Message from the Acting Deputy Chief Financial Officer

November 16, 2009

In Fiscal Year 2009, HUD assumed a more prominent role in addressing the country's economic problems. The Department met the challenge and responded timely, while maintaining its historically high standard of financial management and reporting. The housing crisis has kept the Department in the news on a daily basis. The American Recovery and Reinvestment Act (Recovery Act), passed in February 2009 to address America's economic crisis, brings substantial new challenges and responsibilities to the Office of the Chief Financial Officer (OCFO). These include an increased focus on transparency and accountability, additional efforts to evaluate and mitigate potential risks associated with Recovery Act programs, and development and approval of funds control plans to ensure an efficient and effective process of accounting for and disbursing Recovery Act funds.

The Department's progress is measured by the results and outcomes captured in this Performance and Accountability Report. The report presents HUD's successes and challenges in both the financial and program arenas. It serves as the principal publication and report to the President, the Congress, and the American people regarding HUD's program leadership and our stewardship and management of the public funds entrusted to it.

I am particularly pleased to report that, for the tenth consecutive year, HUD received an unqualified, or "clean," audit opinion, and for the second consecutive year there were no material weaknesses identified on the Department's consolidated financial statements from its independent Office of Inspector General. Attainment of an unqualified opinion is a high-water mark for any organization. HUD's accomplishment of having no material weaknesses for the second consecutive year is noteworthy, however the auditors identified eleven significant deficiencies for the Department. Progress continues to be made toward resolution of deficiencies identified in prior years, and corrective action plans are being developed to address the new deficiencies identified in this year's audit. Overall, HUD's favorable "clean" financial audit result affirms our continued commitment to financial and management excellence. Other significant financial management accomplishments during FY 2009 include:

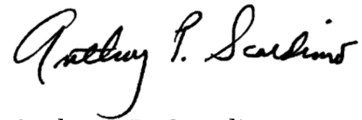
- Developed two budgets, i.e., for FY 2010 and FY 2011, reflecting the new Administration's direction for the Agency. This was a tremendous effort completed in an extremely short timeframe.
- Continued excellence in performance and accountability reporting as noted by receiving the Certificate of Excellence in Accountability Reporting from the Association of Government Accountants for the third consecutive year. This certificate recognizes the Department's

excellence in linking budget and performance information in its FY 2008 Performance and Accountability Report.

- Completed a fourth assessment of the effectiveness of internal controls over financial reporting, in accordance with requirements of Appendix A of OMB Circular 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, 2009, were operating effectively, and no material weaknesses were found in their design or operation. Nevertheless, opportunities for improving controls were identified and corrective actions have been initiated.
- Continued, through the third quarter of the fiscal year, the Department's record of receiving "Green" ratings from the Office of Management and Budget on eight of nine key federal accounting practices. For the ninth goal (i.e., the individual travel card timeliness goal), HUD temporarily received a yellow rating, however corrective actions were taken that returned HUD's score to "Green" prior to the end of the fiscal year. These ratings placed HUD among the top performers in the federal government.
- Implemented a new web-based financial reporting system, titled the HUD Financial Management system. The system provides many improvements to the availability, processing, and security of HUD's financial reporting.

Under the Government Performance and Results Act, management continued to assess and refine HUD's performance measures, quality of data, and compilation procedures. The OCFO refined its procedures to ensure HUD's stakeholders have the most useful and accurate performance data available that reflects the benefits to our constituents. HUD is proud of its many accomplishments, but realizes that much work remains in this very challenging financial environment. The OCFO will continue to promote sound business practices and improved accountability while supporting HUD's mission of promoting home ownership, supporting community development, and increasing access to affordable housing free from discrimination.

The Department's excellence in financial management is attributable to the combined effort of management, employees, and business partners. Specifically, I want to recognize my staff in 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.



Anthony P. Scardino

FINANCIAL STATEMENTS

Introduction

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 Sheet**, as of September 30, 2009 and 2008, which presents those resources owned or managed by HUD that 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 presents the net cost of HUD operations for the years ended September 30, 2009 and 2008. HUD's net cost of operations includes the gross costs incurred by HUD less any exchange revenue earned from HUD activities.

The **Consolidated Statement of Changes in Net Position,** which presents 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, 2009 and 2008.

The **Combined Statement of Budgetary Resources,** which presents the budgetary resources available to HUD during FY 2009 and 2008, the status of these resources at September 30, 2009 and 2008, and the outlay of budgetary resources for the years ended September 30, 2009 and 2008.

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

Consolidated Balance Sheet

For the Period Ending September 2009 and 2008

(Dollars in Millions)

	2009	2008
ASSETS		
Intragovernmental		
Fund Balance with Treasury (Note 4)	$ 113,641	$ 85,539
Investments (Note 5)	19,912	28,544
Other Assets (Note 9)	14	22
Total Intragovernmental Assets	133,567	114,105
Investments (Note 5)	145	48
Accounts Receivable (Net) (Note 6)	129	239
Credit Program Receivables and Related Foreclosed Property (Note 7)	8,058	9,565
General Property Plant and Equipment (Note 8)	234	234
Other Assets (Note 9)	1,189	845
TOTAL ASSETS	**143,322**	**125,036**
LIABILITIES		
Intragovernmental Liabilities		
Accounts Payable (Note 10)	7	11
Debt (Note 11)	5,083	5,608
Other Intragovernmental Liabilities (Note 14)	2,038	1,655
Total Intragovernmental Liabilities	7,128	7,274
Accounts Payable (Note 10)	974	892
Loan Guarantees (Note 7)	34,153	19,613
Debt Held by the Public (Note 11)	477	729
Federal Employee and Veterans' Benefits (Note 12)	69	85
Loss Reserves (Note 13)	560	550
Other Governmental Liabilities (Note 14)	1,614	1,378
TOTAL LIABILITIES	**44,975**	**30,521**
NET POSITION		
Unexpended Appropriations - Earmarked Funds (Note 18)	11,720	(376)
Unexpended Appropriations	66,203	66,832
Cumulative Results of Operations - Earmarked Funds (Note 18)	14,634	14,089
Cumulative Results of Operations	5,790	13,970
TOTAL NET POSITION	98,347	94,515
TOTAL LIABILITIES AND NET POSITION	**$ 143,322**	**$ 125,036**

The accompanying notes are an integral part of these statements.

Consolidated Statement of Net Cost

For the Period Ending September 2009 and 2008

(Dollars in Millions)

	2009	2008
COSTS:		
Federal Housing Administration		
Gross Cost (Note 19)	$ 14,689	$ 11,378
Less: Earned Revenue	(2,266)	(1,471)
Net Program Costs	12,423	9,907
Government National Mortgage Association		
Gross Cost (Note 19)	148	110
Less: Earned Revenue	(658)	(1,007)
Net Program Costs	(510)	(897)
Section 8:		
Gross Cost (Note 19)	25,259	24,735
Less: Earned Revenue		
Net Program Costs	25,259	24,735
Low Rent Public Housing Loans and Grants		
Gross Cost (Note 19)	3,678	3,238
Less: Earned Revenue		
Net Program Costs	3,678	3,238
Operating Subsidies:		
Gross Cost (Note 19)	4,540	4,150
Less: Earned Revenue		
Net Program Costs	4,540	4,150
Housing for the Elderly and Disabled		
Gross Cost (Note 19)	1,379	1,392
Less: Earned Revenue	(309)	(363)
Net Program Costs	1,070	1,029
Community Development Block Grants:		
Gross Cost (Note 19)	6,466	8,996
Less: Earned Revenue		
Net Program Costs	6,466	8,996
HOME:		
Gross Cost (Note 19)	1,956	2,013
Less: Earned Revenue		
Net Program Costs	1,956	2,013
Other:		
Gross Cost (Note 19)	3,630	3,872
Less: Earned Revenue	(37)	(33)
Net Program Costs	3,593	3,839
Costs Not Assigned to Programs:	182	144
Consolidated:		
Gross Cost (Note 19)	61,927	60,028
Less: Earned Revenue	(3,270)	(2,874)
NET COST OF OPERATIONS	**$ 58,657**	**$ 57,154**

The accompanying notes are an integral part of these statements.

Consolidated Statement of Changes in Net Position

For the Period Ending September 2009

(Dollars in Millions)

	EARMARKED FUNDS	ALL OTHER FUNDS	CONSOLIDATED TOTAL
CUMULATIVE RESULTS OF OPERATIONS:			
Beginning of Period	$ 14,089	$ 13,969	$ 28,058
Adjustments:			
Corrections of Errors			
Beginning Balances, As Adjusted	14,089	13,969	28,058
BUDGETARY FINANCING SOURCES:			
Appropriations Used	1,530	53,217	54,747
Transfers In/Out Without Reimbursement	5	(2,066)	(2,061)
Other Financing Sources (non-exchange):			
Transfers In/Out Without Reimbursement		(1,742)	(1,742)
Imputed Financing		79	79
Total Financing Sources	1,535	49,488	51,023
Net Cost of Operations	(990)	(57,667)	(58,657)
Net Change	545	(8,179)	(7,634)
CUMULATIVE RESULTS OF OPERATIONS	**14,634**	**5,790**	**20,424**
UNEXPENDED APPROPRIATIONS:			
Beginning of Period	(376)	66,816	66,440
Adjustments			
Changes in Accounting Principles			
Corrections of Errors			
Beginning Balances, As Adjusted	(376)	66,816	66,440
BUDGETARY FINANCING SOURCES:			
Appropriations Received	13,626	53,863	67,489
Appropriations Transfers In/Out		(86)	(86)
Other Adjustments		(1,174)	(1,174)
Appropriations Used	(1,530)	(53,216)	(54,746)
Total Budgetary Financing Sources	12,096	(613)	11,483
Unexpended Appropriations	**11,720**	**66,203**	**77,923**
NET POSITION	**$ 26,354**	**$ 71,993**	**$ 98,347**

The accompanying notes are an integral part of these statements.

Consolidated Statement of Changes in Net Position

For the Period Ending September 2008

(Dollars in Millions)

	EARMARKED FUNDS	ALL OTHER FUNDS	CONSOLIDATED TOTAL
CUMULATIVE RESULTS OF OPERATIONS:			
Beginning of Period	$ 13,266	$ 22,953	$ 36,219
Adjustments:			
Corrections of Errors		8	8
Beginning Balances, As Adjusted	13,266	22,961	36,227
BUDGETARY FINANCING SOURCES:			
Appropriations Used	9	49,525	49,534
Transfers In/Out Without Reimbursement		(628)	(628)
Other Financing Sources (non-exchange):			
Transfers In/Out Without Reimbursement		(32)	(32)
Imputed Financing		112	112
Total Financing Sources	9	48,977	48,986
Net Cost of Operations	814	(57,968)	(57,154)
Net Change	823	(8,991)	(8,168)
CUMULATIVE RESULTS OF OPERATIONS	**14,089**	**13,970**	**28,059**
UNEXPENDED APPROPRIATIONS:			
Beginning of Period	(376)	54,871	54,495
Adjustments			
Changes in Accounting Principles			
Corrections of Errors		2	2
Beginning Balances, As Adjusted	(376)	54,873	54,497
BUDGETARY FINANCING SOURCES:			
Appropriations Received	9	63,873	63,882
Appropriations Transfers In/Out		(241)	(241)
Other Adjustments		(2,149)	(2,149)
Appropriations Used	(9)	(49,525)	(49,534)
Total Budgetary Financing Sources		11,958	11,958
Unexpended Appropriations	**(376)**	**66,831**	**66,455**
NET POSITION	**$ 13,713**	**$ 80,801**	**$ 94,514**

The accompanying notes are an integral part of these statements.

Combined Statement of Budgetary Resources

For the Period Ending September 2009 and 2008

(Dollars in Millions)

	2009		2008	
	Budgetary	NonBudgetary Credit Program Financing Accounts	Budgetary	Credit Program Financing Accounts
Budgetary Resources:				
Unobligated Balance, Brought Forward	$ 53,378	$ 8,300	$ 42,984	$ 4,219
Recoveries of Prior Year Unpaid Obligations	1,010	10	940	19
Budget Authority				
Appropriation	67,492		63,888	
Borrowing Authority	4	475	4	940
Contract Authority				
Spending Authority from Offsetting Collections				
Earned				
Collected	5,171	31,266	4,361	14,188
Change in Receivable from Federal Sources	(144)	1	(66)	(41)
Change in Unfilled Customer Orders				
Advance Received	(11)		1	
W/O Advance from Federal Sources	5	3	1	(2)
Subtotal Budget Authority	72,517	31,745	68,189	15,085
Nonexpenditure Transfers, Net			(2)	
Temporarily Not Available Per PL				
Permanently not available	(7,080)	(883)	(11,343)	(691)
Total Budgetary Resources	119,825	39,172	100,768	18,632
Status of Budgetary Resources:				
Obligations Incurred				
Direct	77,953	12,205	46,634	10,332
Reimbursable	1,528		753	
Subtotal	79,481	12,205	47,387	10,332
Unobligated Balances				
Apportioned	13,490	5,884	17,757	2,638
Subtotal	13,490	5,884	17,757	2,638
Unobligated Balances Not Available	26,854	21,083	35,624	5,662
Total Status of Budgetary Resources	**119,825**	**39,172**	**100,768**	**18,632**
Change in Obligated Balance				
Obligated Balance, Net				
Unpaid Obligations, Brought Forward	57,120	1,595	65,806	1,342
Less: Uncollected Customer Payments from Federal Sources	(279)	(18)	(344)	(62)
Total Unpaid Obligated Balance, Net	56,841	1,577	65,462	1,280
Obligations Incurred, Net	79,481	12,205	47,387	10,332
Less: Gross Outlays	(66,841)	(12,326)	(55,120)	(10,060)
Total Unpaid Obligated Balance Transferred, Net				
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(1,010)	(10)	(940)	(19)
Change in Uncollected Customer Payments from Federal Sources	139	(5)	65	43
Obligated Balance, Net - End of Period				
Unpaid Obligations	68,751	1,464	57,133	1,594
Less: Uncollected Customer Payments from Federal Sources	(141)	(23)	(279)	(18)
Total Obligated Balance, Net - End of Period	68,610	1,441	56,854	1,576
Net Outlays				
Gross Outlays	66,841	12,326	55,120	10,060
Less Offsetting Collections	(4,272)	(31,266)	(4,362)	(14,188)
Less: Distributed Offsetting Receipts	(1,141)		(1,541)	
Net Outlays	**$ 61,428**	**$ (18,940)**	**$ 49,217**	**$ (4,128)**

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

September 30, 2009 and 2008

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, Public Housing Agencies (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. Funds of $22.3 million were disbursed in FY 2009 and $177.8 million was disbursed in FY 2008. 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. Funds of $2.2 billion were disbursed in FY 2009 and $4.6 billion was disbursed in FY 2008. 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 13 percent of HUD's consolidated revenues and financing sources for FY 2009 and 8 percent of HUD's consolidated revenues and financing sources for FY 2008.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Consolidation

The Department's FY 2009 financial statements do not include the accounts and transactions of the Office of Fair Housing and Equal Opportunity two transfer appropriations, the Appalachian Regional Commission and the Department of Transportation Surface Transportation Projects.

