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REPORT TO THE CONGRESS

Examination Of Financial Statements Pertaining To Insurance Operations Of The Federal Housing Administration Fiscal Year 1969

B-114860

Department of Housing and Urban Development

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

MAY 12, 1970

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-114860

To the President of the Senate and the
Speaker of the House of Representatives

This is our report on the examination of financial statements pertaining to insurance operations of the Federal Housing Administration, Department of Housing and Urban Development, for the fiscal year ended June 30, 1969. Our examination was made pursuant to the Government Corporation Control Act (31 U.S.C. 841).

Copies of the report are being sent to the Director, Bureau of the Budget; the Secretary of the Treasury; the Secretary of Housing and Urban Development; and the Assistant Secretary-Commissioner, Federal Housing Administration.

Elmer B. Staats

Comptroller General
of the United States

Contents

ABBREVIATIONS

CMHIF	Cooperative Management Housing Insurance Fund
FHA	Federal Housing Administration
GAO	General Accounting Office
GIF	General Insurance Fund
HUD	Department of Housing and Urban Development
MMIF	Mutual Mortgage Insurance Fund
SRIF	Special Risk Insurance Fund

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

EXAMINATION OF FINANCIAL STATEMENTS PERTAINING TO INSURANCE OPERATIONS OF THE FEDERAL HOUSING ADMINISTRATION FISCAL YEAR 1969
Department of Housing and Urban Development B-114860

D I G E S T

WHY THE EXAMINATION WAS MADE

The Government Corporation Control Act requires the General Accounting Office (GAO) to examine the financial statements pertaining to the Federal Housing Administration (FHA) and to report the results of its examination to the Congress. This year's examination, as heretofore, was made in accordance with generally accepted auditing standards and included tests of the accounting records and other procedures considered necessary.

FINDINGS AND CONCLUSIONS

In the opinion of GAO, the financial statements of FHA pertaining to insurance operations present fairly its financial position at June 30, 1969, and the results of its operations and source and application of its funds for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year and with applicable Federal laws.

In this report GAO refers to a transaction discussed initially in its report on the examination of the FHA financial statements for fiscal year 1967. The transaction occurred in fiscal year 1967 and involved the sale of a multifamily property on which FHA recorded income of $8.1 million.

In its report, GAO was of the opinion that, because of the uncertainty of the ultimate collection of the sales price, FHA should not have recognized the $8.1 million as income in fiscal year 1967. GAO also expressed the opinion that, as a result of the inclusion of the $8.1 million income in the statements of income and expense for fiscal year 1967, these statements did not present fairly the result of operations for that fiscal year.

In fiscal year 1969, FHA increased the allowance for estimated future losses on the note accepted in the sale of this property by a charge of $4.9 million to the insurance reserve. FHA stated that subsequent adjustments of the allowance would be dependent upon the operating results of the property. GAO considers FHA's action on this matter satisfactory. (See p. 16.)

During fiscal year 1969, FHA, pursuant to the provisions of the Housing and Urban Development Act of 1968, established the Special Risk Insurance Fund with a $5 million advance from the General Insurance Fund. This is the first time that this method of funding an insurance reserve has been used by FHA.

The Special Risk Insurance Fund is used to pay claims of mortgagees and lenders resulting from defaulted mortgages insured by FHA under several new mortgage insurance programs which provide mortgage insurance on housing for low- and moderate-income families. Appropriations are authorized to cover any losses sustained by the Special Risk Insurance Fund in carrying out its mortgage insurance obligations. (See p.14.)

RECOMMENDATIONS OR SUGGESTIONS

GAO is making no recommendations or suggestions.

AGENCY ACTIONS AND UNRESOLVED ISSUES

None.

MATTERS FOR CONSIDERATION BY THE CONGRESS

No matters requiring action by the Congress are contained in this report.

CHAPTER 1

INTRODUCTION

The General Accounting Office has examined the financial statements pertaining to the insurance operations of the Federal Housing Administration, Department of Housing and Urban Development (HUD), for the fiscal year ended June 30, 1969. The scope of our examination is described on page 22 of this report.

FHA, created by the President on June 30, 1934, under authority of the National Housing Act, is a noncorporate business-type agency made subject to the Government Corporation Control Act by the Housing Act of 1948. The principal purposes of FHA are to improve home-financing practices, to act as a stabilizing influence in the mortgage field, to encourage improvements in housing standards and conditions, to facilitate home ownership, to aid in the elimination of slums and blighted conditions, and to prevent the deterioration of residential properties.

FHA is headed by the Assistant Secretary-Commissioner, HUD, FHA, who is appointed by the President of the United States, by and with the advice and consent of the Senate. At June 30, 1969, FHA had 8,026 full-time employees of which 1,746 were in the central office and 6,280 were employed in FHA field offices throughout the United States and Puerto Rico. The principal officials of HUD and FHA concerned with the activities discussed in this report are listed in the appendix.

For administrative purposes, FHA has divided the United States into six regions in which are located its 121 field offices including 76 insuring offices. The insuring offices are responsible for writing all forms of FHA insurance required in their respective jurisdictions except the New York State insuring offices, where the writing of insurance on multifamily property is centralized in one office.

FHA administers mortgage insurance programs under which lending institutions (mortgagees) are insured against loss in financing first mortgages on various types of housing and on loans which finance property alterations, repairs, or improvements. The Housing and Urban Development Act of 1968 amended and liberalized the existing insurance programs and authorized additional programs which permit FHA to insure:

1. Loans to homeowners to finance the purchase of fee simple title to the property on which their homes are located in cases where the homeowners had only a leasehold interest in the land.

2. Supplemental loans to finance 90 percent of the estimated value of improvements and additions to multifamily properties and nursing homes carrying FHA insured mortgages.

3. Supplementary loans to housing cooperatives to rehabilitate or modernize wartime housing purchased from the Federal Government and partly covered by uninsured mortgages which are more than 20 years old.

FHA also administers a number of programs that do not involve mortgage insurance, and, therefore, FHA does not commingle the financial results of these operations with the results of its mortgage insurance activities. Separate financial statements covering the nonmortgage insurance programs are presented by FHA but are not included in this report since it is limited to FHA's insurance operations. The nonmortgage insurance programs are:

--a rent supplement program under which low-income families in approved projects can receive rent supplement payments for that portion of the rent which is in excess of 25 percent of their family income.

--a homeownership program which assists low-income families in acquiring a place of residence by making assistance payments on mortgages to mortgagees on behalf of qualified mortgagors.

--a community disposal program under which Government-owned residential, commercial, and land tract properties in the community of Los Alamos, New Mexico, are sold by FHA.

--an interstate land sales disclosure program which regulates developers of land in interstate sales by requiring certain statements of information regarding the land to be developed.

--a nonprofit sponsor assistance program which will loan interest free money to qualifying nonprofit organizations for preconstruction expenses.

Most of the insurance written by FHA covers mortgages on small homes (one to four families) and on multifamily housing projects. From inception in 1934 to June 30, 1969, FHA had written about $132 billion of insurance, of which about $63 billion was in force at the latter date.

The mortgage insurance function gives rise to insurance claims by mortgagees who, because of mortgage defaults, have acquired the properties pledged to secure the FHA-insured mortgages. In the settlement of claims, title to the properties is conveyed to FHA. This action gives rise to other FHA functions, the maintenance and sale of acquired properties.

In fiscal year 1969, sales of small homes and multifamily properties by FHA exceeded acquisitions. A summary of FHA's property activity for fiscal years 1969 and 1968 follows:

	Fiscal year			
	1969		1968	
	Small homes	Multifamily properties	Small homes	Multifamily properties
	(number)			
On hand at beginning of fiscal year	26,515	590	37,214	614
Sales	33,230	47	49,772	87
Acquisitions	30,033	45	39,073	63
Reduction in the number on hand	3,197	2	10,699	24
On hand at end of fiscal year	23,318	588	26,515	590

CHAPTER 2

COMMENTS ON FINANCIAL STATEMENTS

RESERVES

Total reserves

FHA insurance programs are conducted under four insurance funds authorized by the National Housing Act, as amended. The funds are the Mutual Mortgage Insurance Fund (MMIF), the General Insurance Fund (GIF), the Cooperative Management Housing Insurance Fund (CMHIF), and the Special Risk Insurance Fund (SRIF).

The Housing and Urban Development Act of 1968, approved August 1, 1968, which amended the National Housing Act, authorized the establishment of SRIF and provided that it be funded with a $5 million advance from GIF. SRIF is used to pay claims of mortgagees and lenders resulting from defaulted mortgages insured by FHA under several new mortgage insurance programs which provide mortgage insurance on housing for low- and moderate-income families. Appropriations are authorized to cover any losses sustained by SRIF in carrying out its mortgage insurance obligations.

The insurance reserves ~~funds~~ are credited with fees, premiums, and investment income and are charged with debenture interest, administrative expenses, and insurance losses. Provision is made for estimated future losses on acquired properties and mortgage notes. The accumulated differences between the income of the funds and expenses, losses, and provision for estimated future losses are considered to be the insurance reserves available to cover future insurance losses and administrative expenses. The financial position of each fund at June 30, 1969, is shown on the combined balance sheet (schedule 3).

At June 30, 1969, the total insurance reserves amounted to $1,394.3 million. An analysis of the respective insurance reserve balances and the sources of these balances follows:

	Total insurance reserves	Small homes	Multifamily properties	Property improvement loans
	(millions)			
MMIF	$1,176.6	$1,176.6	$ -	$ -
GIF	195.5	46.8	35.1	113.6
CMHIF	22.9	-	22.9	-
SRIF	-0.7	0.4	-1.1	-
	$1,394.3	$1,223.8	$56.9	$113.6

Reserve requirements

FHA estimated the reserves required to settle insurance claims that may be presented by insured mortgagees and lenders under the $63 billion insurance in force on June 30, 1969, on the basis of actuarial studies of the risks underwritten. An estimate of the reserve requirements is made annually.

Estimated reserve requirements are affected principally by the volume of new mortgage loans that are insured and by decreases in the amount of insurance in force. An increase in the volume of new mortgage loan insurance increases the estimated reserve requirements because the insured mortgage loan balances are at their highest level for new loans. As the mortgage loans age and balances are reduced, the reserve requirements decrease. Thus, the longer the insurance is in force, the lower the requirements become.

FHA considers that a noteworthy difference exists in the basis on which life insurance and other insurance companies establish their insurance reserve requirements and on which FHA establishes its insurance funds' estimated reserve requirements. Insurance companies generally consider reserve requirements for the purpose of determining not only their solvency but also the amount of surplus funds that may be available for distribution to policyholders or stockholders.

In the case of life insurance companies, mortality experience has been well established and the expected mortality--one of the major elements in the valuation of reserve requirements--can be predicted reasonably well. Consequently, the reserve requirements of life insurance companies can be determined with a fair degree of accuracy.

FHA considers that the estimated reserves are to provide for future losses and related expenses which will be, in large part, contingent upon adverse economic conditions which are not readily predictable. Therefore, FHA has established its reserve requirements on what it considers to be the most conservative basis; that is, that range of probability of future losses and related expenses that might be incurred if an economic reversal were to develop immediately.

Thus, the FHA insurance funds' estimated reserve requirements are designed as a measure of the losses and expenses that might result from such a contingency and not as a measure of solvency of the funds according to its accepted meaning in the underwriting of conventional insurance risks.

FHA considers that "a balance status" for a fund exists when its insurance reserves--accumulated retained earnings--are equal to, or greater than, the estimated reserve requirements and that, when a balance status is attained, the fund has sufficient resources to meet such future insurance losses and related expenses as might be expected within the range of probability.

At June 30, 1969, FHA's estimated insurance funds' reserve requirements amounted to $2,041.2 million. At the same date, FHA's total insurance reserves, as shown on the combined balance sheets (schedules 1 and 3) amounted to $1,394.3 million, resulting in an estimated deficiency of $646.9 million in the insurance reserves for meeting estimated reserve requirements.

The following tabulation shows the estimated reserve requirements, the insurance reserves, and the estimated reserve deficiency at June 30 for the past 5 years.

Fiscal year	Estimated reserve requirements	Insurance reserves	Estimated reserve deficiency
		(millions)	
1965	$1,542.0	$1,125.0	$417.0
1966	1,709.5	1,139.6[a]	569.9
1967	1,750.0	1,176.6	573.4
1968	1,875.4	1,260.3	615.1
1969	2,041.2	1,394.3	646.9

[a]Includes $10 million borrowed from the U.S. Treasury. At June 30, 1969, the amount borrowed--$10 million--was available for payment of insurance claims but is not shown as part of the insurance reserves in the combined balance sheets (schedules 1 and 3) and is not included in the insurance reserve amount of $1,394.3 million.

FHA attributes the increase in the estimated reserve deficiency to a combination of factors (1) the increased estimated reserve requirement because of new insurance written and the large proportion of mortgages with long maturities and high loan-value ratios (higher risk mortgages) and (2) actuarially estimated increases in insurance losses.

The adequacy of the insurance reserves of $1,394.3 million is directly affected by economic conditions, and the question of whether these reserves will be adequate during periods of severe adverse economic conditions is currently not determinable. Comments on the insurance reserves of the four funds follow.

Mutual Mortgage Insurance Fund

The MMIF was established under authority of section 202 of the National Housing Act. Under this fund only mortgages which finance the purchase of small homes are insured. At June 30, 1969, the total reserve of the MMIF as shown on the combined balance sheet (schedule 3) amounted to $1,176.6 million and consisted of a statutory reserve of $119.6 million and an insurance reserve of $1,057 million.

The MMIF reserve of $1,176.6 million is included in the total reserves of $1,394.3 million shown on the combined balance sheets. The FHA records showed that there were no insurance claims by mortgagees applicable to the MMIF reserve pending at June 30, 1969.

Section 205(a) of the act authorized the establishment of a General Surplus Account and a Participating Reserve Account[1] in the MMIF and authorized the Assistant Secretary-Commissioner, HUD, FHA, to allocate the income or loss from operations in any semiannual period to either or both accounts. The act also authorized the Assistant Secretary-Commissioner, HUD, FHA, to distribute a share of the Participating Reserve Account to mortgagors after the mortgage loans insured by MMIF have been paid; however, the mortgagors do not have any vested rights in the account.

The act also requires that the allocation of the income or loss and the distributions from the Participating Reserve Account be made in such manner and amount as to be in accord with sound actuarial and accounting practices.

Both the General Surplus Account and the Participating Reserve Account are available to meet losses arising from the MMIF insurance in force. Low levels of net income from MMIF operations, which began in June 1961 and continued through June 1969, prompted the Assistant Secretary-Commissioner, HUD, FHA, to allocate all net income for the semiannual period ended June 30, 1969, and for the 14 preceding semiannual periods to the General Surplus Account. Distributions to mortgagors from the Participating Reserve Account in fiscal year 1969 were $4.5 million compared with $4.3 million distributed during fiscal year 1968.

For each year since 1959, the MMIF estimated reserve requirements have exceeded the total MMIF reserves for the fund. The estimated reserve deficiency of $191.6 million at June 30, 1969, is part of the $646.9 million estimated reserve deficiency discussed in the preceding section of this report. The following tabulation shows the available

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[1]Shown in the MMIF section of the Combined Balance Sheet--schedule 3, page 31--as insurance reserve and statutory reserve, respectively.

reserves, the estimated reserve requirements, and the estimated reserve deficiency at June 30 for each of the past 5 years.

Fiscal year	General surplus account	Participating reserve account	Total reserves	Estimated reserve requirement	Estimated reserve deficiency
	(millions)				
1965	$ 676.8	$138.5	$ 815.3	$1,039.2	$223.9
1966	736.6	132.7	869.3	1,170.5	301.2
1967	810.3	128.4	938.7	1,211.9	273.2
1968	918.6	124.1	1,042.7	1,297.1	254.4
1969	1,057.0	119.6	1,176.6	1,368.2	191.6

General Insurance Fund

GIF was established on August 10, 1965, under authority of section 519 of the National Housing Act. Under this fund mortgages and notes are insured which finance the purchase, construction, or improvement of small homes, multifamily property, nonresidential, and commercial or farm structures. At June 30, 1969, the insurance reserve of GIF, totaling $195.5 million, was included in the total reserves of $1,394.3 million shown on the combined balance sheets (schedules 1 and 3). The FHA records show that claims pending against the $195.5 million GIF reserve but not accepted by FHA at June 30, 1969, amounted to $15.2 million. Accordingly, the GIF reserve at June 30, 1969, was sufficient to meet insurance claims pending acceptance.

The estimated reserve requirements have exceeded the insurance reserves from inception of the fund in August 1965. The estimated reserve deficiency of $435.8 million at June 30, 1969, is part of the total $646.9 million estimated reserve deficiency discussed in a preceding section of this report. The following tabulation shows the estimated reserve requirements, the insurance reserve, and the estimated reserve deficiency at June 30 for the fiscal years since inception of the fund.

Fiscal year	Estimated reserve requirements	Insurance reserve	Estimated reserve deficiency
	(millions)		
1966	$526.3	$262.0[a]	$264.3
1967	515.5	223.3	292.2
1968	556.0	204.1	351.9
1969	631.3	195.5	435.8

[a]Includes $10 million borrowed from the U.S. Treasury. At June 30, 1969, the amount borrowed--$10 million--was available for payment of insurance claims but is not shown as part of the insurance reserves in the combined balance sheets (schedules 1 and 3) and is not included in the insurance reserve amount of $195.5 million.

Cooperative Management Housing Insurance Fund

CMHIF was established on August 10, 1965, under authority of section 213 of the National Housing Act. