -	$ (2,219)	$ 4,053	$ 2,237
b) GI/SRI Funds, Excluding HECM	395	1	(576)	400	220
c) GI/SRI Funds, HECM	565	277	(89)	13	766
All Other	-	-	-	-	-
Total	$ 1,363	$ 278	$ (2,884)	$ 4,466	$ 3,223

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					
a) MMI/CMHI Funds	$ 331	$ (1)	$ (1,661)	$ 2,710	$ 1,379
b) GI/SRI Funds, Excluding HECM	231	(2)	(118)	328	439
c) GI/SRI Funds, HECM	310	189	-	3	502
All Other	-	-	-	-	-
Total	$ 872	$ 186	$ (1,779)	$ 3,041	$ 2,320

	2008	**2007**
Total Credit Program Receivables and Related Foreclosed Property, Net	$ 9,565	$9,567

E. Guaranteed Loans Outstanding (dollars in millions):

2008

Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
FHA Programs		
a) MMI/CMHI Funds	$ 479,995	$ 447,652
b) GI/SRI Funds	93,201	84,069
All Other	3,182	3,177
Total	$ 576,378	$ 534,898

2007

Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
FHA Programs		
a) MMI/CMHI Funds	$ 352,200	$ 322,152
b) GI/SRI Funds	86,673	77,808
All Other	2,998	2,993
Total	$ 441,871	$ 402,953

Home Equity Conversion Mortgage Loans Outstanding:

Loan Guarantee Programs	2008 Current Year Endorsements	Cumulative Current Outstanding Balance	Cumulative Maximun Potential Liability
FHA GI/SRI Funds, HECM	$ 24,166	$ 43,741	$ 77,736

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

New Guaranteed Loans Disbursed (Current Reporting Year):

Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
FHA Programs		
a) MMI/CMHI Funds	$ 171,825	$ 167,352
b) GI/SRI Funds	12,907	12,650
All Other	486	485
Total	$ 185,218	$ 180,487

New Guaranteed Loans Disbursed (Prior Reporting Years):

Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
FHA Programs		
a) MMI/CMHI Funds	$ 56,510	$ 56,168
b) GI/SRI Funds	7,001	6,971
All Other	312	311
Total	$ 63,823	$ 63,450

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

	2008		
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			
a) MMI/CMHI Funds	$ 20	$ 17,378	$ 17,398
b) GI/SRI Funds, Excluding HECM	163	403	566
c) GI/SRI Funds, HECM		1,521	1,521
All Other		128	128
Total	$ 183	$ 19,430	$ 19,613

	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			
a) MMI/CMHI Funds	$ 89	$ 6,902	$ 6,991
b) GI/SRI Funds, Excluding HECM	284	(168)	116
c) GI/SRI Funds, HECM	(2)	326	324
All Other	-	120	120
Total	$ 371	$ 7,180	$ 7,551

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

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

Loan Guarantee Programs	2008 Endorsement Amount	Default Component	Fees Component	Other Component	Subsidy Amount
FHA					
a) MMI/CMHI Funds	$ 171,875	$ 4,546	$ (6,601)	$ 1,620	$ (435)
b) GI/SRI Funds, Excluding HECM	13,883	435	(566)	-	(131)
c) GI/SRI Funds, HECM	24,311	486	(948)	-	(462)
All Other		12			12
Total	$ 210,069	$ 5,479	$ (8,115)	$ 1,620	$ (1,016)

Loan Guarantee Programs	2007 Endorsement Amount	Default Component	Fees Component	Other Component	Subsidy Amount
FHA					
a) MMI/CMHI Funds	$ 56,517	$ 1,249	$ (2,125)	$ 667	$ (210)
b) GI/SRI Funds, Excluding HECM	8,365	263	(381)	-	(119)
c) GI/SRI Funds, HECM	24,694	491	(1,188)	-	(696)
All Other		8	-	-	8
Total	$ 89,576	$ 2,011	$ (3,694)	$ 667	$ (1,017)

Modification and Re-estimates (dollars in millions)

Loan Guarantee Programs	2008 Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
FHA				
a) MMI/CMHI Funds	$ -	$ -	$ 8,650	$ 8,650
b) GI/SRI Funds	-	-	1,709	1,709
All Other	-	-	(9)	(9)
Total	$ -	$ -	$ 10,350	$ 10,350

Loan Guarantee Programs	2007 Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
FHA				
a) MMI/CMHI Funds	$ (5)	$ -	$ 3,940	$ 3,935
b) GI/SRI Funds	-	-	(310)	(310)
All Other	-	-	(3)	(3)
Total	$ (5)	$ -	$ 3,627	$ 3,622

Total Loan Guarantee Subsidy Expense (dollars in millions)

Loan Guarantee Programs	Current Year	Prior Year
FHA		
a) MMI/CMHI Funds	$ 8,215	$ 3,726
b) GI/SRI Funds	116	(1,125)
All Other	4	5
Total	$ 8,335	$ 2,606

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

Budget Subsidy Rates for Loans Guarantee for FY 2008

Loan Guarantee Program	Default	Fees and Other Collections	Other	Total
FHA	2.60%	-3.86%	0.77%	-0.49%
All Other				
CDBG, Section 108(b)	2.25%			2.25%
Loan Guarantee Recovery	50.00%			50.00%
Indian Housing	2.42%			2.42%
Native Hawaiian Housing	2.42%			2.42%
Title VI Indian Housing	12.12%			12.12%

The subsidy rates above pertain only to FY 2008 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 2008	FY 2007
Beginning balance of the loan guarantee liability	$ 7,551	$ 3,589
Add: subsidy expense for guaranteed loans disbursed during the reporting years by component:		
(a) Interest supplement costs	5,466	-
(b) Default costs (net of recoveries)	(8,102)	2,012
(c) Fees and other collections	1,620	(3,694)
(d) Othe subsidy costs	-	667
Total of the above subsidy expense components	$ (1,016)	$ (1,015)
Adjustments:		
(a) Loan guarantee modifications	-	-
(b) Fees Received	5,469	3,234
(c) Interest supplemental paid	-	-
(d) Foreclosed property and loans acquired	4,683	3,756
(e) Claim payments to lenders	(8,490)	(5,870)
(f) Interest accumulation on the liability balance	167	(61)
(g) Other	(66)	(6)
Ending balance of the subsidy cost allowance before reestimates	$ 8,298	$ 3,627
Add or Subtract subsidy reestimates by component:		
(a) Interest rate reestimate	10,180	381
(b) Technical/default reestimate	1,141	3,543
(c) Adjustment of prior years credit subsity reestimates	(6)	-
Total of the above reestimate components	11,315	3,924
Ending balance of the subsidy cost allowance	$ 19,613	$ 7,551

K. Administrative Expense (dollars in millions):

Loan Guarantee Program	FY 2008	FY 2007
FHA	$ 505	$ 493
All Other	1	1
Total	$ 506	$ 494

NOTE 8 – GENERAL PROPERTY, PLANT, AND EQUIPMENT (NET)

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, 2008 and 2007, (dollars in millions):

Description	FY 2008 Cost	FY 2008 Accum Depr and Amortization	FY 2008 Book Value	FY 2007 Cost	FY 2007 Accum Depr and Amortization	FY 2007 Book Value
Equipment	$ 36	$ (32)	$ 4	$ 16	$ (12)	$ 4
Leasehold Improvements	7	(6)	1	6	(4)	2
Internal Use Software	130	(89)	41	126	(76)	50
Internal Use Software in Development	188	-	188	157	-	157
Total Assets	$ 361	$ (127)	$ 234	$ 305	$ (92)	$ 213

NOTE 9 - OTHER ASSETS

The following shows HUD's Other Assets as of September 30, 2008 (dollars in millions):

Description	FHA	Ginnie Mae	All Other	Total
Intragovernmental Assets:				
Other Assets	$ 21	$ -	$ 1	$ 22
Total Intragovernmental Assets	21	-	-	22
Mortgagor Reserves for Replacement - Cash	$ 103	-	-	103
Financial Accounting Standards Board Interpretation No 45		680	-	680
Other Assets	31	29	2	62
Total	$ 155	$ 709	$ 2	$ 867

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
Financial Accounting Standards Board Interpretation No 45	-	426	-	426
Other Assets	33	23	1	57
Total	$ 143	$ 449	$ 9	$ 601

NOTE 10 – LIABILITIES COVERED AND NOT COVERED BY BUDGETARY RESOURCES

The following shows HUD's liabilities as of September 30, 2008 and 2007 (dollars in millions):

Description	2008			2007		
	Covered	Not-Covered	Total	Covered	Not-Covered	Total
Intragovernmental						
Accounts Payable	$ 11	$ -	$ 11	$ 5	$ -	$ 5
Debt	5,608	-	5,608	5,459	-	5,459
Other Intragovernmental Liabilities	1,631	24	1,655	3,790	18	3,808
Total Intragovernmental Liabilities	$ 7,250	$ 24	$ 7,274	$ 9,254	$ 18	$ 9,272
Accounts Payable	892	-	892	769	-	769
Liabilities for Loan Guarantees	19,613	-	19,613	7,551	-	7,551
Debt	729	-	729	981	-	981
Federal Employee and Veterans' Benefits	-	85	85	-	82	82
Loss Reserves	550	-	550	536	-	536
Other Liabilities	1,295	83	1,378	1,086	83	1,169
Total Liabilities	$ 30,329	$ 192	$ 30,521	$ 20,177	$ 183	$ 20,360

Of the $1.68 billion reported as other governmental Liabilities $5.53 million represents collections on civil penalties assessed against former Fannie Mae executives ($3.03 million) and a Freddie Mac executive ($2.00 million) as part of the settlements with OFHEO regarding accounting improprieties uncovered in separate examinations. A liability Due to Treasury is reported by OFHEO at September 30, 2008 for the amount of the penalties collected.

An additional $0.50 million was accrued by OFHEO for the amount remaining to be paid as part of the settlement terms with the former Freddie Mac executive. The liability Due to Treasury includes the penalty due to be collected.

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, 2008 (dollars in millions):

Description	Beginning Balance	Net Borrowings	Ending Balance
Agency Debt:			
Held by Government Accounts	$ 886	$ (111)	$ 775
Held by the Public	981	(252)	729
Total Agency Debt	$ 1,867	$ (363)	$ 1,504
Other Debt:			
Debt to the U.S. Treasury	$ 4,573	$ 260	$ 4,833
Total Debt	$ 6,440	$ (103)	$ 6,337
Classification of Debt:			
Intragovernmental Debt			$ 5,608
Debt held by the Public			729
Total Debt			$ 6,337

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

Interest paid on borrowings as of September 30, 2008 and 2007 was $294 million and $117 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 10.67 percent to 16.18 percent during year 2007. All Treasury borrowings were paid in full during fiscal year 2007.

In fiscal 2008 and 2007, FHA borrowed $940 million and $0 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 2008 and from 2.33 percent to 7.34 percent during fiscal year 2007.

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 2008 and 2007. 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 2008 and 2007.

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 4.00 percent to 12.88 percent during both FY 2008 and FY 2007. 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 $85 million as of September 30, 2008, and $82 million as of September 30, 2007. 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 $141 million for fiscal 2008; this includes $39 million to be funded by OPM. Federal Employee and Veterans' benefit expenses totaled approximately $135 million for fiscal 2007. This included

$35 million to be funded by 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 2008 and 2007, Ginnie Mae established loss reserves of $550 million and $536 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, 2008 (dollars in millions):

Description	Non-Current	Current	Total
Intragovernmental Liabilities			
FHA Special Receipt Account Liability	$ -	$ 1,530	$ 1,530
Unfunded FECA Liability	18	-	18
Employer Contributions and Payroll Taxes	-	6	6
OFHEO/Fannie Mae Penalty Settlement	-	6	6
Miscellaneous Receipts Payable to Treasury	81	-	81
Advances to Federal Agencies	-	14	14
Total Intragovernmental Liabilities	$ 99	$ 1,556	$ 1,655
Other Liabilities			
FHA Other Liabilities	$ -	$ 259	$ 259
FHA Escrow Funds Related to Mortgage Notes	-	151	151
FHA Unearned Premiums	13	15	28
Ginnie Mae Deferred Income	-	90	90
Deferred Credits	-	9	9
Deposit Funds	27	2	29
Accrued Unfunded Annual Leave	83	-	83
Accrued Funded Payroll Benefits	-	49	49
Other - FIN 45	-	680	680
Total Other Liabilities	$ 222	$ 2,811	$ 3,033

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, 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
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 Deffered 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

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 2009 are estimated to be $0.8 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, 2008	1750 Penn Ave NW (In Millions)
2009	.9
2010	1.0
2011	.5
Total Future Minimum Lease Payments	2.4

1 Lease runs through March, 2011.

Total rent expense on the two leases for the years ended September 30, 2008 and 2007 was approximately $5.3 million and $5.1 million, respectively. As described in Note 2B, the funds of OFHEO became funds of FHFA upon enactment of HERA, and OFHEO will be abolished one year after said enactment.

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, 2008 and 2007 was $573 billion and $400 billion, respectively as disclosed 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, 2008 and 2007, was approximately $576.8 billion and $427.6 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, 2008 and 2007 were $71.2 billion and $35.8 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 2008 and 2007, Ginnie Mae issued a total of $43.4 billion and $32.7 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, 2008 and 2007, were $253 billion and $201 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, 2008 and 2007 was $ 2.4 billion and $2.3 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 and has been on-going for several years. The cases within this group were consolidated by the court under central case names. Two of the consolidated groups' cases have been settled and payment, $35 million and $2 million, has or will come from the Judgment Fund**.** One additional case, reported after the close of the fiscal year, will accrue a FY 2009 liability of $1.25 million. The potential loss related to the remaining cases cannot be accurately estimated at this time and; therefore, the Department has not accrued a liability in connection with the cases.

In another unrelated case that was settled, the Department accrued an additional liability of $19 million where $5 million had already been accrued in FY 2006 for these cases.

FHA is party in various legal actions and claims brought by or against it. In the opinion of management and general counsel, the ultimate resolution of these legal actions and claims will not have a material affect on FHA's consolidated financial statements as of September 30, 2008. FHA has not recognized any contingent liability due to the probable, or likely, adverse judgment in these cases. However, there are legal actions where judgment against FHA is considered reasonably possible with an estimated potential loss of $3 million.

Ginnie Mae has no legal actions pending. However, GinnieMae's management recognizes the uncertainties that could occur in regard to potential default issuers and other indirect guarantees.

In addition, a number of varying cases exists for differing sums. The Department has determined the likelihood of loss is reasonably possible or 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 funds from general tax revenues for salaries and expenses. Program 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, 2008 (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	$ 4,836	$ 4	$ 103	$ 3	$ -	$ -	$ 4,946
Investments	9,290	-	-	-	-	-	9,290
Accounts Receivable	26	-	-	-	-	-	26
Loans Receivable	-	-	77	-	-	-	77
General Property, Plant and Equipment	27	-	-	-	-	-	27
Other	709	-	-		-	-	709
Total Assets	$ 14,888	$ 4	$ 180	$ 3	$ -	$ -	$ 15,075
Accounts Payable	$ 39	$ -	$ -	$ -	$ -	$ -	$ 39
Loss Reserves	550	-	-	-	-	-	550
Other Liabilities	773	-	-	-	-	-	773
Total Liabilities	$ 1,362	$ -	$ -	$ -	$ -	$ -	$ 1,362
Unexpended Appropriations	$ -	$ -	$ (376)	$ -	$ -	$ -	$ (376)
Cumulative Results of Operations	13,527	4	555	3	-	-	14,089
Total Net Position	$ 13,527	$ 4	$ 179	$ 3	$ -	$ -	$ 13,713
Total Liabilities and Net Position	$ 14,888	$ 4	$ 179	$ 3	$ -	$ -	$ 15,075
Statement of Net Cost For the Period Ended							
Gross Costs	$ 110	$ 8	$ 94	$ 7	$ -	$ (8)	$ 211
Less Earned Revenues	(1,007)	(4)	(17)	(5)	-	8	(1,025)
Net Costs	$ (897)	$ 4	$ 77	$ 2	$ -	$ -	$ (814)
Statement of Changes in Net Position for the Period Ended							
Net Position Beginning of Period	$ 12,620	$ 8	$ 256	$ 4	$ -	$ -	$ 12,888
							-
Appropriations Received	8	-	-	-	-	-	8
Imputed Financing Costs	1	-	-	-	-	-	1
Net Cost of Operations	897	(4)	(77)	(1)	-	-	815
Change in Net Position	$ 906	$ (4)	$ (77)	$ (1)	$ -	$ -	$ 824
Net Position End of Period	$ 13,527	$ 4	$ 179	$ 3	$ -	$ -	$ 13,712

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	17	-	-	-	-	-	17
Other	449	-	-	-	-	-	449
Total Assets	$ 13,711	$ 8	$ 258	$ 4	$ -	$ -	$ 13,981
Accounts Payable	$ 42	$ -	$ -	$ -	$ -	$ -	$ 42
Loss Reserves	536	-	-	-	-	-	536
Other Liabilities	513	-	-	-	-		513
Total Liabilities	$ 1,091	$ -	$ -	$ -	$ -	$ -	$ 1,091
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	$ 13,711	$ 8	$ 258	$ 4	$ -	$ -	$ 13,981
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
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

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):

2008	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	$314	$2	$79	$26	$15	$29	$119	$31	$245		$860
Public Costs	11,064	108	24,656	8,970	1,998	4,121	3,119	1,361	3,627		59,024
Subtotal Costs	$11,378	$110	$24,735	$8,996	$2,013	$4,150	$3,238	$1,392	$3,872		$59,884
Costs Not Assigned									$144		$144
Total Costs											$60,028
Intragovernmental											
Earned Revenue	($1,394)	($633)	$0	$0	$0	$0	$0	$0	($15)		($2,042)
Public Earned Revenue	(77)	(374)	0	0	0	0	0	(363)	(18)		(832)
Total Earned Revenue	($1,471)	($1,007)	$0	$0	$0	$0	$0	($363)	($33)		($2,874)
Net Cost of Operations	$9,907	($897)	$24,735	$8,996	$2,013	$4,150	$3,238	$1,029	$3,839		$57,154

2007	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	$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	3,189		52,489
Subtotal Costs	$3,890	$53	$24,640	$10,966	$1,902	$3,831	$3,479	$1,317	$3,377		$53,455
Costs Not Assigned									$332		$332
Total Costs											$53,787
Intragovernmental											
Earned Revenue	($1,407)	($481)	$0	$0	$0	$0	$0	$0	$0		($1,888)
Public Earned Revenue	(114)	(310)	0	0	0	0	0	(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	$3,356		$51,035

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 2008 (dollars in millions):

Budget Functional Classification	Gross Cost	Earned Revenue	Net Cost
Intragovernmental:			
Commerce and Housing Credit	$ 16	$ -	$ 16
Community and Regional Development	90	(17)	73
Income Security	438	3	441
Mortgage Credit	315	(2,027)	(1,712)
Total Intragovernmental	$ 859	$ (2,041)	$ (1,182)
With the Public:			
Commerce and Housing Credit	$ 396	$ (369)	$ 27
Community and Regional Development	9,499	-	9,499
Income Security	37,905	(13)	37,892
Administration of Justice	54	-	54
Mortgage Credit	11,171	(451)	10,720
Total with the Public	$ 59,025	$ (833)	$ 58,192
Not Assigned to Programs:			
Income Security	144	-	144
Total with the Public	$ 144	$ -	$ 144
TOTAL:			
Commerce and Housing Credit	$ 412	$ (369)	$ 43
Community and Regional Development	9,589	(17)	9,572
Income Security	38,487	(10)	38,477
Administration of Justice	54	-	54
Mortgage Credit	11,486	(2,478)	9,008
TOTAL:	$ 60,028	$ (2,874)	$ 57,154

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

Budget Functional Classification	Gross Cost	Earned Revenue	Net Cost
Intragovernmental:			
Commerce and Housing Credit	$ 15	$ -	$ 15
Community and Regional Development	20	2	22
Income Security	496	(2)	494
Mortgage Credit	436	(1,888)	(1,452)
Total Intragovernmental	$ 967	$ (1,888)	$ (921)
With the Public:			
Commerce and Housing Credit	$ 372	$ (425)	$ (53)
Community and Regional Development	11,196	-	11,196
Income Security	37,367	(15)	37,352
Administration of Justice	46	-	46
Mortgage Credit	3,507	(424)	3,083
Total with the Public	$ 52,488	$ (864)	$ 51,624
Not Assigned to Programs:			
Income Security	332	-	332
Total with the Public	$ 332	$ -	$ 332
TOTAL:			
Commerce and Housing Credit	$ 387	$ (425)	$ (38)
Community and Regional Development	11,216	2	11,218
Income Security	38,195	(17)	38,178
Administration of Justice	46	-	46
Mortgage Credit	3,943	(2,312)	1,631
TOTAL:	$ 53,787	$ (2,752)	$ 51,035

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

This note 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 conservation, homeless assistance, housing unit rehabilitation, and home ownership.

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

Fiscal Year 2008

HUD's Cross-Cutting Programs	Public and Indian Housing	Housing	Community Planning and Development	Other	Consolidated
Section 8:					
Intragovernmental Gross Costs	$ 38	$ 42	$ -	$ -	$ 80
Intragovernmental Net Costs	$ 38	$ 42	$ -	$ -	$ 80
Gross Costs with the Public	$ 21,843	$ 2,811	$ 1	$ -	$ 24,655
Net Costs with the Public	$ 21,843	$ 2,811	$ 1	$ -	$ 24,655
Net Program Costs	$ 21,881	$ 2,853	$ 1	$ -	$ 24,735
Other:					
Intragovernmental Gross Costs	$ 28	$ 89	$ 21	$ 101	$ 239
Intragovernmental Earned Revenues	(1)	-	(5)	(8)	(14)
Intragovernmental Net Costs	$ 27	$ 89	$ 16	$ 93	$ 225
Gross Costs with the Public	$ 646	$ 834	$ 1,916	$ 379	$ 3,775
Earned Revenues	-	(18)	-	-	(18)
Net Costs with the Public	$ 646	$ 816	$ 1,916	$ 379	$ 3,757
Net Program Costs	$ 673	$ 905	$ 1,932	$ 472	$ 3,982

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 Net Costs	$ 61	$ 22	$ -	$ -	$ 83
Gross Costs with the Public	$ 21,648	$ 2,909	$ -	$ -	$ 24,557
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)	-	-
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

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 Cost detail for the Federal Housing Administration (dollars in millions):

	Fiscal Year 2008			Fiscal Year 2007		
	GI/SRI Program	MMI/CMHI Program	Total	GI/SRI Program	MMI/CMHI Program	Total
Costs						
Intragovernmental Gross Costs	$ 138	$ 175	$ 313	$ 141	$ 284	$ 425
Intragovernmental Earned Revenues	(73)	(1,321)	(1,394)	(107)	(1,299)	(1,406)
Intragovernmental Net Costs	$ 65	$ (1,146)	$ (1,081)	$ 34	$ (1,015)	$ (981)
Gross Costs with the Public	$ 1,569	$ 9,496	$ 11,065	$ (1,235)	$ 4,700	$ 3,465
Earned Revenues	(68)	(9)	(77)	(90)	(25)	(115)
Net Costs with the Public	$ 1,501	$ 9,487	$ 10,988	$ (1,325)	$ 4,675	$ 3,350
Net Program Costs	$ 1,566	$ 8,341	$ 9,907	$ (1,291)	$ 3,660	$ 2,369

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

A. Contractual Commitments

HUD has entered into extensive long-term commitments that consist of legally binding agreements 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, 2008 (dollars in millions):

	Undelivered Orders			
Programs	Unexpended Appropriations	Permanent Indefinite or Investment Authority	Offsetting Collection	Undelivered Orders - Obligations, Unpaid
FHA	$ 159	$ 300	$ 861	$ 1,320
Section 8 Rental Assistance	8,266	3,375	-	11,641
Community Development Block Grants	15,638	-	-	15,638
HOME Partnership Investment Program	5,040	-	-	5,040
Operating Subsidies	1,045	-	-	1,045
Low Rent Public Housing Grants and Loans	7,957	571	-	8,528
Housing for Elderly and Disabled	4,749	-	-	4,749
Section 235/236	971	3,322	-	4,293
All Other	4,692	-	81	4,773
Total	$ 48,517	$ 7,568	$ 942	$ 57,027

Of the total Section 8 Rental Assistance contractual commitments as of September 30, 2008**,** $6.9 billion relates to project-based commitments, and $4.8 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, 2007 (dollars in millions):

Programs	Undelivered Orders: Unexpended Appropriations	Undelivered Orders: Permanent Indefinite or Investment Authority	Undelivered Orders: Offsetting Collection	Undelivered Orders - Obligations, Unpaid
FHA	$ 167	$ 331	$ 751	$ 1,249
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. 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, 2008 (dollars in millions):

Programs	Reservations: Unexpended Appropriations	Reservations: Permanent Indefinite Appropriations	Reservations: Offsetting Collections	Total Reservations
Section 8 Rental Assistance Project-Based	$ 100	$ 8	-	$ 108
Community Development Block Grants	1,814	-	-	1,814
HOME Partnership Investment Program	349	-	-	349
Low Rent Public Housing Grants and Loans	122	-	-	122
Housing for Elderly and Disabled	227	-	-	227
Section 235/236	-	5	-	5
All Other	405	-	$ -	405
Total	$ 3,017	$ 13	$ -	$ 3,030

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

	Reservations			
Programs	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

NOTE 24 – EFFECTS of HURRICANES

Multifamily Hurricane Cost

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 effects of Hurricanes Katrina, Rita, and Wilma in 2005 and Hurricanes Ike and Gustav in 2008 resulted in increased funding for the Department for assisting in meeting housing needs of those displaced by the disaster.

The Department continues to 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. FHA is providing assistance to affected homeowners through its existing programs.

The following shows the status of budgetary resources information for HUD's programs funded to support disaster relief as of September 30, 2008 (dollars in millions):

	CDBG	Tenant-Based Rental Assistance	Prevention of Resident Displacement	Total
Budgetary Resources				
Unobligated Balance, beginning of period	$ -	$ -	$ 3	$ 3
Recoveries	-	6	2	8
Budget Authority	13,720	-	-	13,720
Spending Authority from Offsetting Collections	-	-	(4)	(4)
Permanently Not Available, Recissions	(377)	-	-	(377)
Total Budgetary Resources	$ 13,343	$ 6	$ 1	$ 13,350
Status of Budgetary Resources				
Obligations Incurred	$ 1,085	$ 6	$ -	$ 1,091
Unobligated Balance, available	8,338	-	1	8,339
Unobligated Balance, not available	3,920	-	-	3,920
Total Status of Budgetary Resources	$ 13,343	$ 6	$ 1	$ 13,350
Change in Obligated Balance				
Obligated Balance, net beginning of period	$ 10,529	$ 105	$ 2	$ 10,636
Obligations Incurred	1,085	5	-	1,090
Gross Outlays	(4,414)	(70)	-	(4,484)
Recoveries	-	(5)	(2)	(7)
Obligated Balance, net end of period	$ 7,200	$ 35	$ -	$ 7,235
Net Outlays	4,414	70	4	4,488

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	$ 285	$ 103	$ 182
Louisiana	11,600	8,180	3,420
Mississippi	5,525	2,487	3,038
Texas	638	200	438
Other	285	109	176

The following shows the status of budgetary resources information for HUD's 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
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	$ -	$ 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

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
2008				
Direct	$ 1,481	$ 55,484	$ -	$ 56,965
Reimbursable	-	753	-	753
	$ 1,481	$ 56,237	$ -	$ 57,718
2007				
Direct	$ 1,265	$ 57,674	$ -	$ 58,939
Reimbursable	11	318	-	329
	$ 1,276	$ 57,992	$ -	$ 59,268

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 2008 data is not available for comparison to the Statement of Budgetary Resources. Actual FY 2008 data will be available in the Appendix to the Budget of the United States Government, fiscal year 2009.

For fiscal year 2007, 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 2007 (dollars in millions):

	Budgetary Resources	Obligations Incurred	Net Outlays
Combined Statement of Budgetary Resources	$106,472	$59,268	$46,751
Difference #1 - Offsetting receipts	0	0	2,808
Difference #2 - Resources related to HUD's expired accounts not reported in the President's Budget	(456)	(16)	0
Difference #3 - Rounding	2	(3)	4
Difference #4 - Transfer of negative subsidy to GNMA Reserve Receipt account	0	0	193
Difference #5 - Adjustment of GNMA's Financing and Liquidating accounts FY 2007 ending balances	0	0	0
United States Budget	$106,018	$59,249	$49,756

NOTE 27 – RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

This note (formerly the Statement of Financing) links the proprietary data to the budgetary data. Most transactions are recorded in both proprietary and budgetary accounts. However, because different accounting bases are used for budgetary and proprietary accounting, some transactions may appear in only one set of accounts. The Reconciliation of Net Cost of Operations to Budget is as follows for the periods ending September 30, 2008 and 2007.

	2008	2007
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 57,718	$ 59,268
Spending Authority from Offsetting Collections and Recoveries	(19,409)	(16,631)
Obligations Net of Offsetting Collections	$ 38,309	$ 42,637
Offsetting Receipts	(1,541)	(2,807)
Net Obligations	$ 36,768	$ 39,830
Other Resources		
Transfers In/Out Without Reimbursement	$ (32)	$ (843)
Imputed Financing from Costs Absorbed by Others	111	97
Other Resources	(20)	(10)
Net Other Resources Used to Finance Activites	$ 59	$ (756)
Total Resources Used to Finance Activities	$ 36,827	$ 39,074
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	$ 8,423	$ 6,904
Credit Program Resources not Included in Net Cost (Surplus) of Operations	16,836	14,067
Other Changes to Net Obligated Resources Not Affecting Net Cost of Operations	(15,522)	(11,582)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	$ 9,737	$ 9,389
Total Resources Used to Finance the Net Cost of Operations	$ 46,564	$ 48,463
Components of Net Cost of Operations Not Requiring/Generating Resources in the Current Period		
Upward/Downward Reestimates of Credit Subsidy Expense	$ 11,499	$ 4,038
Increase in Exchange Revenue Receivable from the Public	(373)	(429)
Change in Loan Loss Reserve	(192)	(127)
Changes in Bad Debt Expenses Related to Credit Reform Receivables	(44)	(9)
Modifications	(1,047)	(1,032)
Other	747	130
Total Components of Net Cost of Operations Not Requiring/Generating Resources in the Current Period	$ 10,590	$ 2,571
Net Cost of Operations	$ 57,154	$ 51,034

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, construct 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 the 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 support the improvement of the living environment of public housing residents in distressed public housing units. Some investments support the acquisition, construction or rehabilitation of property owned by the PHA, state or local governments, while others help to provide education and job training to residents of the communities targeted for rehabilitation.
- **Indian Housing Block Grants (IHBG)** provide funds needed to allow tribal housing organizations to maintain existing units and to begin development of new units to meet their critical long-term housing needs.
- **Indian Community Development Block Grants (ICDBG)** provide funds to Indian organizations to develop viable communities, including decent housing, a suitable living environment, and economic opportunities, principally for low and moderate-income recipients.

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 childhood diseases 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 American 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' contributions to HUD's goals may be found in Section II of this report.

Investments in Non-Federal Physical Property
Fiscal Year 2004 - 2008
(Dollars in millions)

Program	2004	2005	2006	2007	2008
CPD					
CDBG	$1,193	$1,175	$1,170	$1,262	$1,284
Disaster Grants (1)	$114	$40	$299	$120	$169
HOME	$26	$44	$30	$38	$54
PIH					
ICDBG	$58	$71	$68	$58	$56
IHBG (2)	$412	$326	$321	$267	$234
HOPE VI	$127	$157	$72	$95	$97
PH Capital Fund	$1,758	$1,289	$1,340	$1,793	$1,786
TOTAL	**$3,688**	**$3,102**	**$3,299**	**$3,631**	**$3,679**

Notes:

1. *Amount reported for fiscal year 2008 represents 9 months of data.*
2. *Office of Native American Programs (ONAP) Performance Tracking Database has updated the figures for fiscal years 2004 – 2007.*

Human Capital

Investment in Human Capital: Human Capital investments support education and training programs that are intended to increase or maintain national economic productive capacity. These investments support HUD's strategic goals, which are to promote self-sufficiency and asset development of families and individuals; improve community quality of life and economic vitality; and ensure public trust in HUD. The table below summarizes material program investments in Human Capital, for fiscal years 2004 through 2008. 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 2004 - 2008
(Dollars in millions)

INVESTMENT IN HUMAN CAPITAL					
Program	**2004**	**2005**	**2006**	**2007**	**2008**
CPD					
CDBG	$26	$28	$4	$23	$32
Youthbuild	$21	$22	$22	$23	$19
PIH					
HOPE VI	$10	$13	$6	$8	$8
PD&R					
CDWS (3)	$3	$3	$0	$0	$0
OHHLHC					
Lead Technical Assistance (4)	$0	$0	$0	$0	$0
TOTAL	**$60**	**$66**	**$31**	**$54**	**$60**

Notes:

3. *Congress did not fund the CDWS in FY 2008.*
4. *Congress did not fund the Lead Technical Assistance program in FY 2008.*

Results of Human Capital Investments: The following table presents the results (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 2004 - 2008

Program	**2004**	**2005**	**2006**	**2007**	**2008**
CPD					
CDBG	131,653	122,578	79,833	52,277	60,498
Youthbuild	3,508	4,366	3,929	3,103	2,987
PIH					
Hope VI (*see table below*)					
PD&R					
CDWS (4)	99	108	0	0	0
OHHLHC					
Lead Technical Assistance (5)	0	0	0	0	400
TOTAL	**135,260**	**127,052**	**83,762**	**55,380**	**63,885**

<u>HOPE VI Results of Investments in Human Capital</u>: 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 2007 and 2008, since the program's inception.

Key Results of HOPE VI Program Activities
Fiscal Year 2007 and 2008

HOPE VI Service	2007 Enrolled	2007 Completed	% Completed	2008 Enrolled	2008 Completed	% Completed
Employment Preparation, Placement, & Retention	72,890	N/A	N/A	71,727	N/A	N/A
Job Skills Training Programs	29,777	16,205	54%	29,821	15,992	54%
High School Equivalent Education	15,305	4,272	28%	15,593	4,631	30%
Entrepreneurship Training	3,229	1,304	40%	3,394	1,459	43%
Homeownership Counseling	14,252	6,533	46%	14,450	6,086	42%

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 2004 - 2008
(Dollars in millions)

Program	2004	2005	2006	2007	2008
PD&R					
PATH (5)	$8	$8	$5	$0	$0
OHHLHC					
Lead Hazard Control	$6	$5	$11	$5	$4
TOTAL	**$14**	**$13**	**$16**	**$5**	**$4**

Note:
5. *PATH did not receive any appropriation in FY 2008.*

Results of Investments in Research and Development: 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 2004 – 2008

Program	2004	2005	2006	2007	2008
OHHLHC					
Lead Hazard Control	$4,577	$6,650	$4,926	$4,900	$5,570
TOTAL	**$4,577**	**$6,650**	**$4,926**	**$4,900**	**$5,570**

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, 2008
(dollars in millions):

Intragovernmental Assets:

Trading Partner	Fund Balance	Accounts Receivable	Investments	Other Assets	Total
Department of Treasury	$ 85,539	$ -	$ 28,544	$ 1	$ 114,084
Department of Commerce	-	-	-	$ 18	$ 18
Department of Justice	-	-	-	3	$ 3
Total	$ 85,539	$ -	$ 28,544	$ 22	$ 114,105

Intragovernmental Liabilities:

Trading Partner	Accounts Payable	Debt	Other	Total
Department of Treasury		$ 5,608	$ 1,625	$ 7,233
General Services Administration	$ 10			$ 10
Other Agencies	1	-	30	31
Total	11	$ 5,608	$ 1,655	$ 7,274

Intragovernmental Earned Revenues and Related Costs:

Trading Partner	Earned Revenue
Department of Treasury	$ 2,033
Other Agencies	8
Total	$ 2,041

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

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	-	-	-	$ 16	$ 16
Department of Justice	-	-	-	10	$ 10
Total	$ 69,046	$ -	$ 31,270	$ 26	$ 100,342

Intragovernmental Liabilities:

Trading Partner	Accounts Payable	Debt	Other	Total
Department of Treasury	$ -	$ 5,459	$ 3,763	$ 9,222
General Service Administration	$ 5			$ 5
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	-
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, 2008 and 2007 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 2008 and 2007 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, 2008 and 2007, whose statements reflected total assets constituting 42 and 46 percent, respectively, of the related consolidated totals. Other independent auditors, whose reports have been furnished to us, audited those statements and our opinion on the fiscal year 2008 and 2007 financial statements, insofar as it relates to the amounts included for FHA and Ginnie Mae as of September 30, 2008 and 2007, 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, government-wide policy requirements, as well as certain provisions of contracts and grant agreements that could have a direct and material effect on its principal financial statements.

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 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 2008 and 2007 Financial Statements (2009-FO-0003, dated November 14, 2008).

Opinion on the Fiscal Years 2008 and 2007 Financial Statements

In our opinion, based on our audit and the reports of other auditors, for the accompanying fiscal years 2008 and 2007, the principal financial statements present fairly, in all material respects, the financial position of HUD as of September 30, 2008 and 2007 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.

As reported by FHA's auditor, the FHA Single Family Insurance Program is reported under the Federal Credit Reform Act of 1990. The act's objective is to estimate the program interest subsidy costs on a present value basis and to recognize the current budgetary impact during the life of the long-term mortgage assets rather than upon the actual future termination or default of the loans. To ensure the safety and soundness of FHA's Mutual Mortgage Insurance Fund, Congress enacted the Cranston-Gonzales National Affordable Housing Act of 1990 that required FHA to maintain a capital ratio of at least 2 percent. As reported by management, in Note 6 to FHA's Principal Financial Statements[2], an independent actuarial study found that the capital ratio has dropped from 6.4 percent in fiscal year 2007 to 3.0 percent at the end of fiscal year 2008. This FHA study used independent macroeconomic forecast data as of June 2008 as well as certain management assumptions to estimate the economic value of the fund. Based on these assumptions, the study projects the capital ratio will decline slightly through fiscal year 2011, but remain slightly above 2.0 percent, before beginning to increase through fiscal year 2015. These projections are profoundly sensitive to macroeconomic data forecasts and several alternative projections using more pessimistic assumptions, including higher loss rates on foreclosed properties and the continued use of seller–funded down payment assistance, show the capital ratio dropping below 2.0 percent in future years. The dramatic deterioration in the macroeconomic environment during the third and fourth quarters of 2008 may further contribute to even more pessimistic economic value estimates that could deteriorate the future financial condition of the fund resulting in a violation of the statutory capital ratio.

The other auditors and our audit also disclosed the following significant deficiencies in internal controls related to the need to:

[2] Urbach Kahn and Werlin LLP's report on FHA, Audit of Federal Housing Administration Financial Statements for Fiscal Years 2008and 2007 (2009-FO-0002, dated November 07, 2008).

- Continue improvements in the oversight and monitoring of subsidy calculations and intermediaries program performance to promote full utilization of Housing Choice Voucher funds;
- Improve the processes for reviewing obligation balances;
- Comply with federal financial management systems requirements;
- Further strengthen controls over HUD's computing environment;
- Improve personnel security practices for access to the Department's critical financial systems;
- Continue to enhance and modernize FHA's financial information systems; and
- Strengthen Ginnie Mae's monitoring and management controls in regard to the mortgage-backed security program.

Most of these control weaknesses were reported in prior efforts to audit HUD's financial statements and some represent long-standing challenges. Our findings also include the following instances of non-compliance with applicable laws and regulations, government-wide policy requirements, and provisions of contract and grant agreements that are 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 regarding system requirements;
- HUD did not substantially comply with the Anti-deficiency Act;
- FHA did not fully comply with the Credit Reform Act of 1990; and
- Ginnie Mae did not comply with the Federal Information Management Security Act.

The audit also identified $122.9 million in excess obligations recorded in HUD's records. We also are recommending that HUD seek legislative authority to implement $1.4 billion in offsets against Public Housing Agencies' excess unusable funding held in Net Restricted Assets Accounts. These amounts represent funds that HUD could put to better use.

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 2008 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 year 2008 and 2007 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* 2008 *Performance and Accountability Report,* HUD presents "Required Supplemental Stewardship Information" and "Required Supplementary Information." The Required Supplemental Stewardship Information presents information on investments in non-Federal physical property and human capital and investments in research and development. In the Required Supplementary Information, HUD provides a schedule of intragovernmental balances. 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 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 instances 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.

Significant Deficiencies

HUD Management Must Continue to Improve Oversight and Monitoring of Subsidy Calculations and Intermediaries' Program Performance and Promote Full Utilization of Housing Choice Voucher Funds

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 and HUD's increased and improved monitoring has resulted in a significant decline in improper payment estimates over the last six 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.

In our fiscal year 2008 review of the Housing Choice Voucher program, we also noted that housing agencies have accumulated $1.9 billion in funds in a Net Restricted Asset Account, of which $1.4 billion has been categorized as unusable to the housing agencies. Housing agencies have experienced a decline in utilization rates of both vouchers and funds since a change from unit based to budget based funding in fiscal year 2005. HUD has not successfully implemented the needed monitoring activities to ensure that the Housing Choice Voucher program resources are used to maximize the number of low income families being served.

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 2008 year-end obligation balances showed $ 122.9 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.

HUD Financial Management Systems Need to Comply with Federal Financial Management System Requirements. As reported in prior years, HUD 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. This encompasses 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, meaning that the systems are not 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.

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, HUD's personnel security practices over access to critical and sensitive systems have been inadequate and, therefore, 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 found that deficiencies still exist. HUD has no assurance that all users who have access to HUD critical and sensitive systems have had the appropriate background investigation.

FHA Needs to Continue to Enhance and Modernize its financial information systems. FHA continues to make progress improving its overall financial system control environment despite limited systems resources. Efforts to implement newly legislated HUD and FHA programs have increased the demand on these resources. This may further reduce FHA's ability to address various system initiatives and control deficiencies affecting the reliability of FHA's financial information. We recommend FHA management work with the HUD Secretary and CIO to conduct a risk assessment of the various systems initiatives in connection with the OCIO Strategic Plan and ensure HUD IT resources are appropriately allocated to address the Department's and FHA's highest system priorities.

Ginnie Mae Should Improve Programs Compliance and Controls Regarding Monitoring of Issuers. Ginnie Mae needs to strengthen monitoring in the mortgage-backed securities program. Improvements are needed to (1) assure more effective follow up of the automated matching process with insurer loan data to minimize the risk for issuer default and (2) segregate the issuer approval and issuer monitoring functions within

Ginnie Mae to enhance oversight and to provide independent management control of the mortgage-backed securities program.

Compliance with Laws and Regulations

HUD Did Not Substantially Comply with the Federal Financial Management Improvement Act. In its *Fiscal Year 2008 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.

HUD did not comply with the OMB Circular A -127 financial system assessment requirement. HUD did not complete any of the planned 2007 and 2008 independent reviews of its current financial management systems to verify compliance with financial system requirements, identify system and procedural weaknesses, and develop corrective actions to address identified weaknesses. Additionally, HUD only completed four independent reviews that were planned in 2006. HUD is required to perform reviews of all HUD financial management systems within a three year cycle.

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.

HUD Did Not Substantially Comply with the Anti-Deficiency Act HUD's Office of the Chief Financial Officer (OCFO) is not conducting, completing, reporting and closing the investigation of potential Anti-Deficiency Act violations in a timely manner and has not created timeframes for the conduct and completion of the investigations of potential Anti-Deficiency Act violations, as required by the FY 2003

Appropriation Act, Public Law 108-7, Title II – Department of Housing and Urban Development. Additionally, the OCFO has not reported known violations immediately to the President through OMB, Congress, nor GAO, as required by the Anti-Deficiency Act.

FHA Does Not Comply with the Credit Reform Act of 1990. Due to deficiencies within certain system interfaces, the FHA's core financial management system does not maintain accurate trial balance account information at the cohort level for the financing accounts in accordance with the Credit Reform Act of 1990. These balances are adjusted manually at the end of the year.

Ginnie Mae Does Not Comply with the Federal Information Security Management Act. The Act requires Ginnie Mae to implement agency-wide information security program to provide information security for the information systems that support the operations and assets of the agency including those provided or managed by a contractor. The IPA's review found Ginnie Mae lacks assurance that critical information technology general control elements for the Integrated Portfolio Management System (IPMS), which is managed and controlled by a Ginnie Mae contractor, are working effectively to reduce agency information system risks.

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 2008 and 2007 financial statements. Their report on FHA's financial statements, dated November 7, 2008[3] includes an unqualified opinion on FHA's financial statements, along with discussion one significant deficiency in internal controls and two instances of non-compliance with laws and regulations.

Results of the Audit of Ginnie Mae's Financial Statements

The independent certified public accounting firm of Carmichael, Brasher, Tuvell and Company performed a separate audit of the Ginnie Mae's fiscal years 2008 and 2007 financial statements. Carmichael, Brasher, Tuvell and Company's report on Ginnie Mae's financial statements, dated

[3] Urbach Kahn and Werlin LLP's report on FHA, Audit of Federal Housing Administration Financial Statements for Fiscal Years 2008 and 2007 (2009-FO-0002, dated November 7, 2008) was incorporated into this report.

November 7, 2008,[4] 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 and one instance of non-compliance with laws and regulations.

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 as amended. 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, government-wide policies, 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, government-wide policies, 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 weaknesses, significant deficiencies or noncompliance with laws, regulations, government-wide policies, 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, government-wide policies, and provisions of contract and grant agreements.

[4] Carmichael, Brasher, Tuvell and Company's report on Ginnie Mae, Audit of Government National Mortgage Association Financial Statements for Fiscal Years 2008 and 2007 (2009-FO-0001, dated November 7, 2008) was incorporated into this report.

With respect to internal controls related to performance measures to be reported in the Management's Discussion and Analysis and HUD's *Fiscal Year 2008 Performance and Accountability Report*, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as described in Section 230.5 of OMB Circular A-11 *Preparation, Submission and Execution of the Budget*. We performed limited testing procedures as required by AU Section 558 *Required* Supplementary *Information* and OMB Bulletin 07-04 *Audit Requirements for Federal Financial Statements, as amended.* 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 30, 2008, 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 5, 2008, which is included in its entirety in our separate report. 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

James A. Heist
Assistant Inspector General for Audit

November 14, 2008

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, 2007, through September 30, 2008. 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 2008, 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 2008, the Department completed 1,055 approved management decisions and successfully implemented 922 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. On October 1, 2007, the Department identified a combined total of 70 recommendations that were, or could have become, significantly overdue by September 30, 2008. In February, two recommendations were reopened, increasing this total to 72 recommendations. This inventory was reduced significantly and the Department ended the year with three significantly overdue recommendations. 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.

At the beginning of FY 2008, there were a total of 327 recommendations without a management decision. During the year, 1,098 recommendations requiring management decisions were added to our active workload, and management decisions were made on a total of 1,055 recommendations. FY 2008 ended with 369 recommendations not yet overdue for management decisions and just one recommendation beyond the statutory period of six months.

Summary of Recommendations Without Management Decisions
October 1, 2007 – September 30, 2008

Opening Inventory Requiring Decisions	327
New Audit Recommendations Requiring Decisions	1098
Management Decisions Already Made	(1055)
Audit Recommendations Awaiting Management Decision	369
Recommendation Beyond Statutory Resolution Period	1

Recommendations With Management Decision, But No Final Action Taken

The Department began the year with an inventory of 1,049 management decisions requiring final action. During the year, 1,055 additional management decisions were made and the Department completed final action on a total of 922 recommendations. The total number of audit recommendations with management decisions, but final actions not yet completed at the end of the year was 1,182. Of these 1,182 recommendations, 112 were under active multi-year repayment plans that remain open until the collection activities are completed.

At the beginning of FY 2008, the Department established a performance goal for each program office within HUD to address the balance of final actions that would be more than 12 months overdue at the close of the fiscal year. During FY 2008, 72 actions were identified as needing resolution. The Department successfully addressed 69 of the 72, leaving three final actions that were more than 12 months overdue, however short of our goal to have no final actions more than 12 months overdue. These three actions are projected to be completed by the close of the calendar year.

Summary of Recommendations With Management Decisions and No Final Action October 1, 2007 – September 30, 2008

Opening Inventory – Final Actions Pending	1049[1]
Management Decisions Made During Report Period	1055
Sub-Total No Final Action at End of Period	2104
Final Actions Taken	(922)
Audit Recommendations Reopened During Period (Without Final Actions)	0
Total Audit Recommendations Still Requiring Final Actions	1182[2]

[1]The opening balance was increased from 1,048 to 1,049 due to an audit being reopened.

[2]The Department had 64 audit reports with 112 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 202 audits with management decisions on which final action had not been taken, with a dollar value of disallowed costs totaling approximately $331.8 million. During FY 2008, management decisions were made for 107 audits with disallowed costs totaling approximately $248.5 million. The Department had 80 audits in which final action was taken during the fiscal year, with approximately $52.8 million in recoveries and $29.2 million in write-offs. As of September 30, 2008, there were 229 audit reports with recommendations involving disallowed costs awaiting final action, with an associated value of approximately $498.4 million.

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 $498.4 million of disallowed costs awaiting final action are reduced by approximately $110.9 million leaving a balance of approximately $387.4 million. (See the notation below corresponding to footnote 5.)

Management Report on Final Actions on Audits With Disallowed Costs
For the Fiscal Year Ended 9/30/08

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.	202[1]	331,830,811
B. Audit Reports on which management decisions were made during the period.	107	248,526,130
C. Total audit reports pending final action during period (total of A and B)	309	580,356,941
D. Audit Reports on which final action was taken during the period		
1. Recoveries	65[2]	52,778,353
(a) Collections and offsets	56	48,864,688
(b) Property	0	0
(c) Other	14	3,913,665
2. Write-offs	40	29,183,376
3. Total of 1 and 2	80[3]	81,961,729
E. Audit Reports needing final action at the end of the period (subtract D3 from C)	229[4]	498,395,212
F. Open Recommendations (with disallowed costs): (subtract D3 from C)	(481)[5]	($387,470,149)

[1] *The opening balance was increased from 201 to 202 due to an audit that was reopened.*
[2] *Audit Reports are duplicated in D.1.(a), D.1.(b) and D.1.(c); thus the total is reduced by 5.*
[3] *Audit Reports are duplicated in both D.1 and D.2; thus the total is reduced by 25.*
[4] *Litigation, legislation, or investigation is pending for 28 audit reports with costs totaling $104,975,140.*
[5] *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 2008, there were 139 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 $2.8 billion. During FY 2008, management decisions were made for 85 audits with funds put to better use costs totaling approximately $1.1 billion. The Department had 62 audits for which final action was taken during the fiscal year with a dollar value of approximately $1 billion, and 19 audits totaling approximately $28 million that management concluded should not or could not be implemented. At the end of the year, there were 155 audits with recommendations to put funds to better use awaiting final action with an associated value of approximately $2.9 billion.

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 $2.9 billion of funds put to better use awaiting final action is reduced by approximately $1.7 billion, leaving a balance of approximately $1.2 billion. (See the notation below corresponding to footnote 4.)

Management Report on Final Action On Audits With Recommendations That Funds Be Put to Better Use For The Fiscal Year Ended 9/30/08

Classification	Number of Audit Reports	Funds to be put to Better Use
A. Audit Reports with management decisions on which final action had not been taken at the beginning of the period.	139[1]	2,811,595,832
B. Audit Reports on which management decisions were made during the period.	85	1,129,808,770
C. Total audit reports pending final action during period (total of A and B)	224	3,941,404,602
D. Audit Reports on which final action was taken during the period		
1. Value of Audit Reports implemented (completed)	62	1,020,382,683
2. Value of Audit Reports that management concluded should not or could not be implemented	19	28,066,042
3. Total of 1 and 2	69[2]	1,048,448,725
E. Audit Reports needing final action at the end of the period (subtract D3 from C)	155[3]	2,892,955,876
F. Open Recommendations (with funds put to better use): (subtract D3 from C)	(141)[4]	($1,153,555,826)

[1] *The opening balance was increase from 138 to 139 due to an audit that was reopened.*
[2] *Audit Reports are duplicated in both D.1 and D.2; thus the total is reduced by 12.*
[3] *Litigation, legislation, or investigation is pending for 21 audit reports with costs totaling $60,373,534.*
[4] *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)
2008*	**$9,955**	**$689**	**$142**

**The above totals reflect FY 2008 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 FHA debts using all available collection tools, and to maintaining systems and processes that assure full compliance with the Debt Collection Improvement Act of 1996 (DCIA).

During FY 2008, the Center submitted $32.8 million of new delinquent debts to the Treasury Offset Program (TOP). At the end of FY 2008, a total of 12,294 debtors, representing $148.1 million in debt owed, were eligible for offset. Offset collections for HUD debts during FY 2008 totaled $15.5 million. Also, during FY 2008, $26.2 million of new delinquent debts were referred to Treasury's Financial Management Service (FMS) for cross-servicing. At the end of 2008, a total of 4,406 HUD debts amounting to $60.7 million were at cross-servicing.

During FY 2008, HUD mailed a total of 2,822 "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 FMS and are subjected to an assortment of collection endeavors.

The Center continues to efficiently handle accounts where the debtor has filed bankruptcy by using 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.

HUD received an award from FMS for its continued leadership in the use of administrative wage garnishment (AWG) as a tool for the collection of debt. HUD has used AWG, via the cross-servicing program, since 2002, and the Albany Center initiates direct AWG actions on debts returned uncollected from FMS when warranted. The Center assisted FMS' efforts to expand the use of AWG by other agencies by sharing HUD's written procedures, submitting an article for an FMS newsletter, serving on best practices panels at FMS conferences, and serving as an AWG consultant to the Department of Transportation and the Department of Agriculture. FMS reported $1.0 million in administrative wage garnishment collections for HUD debt during FY 2008, with 300 active Wage Garnishment Orders in place at the end of the fiscal year. During FY 2008, the Center collected an additional $924,769 via its direct administrative wage garnishment program.

The Center suspended active collections against all debtors located within the FEMA-designated areas following the Hurricane Katrina disaster. During FY 2008, the Center completed a detailed review of the status of affected debtors that resulted in the resumption of collection activities for 2,285 debtors. The Department will continue to re-evaluate whether a collection moratorium is appropriate for the remaining affected debtors.

Additional HUD debt collection initiatives during FY 2008 included: collaboration with FMS to establish a mutual Performance Expectation Agreement for FY 2008, a draft update to HUD's claims collection regulations, a comprehensive re-write of the Center's Debt Collection Handbook, FMS training of HUD staff on FMS' new 'TOP Webclient" system, 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 1,709 consumer disputes that were filed with credit bureaus regarding HUD's credit reporting of delinquent debts, and responding within three days to all 490 requests for documents or information from FMS to support their cross-servicing efforts.