Some laws require departments (parent) to allocate budget authority to another department (child). Allocation means a delegation, authorized by law, by one department of its authority to obligate and outlay funds to another department. HUD, the child account, receives budget authority and then obligates and outlays sums of up to the amount included in the allocation. As required by OMB Circular A-136, financial activity is in the parent account which is also accountable for and maintains the responsibility for reporting while the child performs on behalf of the parent and controls how the funds are expended. Consequently, these balances are not included in HUD's consolidated financial statements as specified by OMB Circular A-136.

B. Basis of Accounting

The Department's FY 2009 financial statements do not include the accounts and transactions of the Office of Federal Housing Enterprise Oversight.

On July 30, 2008, 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.

The financial statements are presented in accordance with the 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 that it is determined that the grantee/recipient did not disburse the funds within the three day time frame, interest earned must be returned to HUD and deposited into one of Treasury's miscellaneous receipt accounts.

C. Use of Estimates

The preparation of the principal financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Amounts reported for net loans receivable and related foreclosed property and the loan guarantee liability represent the Department's best estimates based on pertinent information available.

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

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

D. Credit Reform Accounting

The primary purpose of the Federal Credit Reform Act of 1990, which became effective on October 1, 1991, is to more accurately measure the cost of Federal credit programs and to place the cost of such credit programs on a basis equivalent with other Federal spending. OMB Circular 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 are negative subsidies 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 the 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 FY 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.

Continued economic weakness and projections of additional, significant house price declines into FY 2010, have reduced the economic net worth of the MMI Fund which is now less than 2 percent of insurance-in-force. While FHA has sufficient cash-on-hand to pay for all expected net future losses on current books of business, the MMI Fund has only a small additional margin should economic conditions and guaranteed-loan performance be even worse than is now projected. The FY 2009 actuarial study projects that the economy will stabilize and new business will generate net income that can also fund any additional, unforeseen losses on current books of business.

One additional change in FY 2009 has been that FHA reverse-mortgage insurance is now a part of the MMI Fund group of programs. Since reverse mortgages are fundamentally distinct from all other single-family loans, HUD has contracted for a separate independent actuarial study of that program. Combined results of the forward-loan and reverse-loan actuarial studies are used to compute a final estimate of economic net worth and to calculate the Capital Ratio for the entire MMI Fund.

Beginning in Fiscal Year 2009, FHA is using the amortized value of the insured loans to calculate both the forward and reverse mortgage portions of the capital ratio. The combined MMI capital ratio for the MMI Fund at the end of fiscal year 2009 is 0.53 percent which represents decline from the amortized fiscal year 2008 capital ratio of 3.22 percent (3.0 percent unamortized). FHA is undergoing a number of credit policy initiatives to strengthen the MMI Fund and minimize the change of any further declines in its economic net worth.

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.

Ginnie Mae Fees

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

F. Appropriations and Moneys Received from Other HUD Programs

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

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

G. Investments

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

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

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

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

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

With the transfer of assigned mortgage notes under the 601 program, FHA obtains ownership interest in the private-sector entities. 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 percent, 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, and 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, and 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 FY 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. To the extent that current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. 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 $69 million as of September 30, 2009 and $85 million as of September 30, 2008. Future payments on this liability are to be funded by 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 one percent of pay and matches any employee contribution up to five percent of an individual's basic pay. Under CSRS, employees can contribute up to $16,500 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 or FERS 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 charged to expense with a corresponding amount considered as an imputed financing source. HUD's matching contribution to these retirement plans during FY 2009 was $36 million. The amount for FY 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 $902.5 million as of September 30, 2009, and $680.2 million as of September 30, 2008 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.

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, 2009 and 2008 were as follows (dollars in millions):

Description	2009			2008		
	Entity	Non-Entity	Total	Entity	Non-Entity	Total
Intragovernmental						
Fund Balance with Treasury (Note 4)	$ 113,360	$ 281	$ 113,641	$ 83,916	$ 1,623	$ 85,539
Investments (Note 5)	19,908	4	19,912	28,536	8	28,544
Other Assets (Note 9)	14	-	14	22	-	22
Total Intragovernmental Assets	$ 133,282	$ 285	$ 133,567	$ 112,474	$ 1,631	$ 114,105
Investments (Note 5)	145	-	145	48	-	48
Accounts Receivable (net) (Note 6)	74	55	129	183	56	239
Loan Receivables and Related Foreclosed Property (net) (Note 7)	8,058	-	8,058	9,565	-	9,565
General Property, Plant, and Equipment (net) (Note 8)	234	-	234	234	-	234
Other Assets (Note 9)	1,097	92	1,189	742	103	845
Total Assets	**$142,890**	**$ 432**	**$ 143,322**	**$123,246**	**$ 1,790**	**$125,036**

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, 2009 and 2008 were as follows (dollars in millions):

Description	2009	2008
Revolving Funds	$ 35,006	$ 17,126
Appropriated Funds	78,390	66,802
Trust Funds	6	4
Other	239	1,607
Total - Fund Balance	**$ 113,641**	**$ 85,539**

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 under the American Recovery and Reinvestment Act of 2009 further discussed in Note 18. HUD's fund balances with U.S. Treasury as reflected in the entity's general ledger as of September 30, 2009 and 2008 were as follows (dollars in millions):

Status of Resources - 2009

Description	Unobligated Available	Unobligated Unavailable	Obligated Not Yet Disbursed	Unfilled Customer Orders	Status of Total Resources	Fund Balance	Other Authority	Total Resources
FHA	$ 6,450	$ 31,749	$ 2,304	$ (89)	$ 40,414	$ 29,947	$ 10,467	$ 40,414
GNMA	1	14,332	176	(46)	14,463	5,254	9,209	14,463
Section 8 Rental Assistance	427	154	11,965	-	12,546	11,668	878	12,546
CDBG	7,971	15	17,348	-	25,334	25,334	-	25,334
HOME	288	5	7,282	-	7,575	7,575	-	7,575
Operating Subsidies	4	1	1,185	-	1,190	1,190	-	1,190
PIH Loans and Grants	264	33	12,250	-	12,547	12,479	68	12,547
Section 202/811	916	101	4,432	-	5,449	5,449	-	5,449
Section 235/236	12	874	3,567	-	4,453	1,099	3,354	4,453
All Other	3,041	673	9,706	(29)	13,391	13,388	3	13,391
Total	**$ 19,374**	**$ 47,937**	**$ 70,215**	**$ (164)**	**$ 137,362**	**$ 113,383**	**$ 23,979**	**$ 137,362**

Status of Resources Covered by Fund Balance

Description	Unobligated Available	Unobligated Unavailable	Obligated Not Yet Disbursed	Unfilled Customer Orders	Fund Balance	Non-Budgetary: Suspense, Deposit and Receipt Accounts	Total Fund Balance
FHA	$ 6,450	$ 21,282	$ 2,304	$ (89)	29,947	$ 183	$ 30,130
GNMA	1	5,123	176	(46)	5,254	-	$ 5,254
Section 8 Rental Assistance	418	42	11,208	-	11,668	16	$ 11,684
CDBG	7,971	15	17,348	-	25,334	-	$ 25,334
HOME	288	5	7,282	-	7,575	-	$ 7,575
Operating Subsidies	4	1	1,185	-	1,190	-	$ 1,190
PIH Loans and Grants	264	33	12,182	-	12,479	-	$ 12,479
Section 202/811	916	101	4,432	-	5,449	-	$ 5,449
Section 235/236	3	-	1,096	-	1,099	-	$ 1,099
All Other	3,038	673	9,706	(29)	13,388	59	$ 13,447
Total	**$ 19,353**	**$ 27,275**	**$ 66,919**	**$ (164)**	**$ 113,383**	**$ 258**	**$ 113,641**

Status of Resources Covered by Other Authority

Description	Unobligated Available	Unobligated Unavailable	Obligated Not Yet Disbursed	Unfilled Customer Orders	Permanent Indefinite Authority	Investment Authority	Borrowing Authority
FHA	$ -	$ 10,467	$ -	$ -	$ -	$ 10,467	$ -
GNMA	-	9,209	-	-	-	9,209	-
Section 8 Rental Assistance	9	112	757	-	878	-	-
CDBG	-	-	-	-	-	-	-
HOME	-	-	-	-	-	-	-
Operating Subsidies	-	-	-	-	-	-	-
PIH Loans and Grants	-	-	68	-	68	-	-
Section 202/811	-	-	-	-	-	-	-
Section 235/236	9	874	2,471	-	3,354	-	-
All Other	3	-	-	-	-	-	3
Total	**$ 21**	**$ 20,662**	**$ 3,296**	**$ -**	**$ 4,300**	**$ 19,676**	**$ 3**

Status of Receipt Account Balances

Description	Fund Balance
FHA	$ 183
Section 8 Rental Assistance	16
All Other	59
Total	**$ 258**

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	$ 24,708	$ 2,458	$ (240)	$ 29,913	$ 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	-	1,186
Public Housing 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	9	771	4,294	-	5,074	975	4,099	5,074
All Other	2,230	531	4,883	(20)	7,624	7,626	(2)	7,624
Total	**$ 20,395**	**$ 41,286**	**$ 58,728**	**$ (297)**	**$ 120,112**	**83,966**	**$ 36,146**	**$ 120,112**

Status of Resources Covered by Fund Balance

Description	Unobligated Available	Unobligated Unavailable	Obligated Not Yet Disbursed	Unfilled Customer Orders	Fund Balance	Non-Budgetary: Suspense, Deposit and Receipt Accounts	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	2,230	531	4,885	(20)	7,626	51	7,677
Total	**$ 20,350**	**$ 12,452**	**$ 51,461**	**$ (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	Borrowing 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	-	-	(2)	-	(2)	-	-
Total	**$ 45**	**$ 28,834**	**$ 7,267**	**$ -**	**$ 8,081**	**$ 28,065**	**$ -**

Status of Receipt Account Balances

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

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 2009 ranged from 0.63 percent to 7.25 percent. During fiscal year 2008 interest rates ranged from 2.63 percent to 7.25 percent. The amortized cost and estimated market value of investments in debt securities as of September 30, 2009 and 2008 were as follows (dollars in millions):

	Cost	Amortized (Premium)/ Discount, Net	Accrued Interest	Net Investments	Market Value
FY 2009	$ 19,725	$ 61	$ 126	$ 19,912	$ 21,225
FY 2008	$ 28,236	$ 39	$ 269	$ 28,544	$ 29,745

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 in Section 601 and Risk Sharing Debentures as of September 30, 2009 and 2008 (dollars in millions):

(Dollars in Millions)	Beginning Balance	New Acquisitions	Share of Earnings or Losses	Return of Investment	Redeemed	Ending Balance
2009						
601 Program	$ 18	$ -	$ (5)	$ (2)	$ -	$ 11
Risk Sharing Debentures	30	138	-	-	(34)	134
Total	**$ 48**	**$ 138**	**$ (5)**	**$ (2)**	**$ (34)**	**$ 145**
2008						
601 Program	$ 41	$ -	$ (4)	$ (19)	$ -	$ 18
Risk Sharing Debentures	80	-	-	-	(50)	30
Total	**$ 121**	**$ -**	**$ (4)**	**$ (19)**	**$ (50)**	**$ 48**

The fiscal year for the Section 601 Program investments is from December 1 to November 30 for 2008. The condensed audited financial statements reported $58 million in assets, $58 million in liabilities and partner's capital, and ($17) million in net income for these investments.

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 one-half is returned to HUD. As of September 30, 2009 and 2008, HUD was due $51 million and $52 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, 2009 and 2008 (dollars in millions):

	2009			2008		
Description	**Gross Accounts Receivable**	**Allowance for Loss**	**Total, Net**	**Gross Accounts Receivable**	**Allowance for Loss**	**Total, Net**
Public						
Section 8 Settlements	$ 73	$ (62)	$ 11	$ 73	$ (47)	$ 26
Bond Refundings	55	(4)	51	54	(2)	52
Other Receivables:						
FHA	98	(82)	16	131	(3)	128
GNMA	45	-	45	26	-	26
Other Receivables	9	(3)	6	17	(10)	7
Total Assets	**$ 280**	**$ (151)**	**$ 129**	**$ 301**	**$ (62)**	**$ 239**

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

HUD reports direct loan obligations or loan guarantee commitments made prior to FY 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 FY 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).

The Federal Housing Administration, (FHA) ensures 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 FHA also administers the HOPE for Homeowners (H4H) program. The program was established by Congress to help those at risk of default and foreclosure refinance into more affordable, sustainable loans. The principal obligation of all mortgages insured under the H4H program may not exceed $300 billion. The H4H program was established by the Housing and Economic Recovery Act of 2008 and signed into law on July 30, 2008. Under the H4H program, eligible homeowners may refinance their current mortgage loans into a new mortgage insured by FHA. The program requires borrowers to share with HUD a portion of the equity created upon the issuance of the new FHA insured loan as well as a portion of any future appreciation on the subject property.

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 years 2009 and 2008:

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) H4H Loan Guarantee Program
   f) HECM Program
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
   h) Green Retrofit Direct Loan Program

B. Direct Loans Pre and Post Credit Reform Act 1990 (dollars in millions):

Direct Loan Programs	2009 Loans Receivable, Gross	2009 Interest Receivable	2009 Allowance for Subsidy Cost (Present Value)	2009 Foreclosed Property	2009 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	(9)	-	8
Housing for the Elderly and Disabled	3,506	38	(13)	1	3,532
Low Rent Public Housing Loans	1	1	-	-	2
All Other					
a) CPD Revolving Fund	5	(1)	(5)	1	-
b) Flexible Subsidy Fund	609	11	(543)	-	77
c) Green Retrofit Program	-	-	-	-	-
Total	**$ 4,134**	**$ 54**	**$ (574)**	**$ 2**	**$ 3,616**

Direct Loan Programs	2008 Loans Receivable, Gross	2008 Interest Receivable	2008 Allowance for Subsidy Cost (Present Value)	2008 Foreclosed Property	2008 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**

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

2009

	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	$ 19	$ 3	$ (12)	$ 16	$ 26
b) GI/SRI Funds, Excluding HECM	2,677	202	(2,168)	2	713
c) GI/SRI Funds, HECM	4	2	(1)	2	7
Total	**$ 2,700**	**$ 207**	**$ (2,181)**	**$ 20**	**$ 746**

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	$ (1)	$ 9	$ 27
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**	**$ (745)**	**$ 15**	**$ 2,274**

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

2009	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	$ 560	$ -	$ (3,165)	$ 4,875	$ 2,270
b) GI/SRI Funds, Excluding HECM	625	-	(478)	281	428
c) GI/SRI Funds, HECM	772	418	(223)	31	998
All Other	-	-	-	-	-
Total	**$ 1,957**	**$ 418**	**$ (3,866)**	**$ 5,187**	**$ 3,696**

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**

	2009	**2008**
Total Credit Program Receivables and Related Foreclosed Property, Net	$ 8,058	$9,565

E. Guaranteed Loans Outstanding (dollars in millions):

	2009	
Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
FHA Programs		
a) MMI/CMHI Funds	$ 711,827	$ 674,638
b) GI/SRI Funds	92,361	82,603
c) H4H Progam	4	4
All Other	3,531	3,526
Total	**$ 807,723**	**$ 760,771**

	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**

Home Equity Conversion Mortgage Loans Outstanding:

Loan Guarantee Programs	2009 Current Year Endorsements	Cumulative Current Outstanding Balance	Cumulative Maximun Potential Liability
FHA Programs	$ 30,080	$ 59,877	$ 102,500

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

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	$ 330,385	$ 328,097
b) GI/SRI Funds	6,942	6,922
c) H4H Program	4	4
All Other	607	606
Total	**$ 337,938**	**$ 335,629**

New Guaranteed Loans Disbursed (Prior 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**

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

2009			
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	$ 136	$ 33,886	$ 34,022
All Other	-	131	131
Total	**$ 136**	**$ 34,017**	**$ 34,153**

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	$ 183	$ 19,302	$ 19,485
All Other	-	128	128
Total	**$ 183**	**$ 19,430**	**$ 19,613**

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

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

	2009				
Loan Guarantee Programs	**Endorsement Amount**	**Default Component**	**Fees Component**	**Other Component**	**Subsidy Amount**
FHA					
a) MMI/CMHI Funds, Excluding HECM	$ 330,384	$ 9,991	$ (13,639)	$ 3,496	$ (151)
b) MMI/CMHI Funds, HECM	30,080	1,043	(1,457)	-	(414)
c) GI/SRI Funds	6,942	203	(350)	1	(146)
d) H4H Program	4	1	-	-	1
All Other	-	16	-	-	16
Total	**$ 367,410**	**$ 11,254**	**$ (15,446)**	**$ 3,497**	**$ (694)**

Subsidy Expense for Prior Year Loan Guarantees (dollars in millions):

	2008				
Loan Guarantee Programs	**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)**

Modification and Re-estimates (dollars in millions)

	2009			
Loan Guarantee Programs	**Total Modifications**	**Interest Rate Re-estimates**	**Technical Re-estimates**	**Total Re-estimates**
FHA				
a) MMI/CMHI Funds	$ (362)	$ -	$ 7,274	$ 6,912
b) GI/SRI Funds	(6)	-	3,138	3,132
All Other	-	-	(15)	(15)
Total	**$ (368)**	**$ -**	**$ 10,397**	**$ 10,029**

	2008			
Loan Guarantee Programs	**Total Modifications**	**Interest Rate Re-estimates**	**Technical Re-estimates**	**Total Re-estimates**
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**

Total Loan Guarantee Subsidy Expense (dollars in millions)

Loan Guarantee Programs	**Current Year**	**Prior Year**
FHA		
a) MMI/CMHI Funds	$ 6,347	$ 8,215
b) GI/SRI Funds	2,986	1,116
c) H4H Program	1	-
All Other	$ 1	$ 3
Total	**$ 9,335**	**$ 9,334**

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

Budget Subsidy Rates for Loans Guarantee for FY 2009

Loan Guarantee Program	Default	Fees and Other Collections	Other	Total
FHA Programs				
MMI/CMHI				
Single Family	3.04%	-4.12%	1.06%	-0.03%
HECM	3.45%	-4.82%		-1.37%
GI/SRI				
Multifamily				0.00%
Section 221(d)(4)	4.14%	-5.24%		-1.10%
Section 207/223(f)	1.47%	-4.76%		-3.29%
Section 223(a)(7)	1.47%	-4.76%		-3.29%
Section 232	3.39%	-5.48%		-2.09%
Section 242	2.63%	-5.14%		-2.51%
H4H				
Single Family - Section 257	22.40%	-8.41%	-0.61%	13.38%
All Other Programs				
CDBG, Section 108(b)	-2.26%			-2.26%
Loan Guarantee Recovery	50.00%			50.00%
Indian Housing	2.52%			2.52%
Native Hawaiian Housing	2.52%			2.52%
Title VI Indian Housing	12.34%			12.34%
Green Retrofit Direct Loan Program	89.82%			89.82%

The subsidy rates above pertain only to FY 2009 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.

I. Schedule for Reconciling Loan Guarantee Liability Balances (post 1991 Loan Guarantees) (dollars in millions):

Beginning Balance, Changes, and Ending Balance	FY 2009	FY 2008
Beginning balance of the loan guarantee liability	$ 19,613	$ 7,551
Add: subsidy expense for guaranteed loans disbursed during the reporting years by component:		
(a) Interest supplement costs	-	5,467
(b) Default costs (net of recoveries)	11,254	(8,102)
(c) Fees and other collections	(15,446)	1,620
(d) Othe subsidy costs	3,497	-
Total of the above subsidy expense components	$ (695)	$ (1,015)
Adjustments:		
(a) Loan guarantee modifications	(367)	-
(b) Fees Received	8,771	5,469
(c) Interest supplemental paid	-	-
(d) Foreclosed property and loans acquired	3,909	4,683
(e) Claim payments to lenders	(10,487)	(8,490)
(f) Interest accumulation on the liability balance	1,086	167
(g) Other	113	(67)
Ending balance of the subsidy cost allowance before re-estimates	$ 21,943	$ 8,298
Add or Subtract subsidy re-estimates by component:		
(a) Interest rate re-estimate	-	10,180
(b) Technical/default re-estimate	6,670	1,141
(c) Adjustment of prior years credit subsity re-estimates	5,540	(6)
Total of the above re-estimate components	12,210	11,315
Ending balance of the subsidy cost allowance	**$ 34,153**	**$ 19,613**

J. Administrative Expense (dollars in millions):

Loan Guarantee Program	FY 2009	FY 2008
FHA	$ 585	$ 505
All Other	-	1
Total	**$ 585**	**$ 506**

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, 2009 and 2008, (dollars in millions):

Description	FY 2009			FY 2008		
	Cost	Accumulated Depreciation and Amortization	Book Value	Cost	Accumulated Depreciation and Amortization	Book Value
Equipment	$ 23	$ (22)	$ 1	$ 36	$ (32)	$ 4
Leasehold Improvements	-	-	-	7	(6)	1
Internal Use Software	152	(84)	68	130	(89)	41
Internal Use Software in Development	165	-	165	188	-	188
Total Assets	**$ 340**	**$ (106)**	**$ 234**	**$ 361**	**$ (127)**	**$ 234**

NOTE 9 - OTHER ASSETS

The following shows HUD's Other Assets as of September 30, 2009 (dollars in millions):

Description	FHA	Ginnie Mae	All Other	Total
Intragovernmental Assets:				
Other Assets	$ 14	$ -	$ -	$ 14
Total Intragovernmental Assets	**14**	**-**	**-**	**14**
Mortgagor Reserves for Replacement - Cash	$ 92	-	-	92
Financial Accounting Standards Board Interpretation No 45	-	902	-	902
Other Assets	37	158	-	195
Total	**$ 143**	**$ 1,060**	**$ -**	**$ 1,203**

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	-	1	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**	**$ 3**	**$ 867**

NOTE 10 – LIABILITIES COVERED AND NOT COVERED BY BUDGETARY RESOURCES

The following shows HUD's liabilities as of September 30, 2009 and 2008 (dollars in millions):

Description	2009			2008		
	Covered	Not-Covered	Total	Covered	Not-Covered	Total
Intragovernmental						
Accounts Payable	$ 7	$ -	$ 7	$ 11	$ -	$ 11
Debt	5,083	-	5,083	5,608	-	5,608
Other Intragovernmental Liabilities	2,021	17	2,038	1,631	24	1,655
Total Intragovernmental Liabilities	$ 7,111	$ 17	$ 7,128	$ 7,250	$ 24	$ 7,274
Accounts Payable	974	-	974	892	-	892
Liabilities for Loan Guarantees	34,153	-	34,153	19,613	-	19,613
Debt	477	-	477	729	-	729
Federal Employee and Veterans' Benefits	-	69	69	-	85	85
Loss Reserves	560	-	560	550	-	550
Other Liabilities	1,534	80	1,614	1,295	83	1,378
Total Liabilities	**$ 44,809**	**$ 166**	**$ 44,975**	**$ 30,329**	**$ 192**	**$ 30,521**

Of the $1.66 billion reported in 2008 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 was 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 included the penalty due to be collected. As discussed in Note 2B, OFHEO is now a part of FHFA and is therefore not included in HUD's FY 2009 data.

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, 2009 (dollars in millions):

Description	Beginning Balance	Net Borrowings	Ending Balance
Agency Debt:			
Held by Government Accounts	$ 775	$ (117)	$ 658
Held by the Public	729	(252)	477
Total Agency Debt	$ 1,504	$ (369)	$ 1,135
Other Debt:			
Debt to the U.S. Treasury	$ 4,832	$ (407)	$ 4,425
Total Debt	**$ 6,336**	**$ (776)**	**$ 5,560**
Classification of Debt:			
Intragovernmental Debt			$ 5,083
Debt held by the Public			477
Total Debt			**$ 5,560**

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**

Interest paid on borrowings as of September 30, 2009 and 2008 was $374 million and $294 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 FY 2007. All Treasury borrowings were paid in full during FY 2007.

In fiscal years 2009 and 2008, FHA borrowed $470 million and $940 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 3.71 percent to 7.34 percent during FY 2009 and from 2.33 percent to 7.34 percent during FY 2008.

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 years 2009 and 2008. 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 years 2009 and 2008.

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 10.38 percent in FY 2009 and 4.00 percent to 12.88 percent in FY 2008. 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 $69 million as of September 30, 2009, and $85 million as of September 30, 2008. Future payments on this liability are to be funded by future financing sources.

The Department's Federal Employee and Veterans' benefit expenses totaled approximately $155 million for FY 2009; this includes $43 million to be funded by OPM. Federal Employee and Veterans' benefit expenses totaled approximately $141 million for FY 2008. This included $39 million to be funded by OPM for federal employee health benefits and $39 million for pension costs discussed earlier in Note 2M. Amounts funded by OPM are charged to expense with a corresponding amount considered as an imputed financing source.

The remaining balance of $39 million recorded as an imputed cost in the Consolidated Statement of Changes in Net Position represents HUD's settlement of two group cases paid from the Judgment Fund in FY 2008 and is not related to federal employee and veterans' benefits.

NOTE 13 - LOSS RESERVES

For fiscal years 2009 and 2008, Ginnie Mae established loss reserves of $560 million and $550 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, 2009 (dollars in millions):

Description	Non-Current	Current	Total
Intragovernmental Liabilities			
FHA Special Receipt Account Liability	$ -	$ 1,914	$ 1,914
Unfunded FECA Liability	17	-	17
Employer Contributions and Payroll Taxes	-	7	7
Miscellaneous Receipts Payable to Treasury	-	89	89
Advances to Federal Agencies	-	11	11
Total Intragovernmental Liabilities	$ 17	$ 2,021	$ 2,038
Other Liabilities			
FHA Other Liabilities	$ -	$ 300	$ 300
FHA Escrow Funds Related to Mortgage Notes	-	115	115
Ginnie Mae Deferred Income	-	114	114
Deferred Credits	-	15	15
Deposit Funds	-	32	32
Accrued Unfunded Annual Leave	80	-	80
Accrued Funded Payroll Benefits	-	55	55
Other - FIN 45	-	903	903
Total Other Liabilities	**$ 97**	**$ 3,555**	**$ 3,652**

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, 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 Deffered 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**

NOTE 15 – OPERATING LEASES

As described in Note 2B, OFHEO became part of FHFA in FY 2008. Therefore, the disclosure of future minimum lease payments would not be applicable to HUD's notes for FY 2009. OFHEO had an occupancy lease with the Office of Thrift Supervision (OTS) at 1700 G Street NW, Washington DC that covered office space and building services which included utilities, security guards, janitorial services, mail delivery, use of the loading dock, garage parking and building operation and maintenance. In FY 2005, OFHEO obtained additional rental space at 1750 Pennsylvania Avenue, NW, Washington, DC through a private sector subleassor.

Total rent expense on the two leases for the year ended September 30, 2008 was approximately $5.3 million.

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, 2009 and 2008 was $817 billion and $575 billion, respectively, as disclosed in Note 7E. The maximum claim amount (MCA) outstanding for FHA's reverse mortgage insurance program (HECM) as of September 30, 2009 and 2008 was $103 billion and $78 billion respectively as disclosed in Note 7E. Last year, the FHA Insurance-In-Force (IIF) for FY 2008 was reported as $573,196 million. This was based on the Outstanding Principal of Guaranteed Loans' Face Value. FHA, however, reports IIF based on the Amount of Outstanding Principal Guaranteed. This and future reports will conform to FHA reporting practices.

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, RD-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, 2009 and 2008, was approximately $826.0 billion and $576.8 billion, respectively. However, Ginnie Mae's potential loss is considerably less because the FHA and RD 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, 2009 and 2008 were $98.4 billion and $71.2 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 years 2009 and 2008, Ginnie Mae issued a total of $79.6 billion and $43.4 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, 2009 and 2008, were $350 billion and $253 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, 2009 and 2008 was $2.2 billion and $2.4 billion, respectively. HUD's management believes its exposure in providing these loan guarantees is limited, since loan repayments can be offset from future CDBG Entitlement Program Funds and, if necessary, other funds provided to the recipient by HUD. HUD has never had a loss under this program since its inception in 1974.

NOTE 17 - CONTINGENCIES

Lawsuits and Other

HUD is party to a number of claims and tort actions related to lawsuits brought against it concerning the implementation or operation of its various programs. One group of related cases challenges the legality of actions the Department took in accordance with laws aimed at preserving rental housing units for low-income tenants and has been on-going for several years. The cases within this group were consolidated by the court under central case names. Several of these cases were resolved in previous fiscal years. One case was resolved this fiscal year where the Department accrued a liability of $875,000, which was paid by the Judgment Fund. The potential loss related to the few remaining cases cannot be accurately estimated at this time and; therefore, the Department has not accrued a liability in connection with the 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 will not have a material effect on FHA's consolidated financial statements as of September 30, 2009. However, there are pending or threatened legal actions where judgment against FHA is reasonably possible with an estimated potential loss of $23 million.

On August 24, 2009, one of FHA's largest mortgage lenders and servicers filed for Chapter 11 bankruptcy protection. The organization was seized on August 4, 2009 by the Federal Bureau of Investigation and other federal and state regulators. The organization originated about 7.5 percent of FHA's nearly 2.5 million endorsements during FY 2008 and the first ten months of FY 2009. A review of the lender's endorsement files by FHA's Quality Assurance Division (QAD) completed in July 2009 detected 28 types of loan origination deficiencies that will be presented to the FHA Mortgagee Review Board. As of May 31, 2009, over 28 percent of their portfolio was in default, significantly higher than other lenders. Other federal investigators are continuing their review of allegations of corporate and loan file fraud. The ultimate resolution of these actions cannot be determined at this time and the accompanying financial statements do not include any specific provisions related to this closure.

During FY 2009, various financial institutions, mortgage brokers and servicers ceased operations due to their weak financial condition. The mortgage loans held by these institutions are transferred to other accredited servicers without material cost to FHA.

Ginnie Mae may be party to various legal actions and claims brought by or against it. Information on these legal actions and claims may be found at the appropriate footnotes in their related financial statements.

Neither the Department, nor its various components, recognized any potential legal liabilities of sufficient probability, certainty, and materiality to warrant recognition as accrued contingent liabilities for purposes of this footnote.

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.

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.

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.

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.

American Recovery and Reinvestment Act Programs

The American Recovery and Reinvestment Act (Recovery Act) of 2009 (P. L. 111-5), signed into law on February 17, 2009, includes $13.6 billion for 17 programs at HUD which are distributed across three themes that align with the broader Recovery goals. HUD's overriding goal is job creation and preservation through:

1. Promoting energy efficiency and creating green jobs: One-third of HUD's funds are aimed at "greening" the public and assisted housing stock, while building an industry for increasing residential energy efficiency.
2. Unlocking the credit markets and supporting shovel-ready projects: Another third of funds are aimed at addressing the sharp decline in the market for tax credits by providing "gap financing" to existing tax credit projects that have stalled or been delayed. Project-based rental assistance will support the maintenance of properties that may have otherwise been neglected.
3. Mitigating the effects of the economic crisis and preventing community decline: the last third of funds are targeted at stabilizing households at risk of homelessness and communities that have been impacted by the current economic and foreclosure crisis.

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.

The following shows earmarked funds activity as of September 30, 2009 (dollars in millions):

	GNMA	Rental Housing Assistance	Flexible Subsidy	Recovery Act Funds	Manufactued Housing Fees Trust Fund	Eliminations	Total Earmarked Funds
Balance Sheet							
Fund Balance w/Treasury	$ 5,254	$ 3	$ 128	$ 12,100	$ 6	$ 10	$ 17,501
Investments	9,277	-	-	-	-	-	9,277
Accounts Receivable	45	-	-	-	-	-	45
Loans Receivable	-	-	76	-	-	-	76
General Property, Plant and Equipment	40	-	-	-	-	-	40
Other	1,059	-	-	-	-	-	1,059
Total Assets	**$ 15,675**	**$ 3**	**$ 204**	**$ 12,100**	**$ 6**	**$ 10**	**$ 27,998**
Accounts Payable	$ 58	$ -	$ -	$ 7	$ -	$ -	$ 65
Loss Reserves	560	-	-	-	-	-	560
Other Liabilities	1,019	-	-	-	-	-	1,019
Total Liabilities	$ 1,637	$ -	$ -	$ 7	$ -	$ -	$ 1,644
Unexpended Appropriations	$ -	$ 3	$ (376)	$ 12,093	$ -	$ -	$ 11,720
Cumulative Results of Operations	14,038	-	580	-	6	10	14,634
Total Net Position	$ 14,038	$ 3	$ 204	$ 12,093	$ 6	$ 10	$ 26,354
Total Liabilities and Net Position	**$ 15,675**	**$ 3**	**$ 204**	**$ 12,100**	**$ 6**	**$ 10**	**$ 27,998**
Statement of Net Cost For the Period Ended							
Gross Costs	$ 136	$ 4	$ (12)	$ 1,532	$ 6	$ -	$ 1,666
Less Earned Revenues	(657)	(3)	(13)	-	(3)	-	(676)
Net Costs	**$ (521)**	**$ 1**	**$ (25)**	**$ 1,532**	**$ 3**	**$ -**	**$ 990**
Statement of Changes in Net Position for the Period Ended							
Net Position Beginning of Period	$ 13,527	$ 4	$ 179	$ -	$ 3	$ -	$ 13,713
Appropriations Received	-	-	-	13,625	-	-	13,625
Transfers In/Out Without Reimbursement	(10)	-	-	-	6	10	6
Net Cost of Operations	521	(1)	25	(1,532)	(3)	-	(990)
Change in Net Position	$ 511	$ (1)	$ 25	$ 12,093	$ 3	$ 10	$ 12,641
Net Position End of Period	**$ 14,038**	**$ 3**	**$ 204**	**$ 12,093**	**$ 6**	**$ 10**	**$ 26,354**

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	$ 4	$ -	$ -	$ 4,947
Investments	9,290	-	-	-	-	-	9,290
Accounts Receivable	26	-	-	-	-	-	26
Loans Receivable	-	-	75	-	-	-	75
General Property, Plant and Equipment	27	-	-	-	-	-	27
Other	710	-	-	-	-	-	710
Total Assets	**$ 14,889**	**$ 4**	**$ 178**	**$ 4**	**$ -**	**$ -**	**$ 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	554	4	-	-	14,089
Total Net Position	$ 13,527	$ 4	$ 178	$ 4	$ -	$ -	$ 13,713
Total Liabilities and Net Position	**$ 14,889**	**$ 4**	**$ 178**	**$ 4**	**$ -**	**$ -**	**$ 15,075**
Statement of Net Cost For the Period Ended							
Gross Costs	$ 110	$ 8	$ 95	$ 7	$ -	$ (8)	$ 212
Less Earned Revenues	$ (1,007)	$ (4)	$ (17)	$ (7)	$ -	$ 8	$ (1,027)
Net Costs	**$ (897)**	**$ 4**	**$ 78**	**$ -**	**$ -**	**$ -**	**$ (815)**
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
Transfers In/Out Without Reimbursement	2	-	-	-	-	-	2
Net Cost of Operations	$ 897	$ (4)	$ (78)	$ -	$ -	$ -	$ 815
Change in Net Position	$ 907	$ (4)	$ (78)	$ -	$ -	$ -	$ 825
Net Position End of Period	**$ 13,527**	**$ 4**	**$ 178**	**$ 4**	**$ -**	**$ -**	**$ 13,713**

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):

2009	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	Consolidating
Intragovernmental Costs	$ 303	$ 2	$ 87	$ 23	$ 12	$ 20	$ 111	$ 33	$ 241	$ 832
Public Costs	14,386	146	25,172	6,443	1,944	4,520	3,567	1,346	3,389	60,913
Subtotal Costs	$ 14,689	$ 148	$ 25,259	$ 6,466	$ 1,956	$ 4,540	$ 3,678	$ 1,379	$ 3,630	$ 61,745
Costs Not Assigned									$ 182	$ 182
Total Costs										$ 61,927
Intragovernmental Earned Revenue	$ (2,148)	$ (109)	$ -	$ -	$ -	$ -	$ -	$ -	$ (21)	$ (2,278)
Public Earned Revenue	(118)	(549)	-	-	-	-	-	(309)	(16)	(992)
Total Earned Revenue	(2,266)	(658)	-	-	-	-	-	(309)	(37)	(3,270)
Net Cost of Operations	**$ 12,423**	**$ (510)**	**$ 25,259**	**$ 6,466**	**$ 1,956**	**$ 4,540**	**$ 3,678**	**$ 1,070**	**$ 3,775**	**$ 58,657**

2008	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	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)	$ -	$ -	$ -	$ -	$ -	$ -	$ (15)	$ (2,042)
Public Earned Revenue	(77)	(374)	-	-	-	-	-	(363)	(18)	(832)
Total Earned Revenue	(1,471)	(1,007)	-	-	-	-	-	(363)	(33)	(2,874)
Net Cost of Operations	**$ 9,907**	**$ (897)**	**$ 24,735**	**$ 8,996**	**$ 2,013**	**$ 4,150**	**$ 3,238**	**$ 1,029**	**$ 3,983**	**$ 57,154**

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

The following shows HUD's total cost and earned revenue by budget functional classification for fiscal year 2009 (dollars in millions):

Budget Functional Classification	Gross Cost	Earned Revenue	Net Cost
Intragovernmental:			
Commerce and Housing Credit	$ 2	$ -	$ 2
Community and Regional Development	43	(7)	36
Income Security	482	(2)	480
Other Multiple Functions	$ (1)	$ (13)	$ (14)
Total Intragovernmental	526	(22)	504
With the Public:			
Commerce and Housing Credit	$ 14,858	$ (3,236)	$ 11,622
Community and Regional Development	6,688	-	6,688
Income Security	39,080	(12)	39,068
Administration of Justice	46	-	46
Other Multiple Functions	547	-	547
Total with the Public	$ 61,219	$ (3,248)	$ 57,971
Not Assigned to Programs:			
Income Security	182	-	182
Total with the Public	$ 182	$ -	$ 182
TOTAL:			
Commerce and Housing Credit	$ 14,860	$ (3,236)	$ 11,624
Community and Regional Development	6,731	(7)	6,724
Income Security	39,744	(14)	39,730
Administration of Justice	46	-	46
Other Multiple Functions	546	(13)	533
TOTAL:	**$ 61,927**	**$ (3,270)**	**$ 58,657**

The following shows HUD's total cost and earned revenue by budget functional classification for fiscal year 2008 (dollars in millions):

Budget Functional Classification	Gross Cost	Earned Revenue	Net Cost
Intragovernmental:			
Commerce and Housing Credit	$ 331	$ (2,027)	$ (1,696)
Community and Regional Development	90	(17)	73
Income Security	402	10	412
Other Multiple Functions	36	(7)	29
Total Intragovernmental	$ 859	$ (2,041)	$ (1,182)
With the Public:			
Commerce and Housing Credit	$ 11,567	$ (820)	$ 10,747
Community and Regional Development	9,499	-	9,499
Income Security	37,300	(13)	37,287
Administration of Justice	54	-	54
Other Multiple Functions	605	-	605
Total with the Public	$ 59,025	$ (833)	$ 58,192
Not Assigned to Programs:			
Community and Regional Development			
Income Security	$ 144	$ -	$ 144
Total with the Public	$ 144	$ -	$ 144
TOTAL:			
Commerce and Housing Credit	$ 11,898	$ (2,847)	$ 9,051
Community and Regional Development	9,589	(17)	9,572
Income Security	37,846	(3)	37,843
Other Multiple Functions	641	(7)	634
Administration of Justice	54	-	54
TOTAL:	**$ 60,028**	**$ (2,874)**	**$ 57,154**

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 table shows the cross-cutting of HUD's major program areas that incur costs that cross multiple program areas for fiscal year 2009 (dollars in millions):

Fiscal Year 2009

HUD's Cross-Cutting Programs	Public and Indian Housing	Housing	Community Planning and Development	Other	Consolidated
Section 8:					
Intragovernmental Gross Costs	$ 42	$ 44	$ -	$ -	$ 86
Intragovernmental Earned Revenues	-	-	-	-	$ -
Intragovernmental Net Costs	$ 42	$ 44	$ -	$ -	$ 86
Gross Costs with the Public	$ 16,286	$ 8,837	$ 50	$ -	$ 25,173
Earned Revenues					-
Net Costs with the Public	$ 16,286	$ 8,837	$ 50	$ -	$ 25,173
Net Program Costs	**$ 16,328**	**$ 8,881**	**$ 50**	**$ -**	**$ 25,259**
CDBG					
Intragovernmental Gross Costs	$ -	$ -	$ 21	$ 2	$ 23
Intragovernmental Earned Revenues	-	-	-	-	$ -
Intragovernmental Net Costs	$ -	$ -	$ 21	$ 2	$ 23
Gross Costs with the Public	$ 75	$ -	$ 6,356	$ 12	$ 6,443
Earned Revenues	-	-	-	-	$ -
Net Costs with the Public	$ 75	$ -	$ 6,356	$ 12	$ 6,443
Net Program Costs	**$ 75**	**$ -**	**$ 6,377**	**$ 14**	**$ 6,466**
HOME					
Intragovernmental Gross Costs	$ -	$ -	$ 11	$ 1	$ 12
Intragovernmental Earned Revenues	-	-	-	-	$ -
Intragovernmental Net Costs	$ -	$ -	$ 11	$ 1	$ 12
Gross Costs with the Public	$ -	$ 45	$ 1,899	$ -	$ 1,944
Earned Revenues	-	-	-	-	$ -
Net Costs with the Public	$ -	$ 45	$ 1,899	$ -	$ 1,944
Net Program Costs	**$ -**	**$ 45**	**$ 1,910**	**$ 1**	**$ 1,956**
Low Rent Public Hsg Loans					
Intragovernmental Gross Costs	$ 109	$ -	$ -	$ 2	$ 111
Intragovernmental Earned Revenues	-	-	-	-	$ -
Intragovernmental Net Costs	$ 109	$ -	$ -	$ 2	$ 111
Gross Costs with the Public	$ 3,567	$ -	$ -	$ -	$ 3,567
Earned Revenues	-	-	-	-	$ -
Net Costs with the Public	$ 3,567	$ -	$ -	$ -	$ 3,567
Net Program Costs	**$ 3,676**	**$ -**	**$ -**	**$ 2**	**$ 3,678**
Other:					
Intragovernmental Gross Costs	$ 56	$ 162	$ 46	$ (23)	$ 241
Intragovernmental Earned Revenues	(2)	(4)	(1)	(14)	$ (21)
Intragovernmental Net Costs	$ 54	$ 158	$ 45	$ (37)	$ 220
Gross Costs with the Public	$ 526	$ 698	$ 2,163	$ 2	$ 3,389
Earned Revenues	-	(16)	-	-	$ (16)
Net Costs with the Public	$ 526	$ 682	$ 2,163	$ 2	$ 3,373
Costs Not Assigned to Programs	$ 63	$ 89	$ 30	$ -	$ 182
Net Program Costs	**$ 643**	**$ 929**	**$ 2,238**	**$ (35)**	**$ 3,775**

The following table shows the cross-cutting of HUD's major program areas that incur costs that cross multiple program areas for fiscal year 2008 (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 Earned Revenues	-	-	-	-	$ -
Intragovernmental Net Costs	$ 38	$ 42	$ -	$ -	$ 80
Gross Costs with the Public	$ 21,843	$ 2,811	$ 1	$ -	$ 24,655
Earned Revenues					-
Net Costs with the Public	$ 21,843	$ 2,811	$ 1	$ -	$ 24,655
Net Program Costs	**$ 21,881**	**$ 2,853**	**$ 1**	**$ -**	**$ 24,735**
CDBG					
Intragovernmental Gross Costs	$ -	$ -	$ 26	$ -	$ 26
Intragovernmental Earned Revenues	-	-	-	-	$ -
Intragovernmental Net Costs	$ -	$ -	$ 26	$ -	$ 26
Gross Costs with the Public	$ 24	$ -	$ 8,945	$ 1	$ 8,970
Earned Revenues	-	-	-	-	$ -
Net Costs with the Public	$ 24	$ -	$ 8,945	$ 1	$ 8,970
Net Program Costs	**$ 24**	**$ -**	**$ 8,971**	**$ 1**	**$ 8,996**
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	$ 596	$ 765	$ 1,891	$ 381	$ 3,633
Earned Revenues	-	(19)	-	-	$ (19)
Net Costs with the Public	$ 596	$ 746	$ 1,891	$ 381	$ 3,614
Costs Not Assigned to Programs	$ 50	$ 69	$ 25	$ -	$ 144
Net Program Costs	**$ 673**	**$ 904**	**$ 1,932**	**$ 474**	**$ 3,983**

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 Hope for Homeowners (H4H), program was established by HUD as an additional mortgage program designed to keep borrowers in their home.

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

	Fiscal Year 2009				Fiscal Year 2008		
	GI/SRI Program	MMI/CMHI Program	H4H Program	Total	GI/SRI Program	MMI/CMHI Program	Total
Costs							
Intragovernmental Gross Costs	$ 131	$ 167	$ 5	$ 303	$ 138	$ 175	$ 313
Intragovernmental Earned Revenues	(392)	(1,756)	-	(2,148)	(73)	(1,321)	(1,394)
Intragovernmental Net Costs	$ (261)	$ (1,589)	$ 5	$ (1,845)	$ 65	$ (1,146)	$ (1,081)
Gross Costs with the Public	$ 5,302	$ 9,072	$ 12	$ 14,386	$ 1,569	$ 9,496	$ 11,065
Earned Revenues	(71)	(47)	-	(118)	(68)	(9)	(77)
Net Costs with the Public	$ 5,231	$ 9,025	$ 12	$ 14,268	$ 1,501	$ 9,487	$ 10,988
Net Program Costs	**$ 4,970**	**$ 7,436**	**$ 17**	**$ 12,423**	**$ 1,566**	**$ 8,341**	**$ 9,907**

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, 2009 (dollars in millions):

	Undelivered Orders			
Programs	**Unexpended Appropriations**	**Permanent Indefinite or Investment Authority**	**Offsetting Collection**	**Undelivered Orders - Obligations, Unpaid**
FHA	$ 153	$ 276	$ 685	$ 1,114
Section 8 Rental Assistance	11,206	757	-	11,963
Community Development Block Grants	17,326	-	-	17,326
HOME Partnership Investment Program	7,271	-	-	7,271
Operating Subsidies	1,023	-	-	1,023
Low Rent Public Housing Grants and Loans	12,078	67	-	12,145
Housing for Elderly and Disabled	4,430	-	-	4,430
Section 235/236	1,096	2,471	-	3,567
All Other	9,584	-	-	9,584
Total	**$ 64,167**	**$ 3,571**	**$ 685**	**$ 68,423**

Of the total Section 8 Rental Assistance contractual commitments as of September 30, 2009**,** $10 billion relates to project-based commitments, and $2 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, 2008 (dollars in millions):

Programs	Undelivered Orders: Unexpended Appropriations	Undelivered Orders: Permanent Indefinite or Investment Authority	Undelivered Orders: 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 $4.7 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, 2009 (dollars in millions):

	Reservations			
Programs	**Unexpended Appropriations**	**Permanent Indefinite Appropriations**	**Offsetting Collections**	**Total Reservations**
Section 8 Rental Assistance	$ 107	$ 6	$ -	$ 113
Community Development Block Grants	1,058	-	-	1,058
HOME Partnership Investment Program	270	-	-	270
Low Rent Public Housing Grants and Loans	139	-	-	139
Housing for Elderly and Disabled	180	-	-	180
Section 235/236	-	4	-	4
All Other	661	-	-	661
Total	**$ 2,415**	**$ 10**	**$ -**	**$ 2,425**

The following chart shows HUD's administrative commitments as of September 30, 2008

	Reservations			
Programs	**Unexpended Appropriations**	**Permanent Indefinite Appropriations**	**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**

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, and 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, 2009 (dollars in millions):

	CDBG	Tenant-Based Rental Assistance	Prevention of Resident Displacement	Total
Budgetary Resources				
Unobligated Balance, beginning of period	$ 2,000	$ -	$ 1	$ 2,001
Recoveries	-	4	-	4
Budget Authority	-	-	-	-
Spending Authority from Offsetting Collections	-	-	(1)	(1)
Permanently Not Available, Recissions	-	-	-	-
Total Budgetary Resources	**$ 2,000**	**$ 4**	**$ -**	**$ 2,004**
Status of Budgetary Resources				
Obligations Incurred	$ 1,000	$ 4	$ -	$ 1,004
Unobligated Balance, available	1,000	-	-	1,000
Unobligated Balance, not available	-	-	-	-
Total Status of Budgetary Resources	**$ 2,000**	**$ 4**	**$ -**	**$ 2,004**
Change in Obligated Balance				
Obligated Balance, net beginning of period	$ 7,115	$ 34	$ -	$ 7,149
Obligations Incurred	1,000	4	-	1,004
Gross Outlays	(2,264)	(11)	-	(2,275)
Recoveries	-	(4)	-	(4)
Obligated Balance, net end of period	**$ 5,851**	**$ 23**	**$ -**	**$ 5,874**
Net Outlays	**2,264**	**11**	**1**	**2,276**

The data below displays cumulative activity for the four largest state recipients of HUD disaster assistance since the inception of the program. The obligations incurred and gross outlays shown above represent fiscal year activity. Dollars are in millions.

	Obligations	Outlays	Unliquidated
Florida	$ 285	$ 146	$ 139
Louisiana	12,600	9,148	3,452
Mississippi	5,525	3,035	2,490
Texas	638	372	266
Total	**$ 19,048**	**$ 12,701**	**$ 6,347**

The following table 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 for the four largest state recipients of HUD disaster assistance since the inception of the program. The obligations incurred and gross outlays shown above represent 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
Total	**$ 18,048**	**$ 10,970**	**$ 7,078**

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
2009				
Direct	$ 1,863	$ 88,295	$ -	$ 90,158
Reimbursable	-	1,528	-	1,528
Total	**$ 1,863**	**$ 89,823**	**$ -**	**$ 91,686**
2008				
Direct	$ 1,481	$ 55,485	$ -	$ 56,966
Reimbursable	-	753	-	753
Total	**$ 1,481**	**$ 56,238**	**$ -**	**$ 57,719**

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 2009 data is not available for comparison to the Statement of Budgetary Resources. Actual FY 2009 data will be available in the Appendix to the Budget of the United States Government, FY 2011.

For FY 2008, 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 FY 2008 (dollars in millions):

	Budgetary Resources	Obligations Incurred	Net Outlays
Combined Statement of Budgetary Resources	$ 119,404	$ 57,723	$ 45,089
Difference #1 - Offsetting receipts	-	-	1,541
Difference #2 - Resources related to HUD's expired accounts not reported in the President's Budget	(746)	382	959
Difference #3 - Rounding	(3)	1	1
Difference #4 - Transfer of negative subsidy to GNMA Reserve Receipt account	(11)	-	-
Difference #5 - Adjustment of GNMA's Financing and Liquidating accounts FY 2007 ending balances	-	-	-
United States Budget	**$ 118,644**	**$ 58,106**	**$ 47,590**

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, 2009 and 2008.

	2009	2008
Budgetary Resources Obligated		
Obligations Incurred	$ 91,686	$ 57,719
Spending Authority from Offsetting Collections and Recoveries	(36,424)	(19,401)
Obligations Net of Offsetting Collections	$ 55,262	$ 38,318
Offsetting Receipts	(1,141)	(1,541)
Net Obligations	$ 54,121	$ 36,777
Other Resources		
Transfers In/Out Without Reimbursement	$ (1,742)	$ (32)
Imputed Financing from Costs Absorbed by Others	79	112
Other Resources	(139)	(29)
Net Other Resources Used to Finance Activites	$ (1,802)	$ 51
Total Resources Used to Finance Activities	$ 52,319	$ 36,828
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	$ (11,394)	$ 8,423
Credit Program Resources not Included in Net Cost (Surplus) of Operations	32,147	16,836
Other Changes to Net Obligated Resources Not Affecting Net Cost of Operations	(28,262)	(15,522)
Total Resources Used to Finance Items Not Part of Net Cost of Operations	$ (7,509)	$ 9,737
Total Resources Used to Finance the Net Cost of Operations	$ 44,810	$ 46,565
Components of Net Cost of Operations Not Requiring/Generating Resources in the Current Period		
Upward/Downward Reestimates of Credit Subsidy Expense	$ 12,252	$ 11,499
Increase in Exchange Revenue Receivable from the Public	(311)	(373)
Change in Loan Loss Reserve	(49)	(192)
Changes in Bad Debt Expenses Related to Credit Reform Receivables	1,431	(44)
Reduction of Credit Subsidy Expense from Guarantee Endorsements and Modifications	(1,084)	(1,048)
Other	1,608	747
Total Components of Net Cost of Operations Not Requiring/Generating Resources in the Current Period	$ 13,847	$ 10,589
Net Cost of Operations	**$ 58,657**	**$ 57,154**

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

INTRODUCTION

This section provides information on resources utilized by 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 investments made by HUD for the benefit of the Nation. The stewardship objective requires that HUD also report on the broad outcomes of its actions associated with these resources. Such reporting will provide information that will help the reader to better 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 amounts and in the application of the related administrative costs, most of the investments reported 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.
- **Housing Opportunities for People With AIDS (HOPWA)** provides education and employment assistance to assist families and individuals who are living with the challenges of HIV/AIDS and risks of homelessness. Resources are used to assist beneficiaries to obtain permanent housing results, as well as to address short-term and transitional housing needs.
- **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. This program was transferred to the Department of Labor, but it is reported here in order to show prior year results.

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 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.
- **Native Hawaiian Housing Block Grants (NHHBG)** provides an annual block grant to the Department of Hawaiian Home Lands (DHHL) for a range of affordable housing activities to benefit low-income Native Hawaiians eligible to reside on the Hawaiian home lands. The DHHL has the authority under the NHHBG program to develop new and innovative affordable housing initiatives and programs based on local needs, including down payment and other mortgage assistance programs, transitional housing, domestic abuse shelters, and revolving loan funds.

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.

In prior years HUD made stewardship investments through the Community Development Work Study and the Partnership for Advancing Technology in Housing (PATH) program, as described below.

- **Community Development Work Study:** Colleges and universities throughout the United Sates have used 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. This program is not currently funded, but it is reported to reflect prior year activity.
- **Partnership for Advancing Technology in Housing (PATH).** 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. This program is not currently funded, but it is reported to reflect prior year activity.

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.
- **Lead Hazard Control Grants** help state and local governments and private organizations and firms control lead-based paint hazards in low-income, privately owned rental, and owner-occupied housing. The grants build program and local capacity and generate training and employment opportunities and contracts for low-income residents and businesses in targeted areas.

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 to increase the availability of decent, safe, and affordable housing and to strengthen communities. Through these investments, HUD serves to improve the quality of life and economic vitality. The table on the next page summarizes material program investments in Non-Federal Physical Property. Additional information regarding these programs' contributions to HUD's goals may be found in Section 2 of this report.

Investments in Non-Federal Physical Property
Fiscal Year 2005 - 2009
(Dollars in millions)

Program	2005	2006	2007	2008	2009
CPD					
CDBG	$1,175	$1,170	$1,262	$1,284	$1,180
Disaster Grants	$40	$299	$120	$169	$144
HOME	$44	$30	$38	$54	$18
SHP - Homeless [1]	$40	$24	$21	$17	$14
PIH					
ICDBG	$71	$68	$58	$56	$61
NHHBG [1]	$9	$8	$9	$9	$11
IHBG	$326	$321	$267	$234	$346
HOPE VI	$157	$72	$95	$97	$104
PH Capital Fund [2]	$1,758	$1,289	$1,340	$1,793	$2,310
TOTAL [3]	**$3,620**	**$3,281**	**$3,208**	**$3,711**	**$4,188**

Notes:

1. *Supportive Housing Programs and Native Hawaiian Housing Block Grants are being reported for the first time this year for investments in human capital.*
2. *Current and historical amounts were derived from outlay data in the Line Of Credit Control System and may differ from prior year reports.*
3. *Differences between Totals and Column amounts shown on this chart are due to rounding.*

Human Capital

Investment in Human Capital: Human Capital investments support education and training programs that are intended to increase or maintain national economic productive capacity. These investments support HUD's strategic goals, which are to promote self-sufficiency and asset development of families and individuals; improve community quality of life and economic vitality; and ensure public trust in HUD. The table on the next page summarizes material program investments in Human Capital, for fiscal years 2005 through 2009. Additional information regarding these programs' contributions to HUD's goals may be found in Section 2 of this report.

Investments in Human Capital
Fiscal Year 2005 - 2009
(Dollars in millions)

Program	2005	2006	2007	2008	2009
CPD					
CDBG	$28	$4	$23	$32	$29
SHP - Homeless [1]	$5	$2	$41	$18	$16
HOPWA [1]	N/A	N/A	N/A	N/A	$3
Youthbuild [2]	$22	$22	$23	$19	$0
PIH					
HOPE VI	$13	$6	$8	$8	$9
IHBG [1]	$2	$2	$1	$1	$1
PD&R					
CDWS [3]	$3	$0	$0	$0	$0
OHHLHC					
Lead Technical Assistance [4]	$0	$0	$0	$0	$0
TOTAL [5]	**$72**	**$36**	**$96**	**$77**	**$59**

Notes:
1. *Supportive Housing Programs, HOPWA, and Indian Housing Block Grants are being reported for the first time this year for investments in human capital. Historical data for HOPWA are not available.*
2. *Youthbuild was transferred to the Department of Labor. The history is reported for the sake of consistency.*
3. *Congress did not fund the Community Development Work Study in FY 2008 and FY 2009.*
4. *Congress did not fund the Lead Technical Assistance program in FY 2008. FY 2009 funding was $0.2 million.*
5. *Differences between Totals and Column amounts shown on this chart are due to rounding.*

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

Results of Investments in Human Capital
Number of People Trained
Fiscal Year 2005 - 2009

Program	2005	2006	2007	2008	2009
CPD					
CDBG	122,578	79,833	52,277	60,498	47,578
SHP - Homeless [1]	N/A	N/A	N/A	22.8%	22.0%
HOPWA [2]	N/A	N/A	N/A	N/A	6,540
Youthbuild [3]	4,366	3,929	3,103	2,987	0
PIH					
Hope VI (*see table below*)					
IHBG [1]	N/A	N/A	N/A	N/A	485
PD&R					
CDWS [4]	108	0	0	0	0
OHHLHC					
Lead Technical Assistance	0	0	0	400	1,200
TOTAL	**127,052**	**83,762**	**55,380**	**63,885**	**55,803**

Notes:
1. *Supportive Housing Programs, HOPWA, and Indian Housing Block Grants are being reported for the first time this year for investments in human capital. SHP results are expressed in terms of percentage of persons exiting the programs having employment income. Amounts for these programs were not reported prior to FY 2009.*
2. *This is the first year of reporting HOPWA's investment in human capital in the RSSI.*
3. *Youthbuild was transferred to the Department of Labor. The history is reported for the sake of consistency.*
4. *Congress did not fund the CDWS in FY 2008 and FY 2009.*

HOPE VI Results of Investments in Human Capital: Since the inception of the HOPE VI program in FY 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 2008 and 2009, since the program's inception.

Key Results of HOPE VI Program Activities
Fiscal Years 2008 and 2009

HOPE VI Service	2008 Enrolled	2008 Completed	% Completed	2009 Enrolled	2009 Completed	% Completed
Employment Preparation, Placement, & Retention (1)	71,727	N/A	N/A	75,991	N/A	N/A
Job Skills Training Programs	29,821	15,992	54%	31,079	16,490	53%
High School Equivalent Education	15,593	4,631	30%	16,453	4,760	29%
Entrepreneurship Training	3,394	1,459	43%	3,496	1,505	43%
Homeownership Counseling	14,450	6,086	42%	15,259	6,506	43%

1. *Completion data are not applicable, since all who enroll are considered recipients of the training.*

Research and Development

Investments in Research and Development: Research and development investments support (a) the search for new knowledge and/or (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's communities; and ensure public trust in HUD.

The following table summarizes HUD's research and development investments. Additional information regarding these programs' contributions to HUD's goals may be found in Section 2 of this report.

Investments in Research and Development
Fiscal Year 2005 - 2009
(Dollars in millions)

Program	2005	2006	2007	2008	2009
CPD					
IHBG (1)	$0.9	$0.5	$0.2	$0.3	$0.5
PD&R					
PATH (2)	$8.0	$5.0	$0.0	$0.0	$0.0
OHHLHC					
Lead Hazard Control	$5.0	$11.0	$5.0	$4.0	$2.7
TOTAL	**$13.9**	**$16.5**	**$5.2**	**$4.3**	**$3.2**

Note:
1. *This program is included for the first time.*
2. *PATH did not receive any appropriation in FY 2008 or FY 2009. Figures are included for continuity of information from FY 2005 and FY 2006.*

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 2005 – 2009

Program	2005	2006	2007	2008	2009
OHHLHC					
Lead Hazard Control	$6,650	$4,926	$4,900	$5,570	$5,554
TOTAL	**$6,650**	**$4,926**	**$4,900**	**$5,570**	**$5,554**

Required Supplementary Information

Statement of Budgetary Resources

The principal Statement of Budget Resources combines the availability, status, and outlay of HUD's budgetary resources during FY 2009 and 2008. Presented on the following pages is the reporting by major budgetary account of this combined information for the Department. (Additional disaggregated financial statements (i.e., Consolidating Balance Sheet and Consolidating Changes in Net Position) are located online at: http://www.hud.gov/offices/cfo/reports/2009par.cfm.)

Combining Statement of Budgetary Resources
For the Period Ending September 2009
(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants
Budgetary Resources:				
Unobligated Balance, Brought Forward	$ 27,695	$ 13,973	$ 615	$ 9,215
Recoveries of Prior Year Unpaid Obligations	36		346	8
Budget Authority				
Appropriation	7,554		26,605	6,900
Borrowing Authority	470			
Contract Authority				
Spending Authority from Offsetting Collections				
Earned				
Collected	33,596	1,889		
Change in Receivable from Federal Sources	(153)	9		
Change in Unfilled Customer Orders				
Advanced Received				
W/O Advance from Federal Sources	1			
Subtotal Budget Authority	41,470	1,898	26,605	6,900
Non Expenditure Transfers, Net	(58)	(1)	1,982	(33)
Temporarily Not Available Per PL				
Permanently not available	(1,247)		(3,284)	(12)
Total Budgetary Resources	**67,895**	**15,870**	**26,265**	**16,077**
Status of Budgetary Resources:				
Obligations Incurred				
Direct	29,695	8	25,684	8,092
Reimbursable		1,528		
Subtotal	29,695	1,536	25,684	8,092
Unobligated Balances				
Apportioned	6,450	1	427	7,970
Subtotal	6,450	1	427	7,970
Unobligated Balances Not Available	31,750	14,332	154	15
Total Status of Budgetary Resources	**67,895**	**15,870**	**26,265**	**16,077**
Change in Obligated Balance				
Obligated Balance, Net				
Unpaid Obligations, Brought Forward	2,458	131	11,663	15,671
Less: Uncollected Customer Payments from Federal Sources	(240)	(37)		
Total Unpaid Obligated Balance, Net	2,218	95	11,663	15,671
Obligations Incurred, Net	29,695	1,536	25,684	8,092
Less: Gross Outlays	(29,814)	(1,492)	(25,035)	(6,407)
Obligated Balance Transferred, Net				
Total Unpaid Obligated Balance Transferred, Net				
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(36)		(346)	(8)
Change in Uncollected Customer Payments from Federal Sources	151	(9)		
Obligated Balance, Net - End of Period				
Unpaid Obligations	2,304	176	11,965	17,348
Less: Uncollected Customer Payments from Federal Sources	(89)	(46)		
Total Obligated Balance, Net - End of Period	2,215	130	11,965	17,348
Net Outlays				
Gross Outlays	29,814	1,492	25,035	6,407
Less Offsetting Collections	(33,596)	(1,001)		
Less: Distributed Offsetting Receipts	(183)	(888)	(16)	
Net Outlays	**$ (3,965)**	**$ (397)**	**$ 25,018**	**$ 6,407**

Figures may not add to totals because of rounding.

Combining Statement of Budgetary Resources

For the Period Ending September 2009

(Dollars in Millions)

	Home	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other
Budgetary Resources:					
Unobligated Balance, Brought Forward	$ 379	$ 2	$ 239	$ 2,102	$ 7,457
Recoveries of Prior Year Unpaid Obligations	11	1	31	99	489
Budget Authority					
Appropriation	4,075	4,455	8,103	1,015	8,785
Borrowing Authority			1		8
Contract Authority					
Spending Authority from Offsetting Collections					
Earned					
Collected			106	749	98
Change in Receivable from Federal Sources					
Change in Unfilled Customer Orders					
Advanced Received					(11)
W/O Advance from Federal Sources					8
Subtotal Budget Authority	4,075	4,455	8,210	1,764	8,887
Non Expenditure Transfers, Net	(4)		(37)	(3)	(1,845)
Temporarily Not Available Per PL					
Permanently not available	(7)	(2)	(609)	(1,854)	(949)
Total Budgetary Resources	**4,454**	**4,456**	**7,834**	**2,108**	**14,038**
Status of Budgetary Resources:					
Obligations Incurred					
Direct	4,161	4,451	7,537	1,090	9,439
Reimbursable					
Subtotal	4,161	4,451	7,537	1,090	9,439
Unobligated Balances					
Apportioned	288	4	264	916	3,053
Subtotal	288	4	264	916	3,053
Unobligated Balances Not Available	5	1	33	101	1,546
Total Status of Budgetary Resources	**4,454**	**4,456**	**7,834**	**2,108**	**14,038**
Change in Obligated Balance					
Obligated Balance, Net					
Unpaid Obligations, Brought Forward	5,047	1,184	8,638	4,759	9,165
Less: Uncollected Customer Payments from Federal Sources					(20)
Total Unpaid Obligated Balance, Net	5,047	1,184	8,638	4,759	9,144
Obligations Incurred, Net	4,161	4,451	7,537	1,090	9,439
Less: Gross Outlays	(1,915)	(4,449)	(3,895)	(1,318)	(4,843)
Obligated Balance Transferred, Net					
Total Unpaid Obligated Balance Transferred, Net					
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(11)	(1)	(31)	(99)	(489)
Change in Uncollected Customer Payments from Federal Sources					(8)
Obligated Balance, Net - End of Period					
Unpaid Obligations	7,282	1,185	12,250	4,432	13,272
Less: Uncollected Customer Payments from Federal Sources					(28)
Total Obligated Balance, Net - End of Period	7,282	1,185	12,250	4,432	13,244
Net Outlays					
Gross Outlays	1,915	4,449	3,895	1,318	4,843
Less Offsetting Collections			(106)	(749)	(86)
Less: Distributed Offsetting Receipts					(54)
Net Outlays	**$ 1,915**	**$ 4,449**	**$ 3,789**	**$ 569**	**$ 4,702**

Figures may not add to totals because of rounding.

Combining Statement of Budgetary Resources

For the Period Ending September 2009

(Dollars in Millions)

	Budgetary Total	Federal Housing Administration Non Budgetary	Other NonBudgetary Credit Program Accounts	Total NonBudgetary Credit Program Financing	Total
Budgetary Resources:					
Unobligated Balance, Brought Forward	$ 53,378	$ 8,148	$ 152	$ 8,300	$ 61,678
Recoveries of Prior Year Unpaid Obligations	1,010	10		10	1,020
Budget Authority					
Appropriation	67,492				67,492
Borrowing Authority	4	470	5	475	479
Contract Authority					
Spending Authority from Offsetting Collections					
Earned					
Collected	5,171	31,233	34	31,266	36,438
Change in Receivable from Federal Sources	(144)	1		1	(144)
Change in Unfilled Customer Orders					
Advanced Received	(11)				(11)
W/O Advance from Federal Sources	5	1	3	4	8
Subtotal Budget Authority	72,517	31,705	42	31,746	104,263
Non Expenditure Transfers, Net					
Temporarily Not Available Per PL					
Permanently not available	(7,080)	(883)		(883)	(7,963)
Total Budgetary Resources	**119,825**	**38,979**	**194**	**39,172**	**158,998**
Status of Budgetary Resources:					
Obligations Incurred					
Direct	77,953	12,180	25	12,205	90,158
Reimbursable	1,528				1,528
Subtotal	79,481	12,180	25	12,205	91,686
Unobligated Balances					
Apportioned	13,490	5,875	9	5,885	19,374
Subtotal	13,490	5,875	9	5,885	19,374
Unobligated Balances Not Available	26,854	20,924	159	21,083	47,937
Total Status of Budgetary Resources	**119,825**	**38,979**	**194**	**39,172**	**158,998**
Change in Obligated Balance					
Obligated Balance, Net					
Unpaid Obligations, Brought Forward	57,120	1,595		1,595	58,716
Less: Uncollected Customer Payments from Federal Sources	(279)	(2)	(16)	(18)	(297)
Total Unpaid Obligated Balance, Net	56,841	1,593	(16)	1,577	58,418
Obligations Incurred, Net	79,481	12,180	25	12,205	91,686
Less: Gross Outlays	(66,841)	(12,302)	(25)	(12,327)	(79,168)
Obligated Balance Transferred, Net					
Total Unpaid Obligated Balance Transferred, Net					
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(1,010)	(10)		(10)	(1,020)
Change in Uncollected Customer Payments from Federal Sources	139	(1)	(3)	(5)	134
Obligated Balance, Net - End of Period					
Unpaid Obligations	68,751	1,464		1,464	70,214
Less: Uncollected Customer Payments from Federal Sources	(141)	(4)	(19)	(23)	(163)
Total Obligated Balance, Net - End of Period	68,610	1,460	(19)	1,441	70,051
Net Outlays					
Gross Outlays	66,841	12,302	25	12,327	79,168
Less Offsetting Collections	(4,272)	(31,233)	(34)	(31,266)	(35,538)
Less: Distributed Offsetting Receipts	(1,141)				(1,141)
Net Outlays	**$ 61,428**	**$ (18,931)**	**$ (9)**	**$ (18,940)**	**$ 42,488**

Figures may not add to totals because of rounding.

Combining Statement of Budgetary Resources

For the Period Ending September 2008

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants
Budgetary Resources:				
Unobligated Balance, Brought Forward	$ 22,843	$ 13,096	$ 1,202	$ 786
Recoveries of Prior Year Unpaid Obligations	72		498	16
Budget Authority				
Appropriation	627	8	29,443	17,586
Borrowing Authority	3			
Contract Authority				
Spending Authority from Offsetting Collections				
Earned				
Collected	1,636	1,562		
Change in Receivable from Federal Sources	(25)	(40)		
Change in Unfilled Customer Orders				
Advanced Received				
W/O Advance from Federal Sources				
Subtotal Budget Authority	2,241	1,531	29,443	17,586
Non Expenditure Transfers, Net	(41)		(10)	(1)
Temporarily Not Available Per PL				
Permanently not available	(293)		(7,956)	(398)
Total Budgetary Resources	**24,821**	**14,626**	**23,176**	**17,989**
Status of Budgetary Resources:				
Obligations Incurred				
Direct	5,274	8	22,561	4,854
Reimbursable		645		
Subtotal	5,274	653	22,561	4,854
Unobligated Balances				
Apportioned	365		480	13,116
Subtotal	365	-	480	13,116
Unobligated Balances Not Available	19,183	13,973	135	19
Total Status of Budgetary Resources	**24,821**	**14,626**	**23,176**	**17,989**
Change in Obligated Balance				
Obligated Balance, Net				
Unpaid Obligations, Brought Forward	954	129	14,067	19,768
Less: Uncollected Customer Payments from Federal Sources	(263)	(77)		
Total Unpaid Obligated Balance, Net	692	52	14,067	19,768
Obligations Incurred, Net	5,274	653	22,561	4,854
Less: Gross Outlays	(5,293)	(650)	(24,467)	(8,935)
Obligated Balance Transferred, Net				
Total Unpaid Obligated Balance Transferred, Net				
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(72)		(498)	(16)
Change in Uncollected Customer Payments from Federal Sources	25	40		
Obligated Balance, Net - End of Period				
Unpaid Obligations	863	131	11,663	15,671
Less: Uncollected Customer Payments from Federal Sources	(238)	(37)		
Total Obligated Balance, Net - End of Period	626	95	11,663	15,671
Net Outlays				
Gross Outlays	5,293	650	24,467	8,935
Less Offsetting Collections	(1,636)	(1,562)		
Less: Distributed Offsetting Receipts	(1,511)		(11)	
Net Outlays	**$ 2,147**	**$ (912)**	**$ 24,456**	**$ 8,935**

Figures may not add to totals because of rounding.

Combining Statement of Budgetary Resources

For the Period Ending September 2008

(Dollars in Millions)

	Home	Operating Subsidies	Public and Indian Housing Loans & Grants	Housing for the Elderly and Disabled	All Other
Budgetary Resources:					
Unobligated Balance, Brought Forward	$ 321	$ 3	$ 224	$ 1,179	$ 3,332
Recoveries of Prior Year Unpaid Obligations	10	1	25	25	293
Budget Authority					
Appropriation	1,704	4,200	4,082	972	5,265
Borrowing Authority			1		
Contract Authority					
Spending Authority from Offsetting Collections					
Earned					
Collected			99	998	66
Change in Receivable from Federal Sources					(1)
Change in Unfilled Customer Orders					
Advanced Received					1
W/O Advance from Federal Sources					1
Subtotal Budget Authority	1,704	4,200	4,183	1,970	5,332
Non Expenditure Transfers, Net	(3)		(17)	(2)	72
Temporarily Not Available Per PL					
Permanently not available	(5)	(2)	(1,124)	(32)	(1,533)
Total Budgetary Resources	**2,027**	**4,202**	**3,291**	**3,139**	**7,496**
Status of Budgetary Resources:					
Obligations Incurred					
Direct	1,647	4,200	3,052	1,038	4,000
Reimbursable					107
Subtotal	1,647	4,200	3,052	1,038	4,107
Unobligated Balances					
Apportioned	375		220	978	2,222
Subtotal	375	-	220	978	2,222
Unobligated Balances Not Available	4	2	19	1,124	1,167
Total Status of Budgetary Resources	**2,027**	**4,202**	**3,291**	**3,139**	**7,496**
Change in Obligated Balance					
Obligated Balance, Net					
Unpaid Obligations, Brought Forward	5,379	1,097	9,129	5,076	10,207
Less: Uncollected Customer Payments from Federal Sources					(5)
Total Unpaid Obligated Balance, Net	5,379	1,097	9,129	5,076	10,202
Obligations Incurred, Net	1,647	4,200	3,052	1,038	4,107
Less: Gross Outlays	(1,969)	(4,113)	(3,518)	(1,330)	(4,844)
Obligated Balance Transferred, Net					
Total Unpaid Obligated Balance Transferred, Net					
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(10)	(1)	(25)	(25)	(293)
Change in Uncollected Customer Payments from Federal Sources					
Obligated Balance, Net - End of Period					
Unpaid Obligations	5,047	1,184	8,638	4,759	9,177
Less: Uncollected Customer Payments from Federal Sources					(5)
Total Obligated Balance, Net - End of Period	5,047	1,184	8,638	4,759	9,172
Net Outlays					
Gross Outlays	1,969	4,113	3,518	1,330	4,844
Less Offsetting Collections			(100)	(998)	(67)
Less: Distributed Offsetting Receipts					(19)
Net Outlays	**$ 1,969**	**$ 4,113**	**$ 3,418**	**$ 332**	**$ 4,758**

Figures may not add to totals because of rounding.

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

	Budgetary Total	Federal Housing Administration Non Budgetary	Other NonBudgetary Credit Program Accounts	NonBudgetary Credit Program Financing Accounts	Total
Budgetary Resources:					
Unobligated Balance, Brought Forward	$ 42,984	$ 4,077	$ 143	$ 4,219	$ 47,203
Recoveries of Prior Year Unpaid Obligations	940	19		19	959
Budget Authority					
Appropriation	63,888				63,888
Borrowing Authority	4	940		940	944
Contract Authority					
Spending Authority from Offsetting Collections					
Earned					
Collected	4,361	14,160	27	14,188	18,549
Change in Receivable from Federal Sources	(66)	(41)		(41)	(107)
Change in Unfilled Customer Orders					
Advanced Received	1				1
W/O Advance from Federal Sources	1		(2)	(2)	(1)
Subtotal Budget Authority	68,189	15,059	26	15,085	83,273
Non Expenditure Transfers, Net	(2)				(3)
Temporarily Not Available Per PL					
Permanently not available	(11,343)	(691)		(691)	(12,033)
Total Budgetary Resources	**100,768**	**18,464**	**168**	**18,632**	**119,400**
Status of Budgetary Resources:					
Obligations Incurred					
Direct	46,634	10,316	16	10,332	56,966
Reimbursable	753				752
Subtotal	47,387	10,316	16	10,332	57,718
Unobligated Balances					
Apportioned	17,757	2,622	16	2,638	20,395
Subtotal	17,757	2,622	16	2,638	20,395
Unobligated Balances Not Available	35,624	5,526	136	5,662	41,286
Total Status of Budgetary Resources	**100,768**	**18,464**	**168**	**18,632**	**119,400**
Change in Obligated Balance					
Obligated Balance, Net					
Unpaid Obligations, Brought Forward	65,807	1,342		1,342	67,149
Less: Uncollected Customer Payments from Federal Sources	(344)	(44)	(18)	(62)	(406)
Total Unpaid Obligated Balance, Net	65,462	1,298	(18)	1,280	66,743
Obligations Incurred, Net	47,386	10,316	16	10,332	57,718
Less: Gross Outlays	(55,119)	(10,043)	(16)	(10,059)	(65,180)
Obligated Balance Transferred, Net					
Total Unpaid Obligated Balance Transferred, Net					
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(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	57,133	1,595		1,595	58,728
Less: Uncollected Customer Payments from Federal Sources	(279)	(2)	(16)	(18)	(297)
Total Obligated Balance, Net - End of Period	56,854	1,593	(16)	1,577	58,431
Net Outlays					
Gross Outlays	55,120	10,043	16	10,060	65,180
Less Offsetting Collections	(4,362)	(14,160)	(27)	(14,188)	(18,550)
Less: Distributed Offsetting Receipts	(1,541)				(1,541)
Net Outlays	**$ 49,217**	**$ (4,117)**	**$ (11)**	**$ (4,128)**	**$ 45,089**

Figures may not add to totals because of rounding.

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, 2009 and 2008 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 2009 and 2008 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, 2009 and 2008, whose statements reflected total assets constituting 43 and 42 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 2009 and 2008 financial statements, insofar as it relates to the amounts included for FHA and Ginnie Mae as of September 30, 2009 and 2008, 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. These considerations are an integral part of an audit conducted in accordance with *Government Auditing Standards* and are important for assessing the results of the audit.

[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 2009 and 2008 Financial Statements (2010-FO-0003, dated November 16, 2009).

Opinion on the Fiscal Years 2009 and 2008 Financial Statements

In our opinion, based on our audit and the reports of other auditors, for the accompanying fiscal years 2009 and 2008, the principal financial statements present fairly, in all material respects, the financial position of HUD as of September 30, 2009 and 2008 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. The Loan Guarantee Liability is a management estimate of the net present value of future claims, net of premiums and recoveries, from loans insured as of the end of the fiscal year. This estimate is developed using econometric models, which integrate historical data with national house price forecasts to develop assumptions about future portfolio performance. Endorsements in the last two years make up over half of FHA's insured single family mortgage loans in the Mutual Mortgage Insurance Fund. These loans have very limited claims experience to support management's assumptions regarding their future performance. Because of this limited experience and the impact of the current economy on the housing market, the reliability of the Loan Guarantee Liability estimate for single family mortgages may be significantly affected. Due to the current economic conditions, this estimate is extremely sensitive to changes in house price forecasts.

The Mutual Mortgage Insurance Fund includes a Capital Reserve account from which increases in funding to cover accrued claim losses are drawn. FHA's auditor also reported as of September 30, 2009, this Capital Reserve account had $2.6 billion available to cover further increases in the MMI Fund's Loan Guarantee Liability. The Credit Reform Act of 1990 provides for permanent, indefinite budget authority should future increases in the Loan Guarantee Liability exceed funds available in the Capital Reserve account.

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

- Adequately monitor Office of Community Planning and Development (CPD) grantees' compliance with program requirements;

- Continue improvements in the oversight and monitoring of subsidy calculations, intermediaries program performance, and 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;
- Strengthen Ginnie Mae's monitoring and management controls in regard to the mortgage-backed security program;
- Implement short-term capacity management plans for FHA systems;
- Effect FHA modernization to address system risks;
- Address increased risk to management's estimate of the Loan Guarantee Liability brought about by economic conditions and inherent model design risks; and
- Enhance user access management processes for the FHA subsidiary ledger.

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's Mutual Mortgage Insurance fund capitalization was not maintained at a minimum capital ratio of two percent which is required under Cranston-Gonzalez National Affordable Housing Act of 1990; and
- Ginnie Mae did not comply with the Federal Information Management Security Act.

The audit also identified $199.1 million in excess obligations recorded in HUD's records. We also are recommending that HUD seek legislative authority to implement $317 million in offsets against PHA's excess unusable funding held in Net Restricted Assets Accounts at the PHAs. 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 2009 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 2009 and 2008 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* 2009 *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 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

CPD Needs to Adequately Monitor Grantees' Compliance with Program Requirements. In fiscal year 2009 we focused our review on the Office of Community Planning and Development's (CPD) timely monitoring reviews of its grantee and subgrantees. Our review indicated that there were a number of areas that need enhanced oversight and improved management reporting.

HUD does not consistently monitor and ensure that Community Development Block Grants (CDBG) Non-Entitlement funds were obligated and announced in accordance with the timeliness requirements. Program regulations require that states obligate and announce 100 percent of their annual grants to units of general local government within 15 months of signing the grant agreements. HUD completed its latest timeliness review of obligations for grant years 2000-2004 in 2006. Additionally, HUD did not begin the grant years 2005-2007 program timeliness review until September 2008, which is still ongoing. No review has been performed for states that signed grant agreements in 2008.

HOME Program funds totaling $24.7 million are not being expended timely due to poor performing Community Housing Development Organizations (CHDO) and subgrantees. We have also found that these funds have accumulated due to the programs' cumulative accounting requirements that allow one grantee's poor performance within a participating jurisdiction to be hidden or go undiscovered.

HUD needs to improve its efforts to review the status of each of its Homeless Assistance contracts on a regular basis, which would have identified excess funds that could be deobligated and recaptured. As a result, we recommend that the Office develop the management reports needed to effectively track its Homeless Assistance Program expiration dates. We also recommend that Field Offices review the status of the identified contracts and recapture up to the $42 million in undisbursed obligations for expired contracts that were funded with grants during 1997- 2001.

A review of the HUD's HOME program found that 20 percent of the participating jurisdictions that made their final draw were still listed on the open activities report. HOME program regulations require participating jurisdictions to enter project completion information into IDIS within 120 days of making a final draw for a project. The widespread failure of participating jurisdictions to close out projects in IDIS by entering completion and beneficiary data in a timely manner results in national underreporting of actual HOME Program accomplishments.

HUD Management Must Continue to Improve Oversight and Monitoring of Subsidy Calculations, Intermediaries' Program Performance, and 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. HUD's increased and improved monitoring has resulted in a significant decline in improper payment estimates over the last several 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 2009 review of the Housing Choice Voucher program, we also noted that housing agencies have accumulated $840 million in funds in a Net Restricted Asset Account, of which $317 million has been categorized as unusable to the housing agencies. In fiscal year 2009, we learned that a large number of PHAs requested additional funding. The extra funding was needed to cover anticipated funding shortfalls, which was placing many families at risk of losing their subsidy due to the recession and increased demand for services. After working with the requesting PHAs, HUD identified 104 PHAs that needed $42.4 million in additional funding. We also are recommending that HUD seek legislative authority to implement $317 million in offsets against PHA's excess unusable funding held in Net Restricted Assets Accounts at the PHAs. These amounts represent funds that HUD could put to better use.

HUD Needs to Improve Processes for Reviewing Obligation Balances. HUD needs to improve controls over the monitoring of obligation balances to ensure they remain necessary 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. Our review of the 2009 year-end obligation balances showed $ 132.4 million in excess funds that could be recaptured. This has been a long-standing weakness, and we have been reporting deficiencies in this area for several years. HUD has been working to implement improved procedures and information systems, however progress has been slow.

HUD Financial Management Systems Need to Comply with Federal Financial Management System Requirements. In fiscal year 2009, a review of the Office of Community Development and Planning's formula grants found that the reporting process was not in compliance with federal financial management requirements. Additionally, 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.

Ginnie Mae Should Improve Programs Compliance and Controls Regarding Monitoring of Issuers. In fiscal year 2008, control deficiencies related to the monitoring of Ginnie Mae Mortgage-Backed

Security program unmatched loans and segregation of duty issue were reported. In fiscal year 2009, Ginnie Mae hired a new chief risk officer which substantially resolved the segregation of duty issue. While Ginnie Mae made significant improvements in their operating procedures, the unmatched loan monitoring issue has not been fully remediated as of September 30, 2009. Consequently, the issue is reported again as a repeat finding in fiscal year 2009.

FHA Financial system capacity limitations could impact business processing. As a result of increased loan application and endorsement volume, the Unisys mainframe began to approach its operating capacity in the fall of 2008. HUD developed an informal written short term capacity management plan at the end of fiscal year 2009 that identifies the actions that have been taken and future activities required. However, because this growth in volume developed so quickly, the plan does not document (1) utilization benchmarks and required responses and (2) clear organizational and staff roles and responsibilities. Without a formalized plan, FHA may not be able to sufficiently address further capacity issues timely or effectively, which may impact FHA's ability to process and record financial transactions timely and reliably**.**

Effective FHA modernization is necessary to address systems risks. As reported last year, FHA continues to make progress improving its overall financial system control environment despite limited systems resources. Given the state of the current systems, FHA's financial systems will continue to require expensive maintenance and monitoring and are likely to pose increasing risks to the reliability of FHA's financial reporting until the modernization efforts are completed. FHA's proposed plan may be inconsistent with the current HUD Strategic Plan without a comprehensive risk assessment. This proposed plan will also need to have an effective implementation plan and leadership team to ensure that the current systems are replaced within a timeframe that does not put FHA's financial operations at further risk.

Economic conditions and inherent model design increases risks to management estimates. FHA management's current year estimate of the Loan Guarantee Liability for for the Mutual Mortgage Insurance Fund may be optimistic due to an inherent design assumption, may not fully reflect the potential impact of recent events, and is extremely sensitive to changes in house price forecasts. These factors increase the risk to the reliability of the Loan Quarantee Liability estimate which could be mitigated by additional data analyses.

FHASL user access management processes need to be enhanced. FHA needs to ensure that effective user access management processes are in place.

Compliance with Laws and Regulations

HUD Did Not Substantially Comply with the Federal Financial Management Improvement Act. In its *Fiscal Year 2009 Performance and Accountability Report*, HUD reports that 2 of its 40 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 38 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. For the current three fiscal year cycle, fiscal year 2007 to 2009, HUD completed only 7 out of 40 A-127 financial management system reviews. 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. Our review determined there are six Anti-Deficiency Act violations that have not been reported immediately to the President through OMB, Congress, or GAO, as required by the U.S. Code, Title 31 Section 1351.1517 (b) (Anti-deficiency Act). In addition, one potential Anti-Deficiency Act violation has been under review for two years without a final determination as to whether or not a violation has occurred.

FHA Does Not Comply with Cranston-Gonzalez National Affordable Housing Act (NAHA) of 1990. NAHA requires FHA's Mutual Mortgage Insurance Fund to maintain a minimum capital ratio of 2 percent and conduct an annual independent actuarial study to calculate this ratio. In fiscal year 2009, the independent actuarial review reported that this ratio fell below the minimum 2 percent based on September 30, 2009 balances.

Ginnie Mae Does Not Comply with the Federal Information Security Management Act. The Act requires Ginnie Mae to implement an 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. Ginnie Mae did not perform systems accreditation on the Integrated Portfolio Management System and initial certification and accreditation on Single Family Mastersubservicer Servicing System before these systems were allowed to operate.

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 2009 and 2008 financial statements. Their report on FHA's financial statements, dated November 09, 2009[2] includes an unqualified opinion on FHA's financial statements, along with discussion of four significant deficiencies in internal controls and one instance 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 2009 and 2008 financial statements. Carmichael, Brasher, Tuvell and Company's report on Ginnie Mae's financial statements, dated November 06, 2009,[3] includes an unqualified opinion on these financial statements. In addition, the audit results indicate that there was one significant deficiency with Ginnie Mae's internal controls which is a repeat finding from fiscal year 2008 and one instance of non-compliance with laws and regulations.

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[2] Urbach Kahn and Werlin LLP's report on FHA, Audit of Federal Housing Administration Financial Statements for Fiscal Years 2009 and 2008 (2010-FO-0002, dated November 13, 2009) was incorporated into this report.

[3] Carmichael Brasher Tuvell and Company's report on Ginnie Mae, Audit of Government National Mortgage Association Financial Statements for Fiscal Years 2009 and 2008 (2010-FO-0001, dated November 6, 2009) was incorporated into this report.

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. We are not providing 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.

With respect to internal controls related to performance measures to be reported in the Management's Discussion and Analysis and HUD's *Fiscal Year 2009 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, 2009, 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. Reflecting updated information and additional work performed, on November 10, 2009 we provided a revised draft of internal control and compliance sections of our report, for review and comment, and requested that the CFO coordinate a Department-wide response. The CFO responded in a memorandum dated November 12, 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
Assistant Inspector General for Audit

November 16, 2009

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, 2008, through September 30, 2009. 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 2009, 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 2009, the Department successfully exceeded its FY goal of reaching 99 percent of management decisions timely by reaching 99.90 percent or 1002 management decisions timely. Overall the Department achieved 1003 approved management decisions and successfully implemented 946 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. The Department identified 46 recommendations which could potentially be significantly overdue on September 30, 2009. This inventory was successfully addressed and the Department ended the year with just one significantly overdue recommendation out of 1734 open recommendations. This achievement was the result of a concerted Departmentwide effort to address and prevent overdue recommendations.

The table shown below provides a summary of the Department's OIG audit activities.

Summary of Management Decisions on Audit Recommendations

Opening Inventory Requiring Decisions	359 [1]
New Audit Recommendations Requiring Decisions	1,130
Management Decisions Already Made	(1,003)
Audit Recommendations Awaiting Management Decision	486
Recommendations Beyond Statutory Resolution Period	0

[1] *The opening inventory was decreased from 369 to 359 due to retroactive entries.*

Summary of Recommendations with Management Decisions and No Final Action

Opening Inventory – Final Actions Pending	1,191 [1]
Management Decisions Made During Report Period	1,003
Sub-Total No Final Action at End of Period	2,194
Final Actions Taken	(946) [2]
Audit Recommendations Reopened During Period (Without Final Actions)	0
Total Audit Recommendations Still Requiring Final Actions	1,248 [3]

[1]*Opening balance was increased from 1,182 to 1,191 due to nine OIG retroactive entries.*

[2]*Final Action was taken on a total of 946 recommendations (229 audits, of which 90 had final actions taken, thus closing the audits). The number of recommendations where a management decision and final action were concurrent was 243 in 82 audits.*

[3]*The Department had 72 audit reports with 147 recommendations under current repayment plans. These recommendations are considered open and count in the audit inventory until final repayment is made.*

Management Report on Final Action on Audits with Disallowed Costs

Audit Reports	Number of Audit Reports	Questioned Costs
A. Audit Reports with management decisions on which final action had not been taken at the beginning of the period.	227 [1]	$ 498,845,413
B. Audit Reports on which management decisions were made during the period.	106	$ 314,582,154
C. Total audit reports pending final action during period (total of A and B)	333	$ 813,427,567
D. Audit Reports on which final action was taken during the period		
1. Recoveries	56 [2]	$ 105,873,392
(a) Collections and offsets	50	$ 25,701,095
(b) Property	1	$ 285,281
(c) Other	16	$ 79,887,016
2. Write-offs	33	$ 67,499,949
3. Total of 1 and 2	62 [3]	$ 173,373,341
E. Audit Reports needing final action at the end of the period.	271 [4]	$ 640,054,226
F. Open Recommendations (with disallowed costs): (substract D3 from C)	(501) [5]	$ (448,880,984)

Please note that the Inspector General Act requires reporting at the audit report level versus the individual recommendation level. At the audit report level, total disallowed costs in the report are reported as open until all recommendations in a report are closed.

[1] *The opening balance was decreased from 229 to 227 due to 2 retroactive entries.*

[2] *Audit Reports are duplicated in D.1.(a), D.1.(b) and D.1.(c); thus the total is reduced by 11.*

[3] *Audit Reports are duplicated in both D.1 and D.2; thus the total is reduced by 27.*

[4] *Litigation, legislation, or investigation is pending for 28 audit reports with costs totaling $73,104,922.*

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

Management Report on Final Action on Audits with Recommendations That Funds Be Put To Better Use

Audit Reports	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.	156 [1]	$2,893,213,570
B. Audit Reports on which management decisions were made during the period.	70	$1,033,806,642
C. Total audit reports pending final action during period (total of A and B).	226	$3,927,020,212
D. Audit Reports on which final action was taken during the period.		
1. Value of Audit Reports implemented (completed).	40	$ 219,183,322
2. Value of Audit Reports that management concluded should not or could not be implemented.	11	$ 17,869,270
3. Total of 1 and 2.	45 [2]	$ 237,052,592
E. Audit Reports needing final action at the end of the period (subtract D3 from C).	181 [3]	$3,689,967,620
F. Open Recommendations (with funds put to better use): (subtract D3 from C).	(139) [4]	$ (190,549,934)

Please note that the Inspector General Act requires reporting at the audit report level versus the individual recommendation level. At the audit report level, total funds put to better use in the report are reported as open until all recommendations in a report are closed.

[1]*The opening balance was increased from 155 to 156 due to a retroactive entry.*

[2]*Audit Reports are duplicated in both D.1 and D.2; thus the total is reduced by 6.*

[3]*Litigation, legislation, or investigation is pending for 21 audit reports with costs totaling $44,890,804.*

[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)
2009*	**$10,205**	**$668**	**$372**

**The above totals reflect FY 2009 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.

During FY 2009, the Center submitted $23.6 million of new delinquent debts to the Treasury Offset Program (TOP). At the end of the third quarter of FY 2009, a total of 9,857 debtors, representing $120.6 million in debt owed, were eligible for offset. Offset collections for HUD debts during FY 2009 totaled $9.7 million. Also during FY 2009, $19.0 million of new delinquent debts were referred to Treasury's Financial Management Service (FMS) for cross-servicing. At the end of the third quarter of FY 2009, a total of 4,124 HUD debts amounting to $63.7 million were at cross-servicing.

For the first time, the amount of delinquent debt referred to the Department of the Treasury for collection has decreased compared to the previous year. HUD attributes the decrease to a reduction in the number of loans in the FHA Title I Program HUD-held debt portfolio, which decreased due to the rate of debts being resolved exceeding the rate of new debts being added. Collections via offset declined proportionally.

Similarly, the number of "Notice of Intent" letters sent by the Center to delinquent debtors to advise them that their debts were past due decreased from 2,822 letters mailed in FY 2008 to 1,771 letters sent during FY 2009. 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 subject 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 has used administrative wage garnishment (AWG) via the cross-servicing program since 2002. During FY 2009, FMS reported $1.4 million in AWG collections for HUD debt with

415 active garnishment orders in place at the end of the fiscal year. The Albany Center also collected an additional $1.4 million via its direct administrative wage garnishment program.

After the Hurricane Katrina disaster, the Center suspended active collections against all debtors located within the FEMA-designated areas. During FY 2009, the Center reviewed the status of the 668 debts remaining in the suspended pool of debts. This review resulted in the termination of collection activities for 267 debts where the debtor is bankrupt, deceased, or where the statute of limitations for collection has expired. The Department will continue to re-evaluate whether a collection moratorium is appropriate for the remaining affected 401 debts.

Additional HUD debt collection initiatives during FY 2009 included: development of a draft update to HUD's claims collection regulations; issuance of IRS Form 1099-C to 2,413 debtors to report the termination of collection action on debts totaling $33.3 million; continued use of the Electronic On-line Solutions for Complete and Accurate Reporting System to respond to 1,138 consumer disputes that were filed with credit bureaus regarding HUD's credit reporting of delinquent debts; and a response within three days to all 129 requests for documents or information from FMS to support their cross-servicing efforts.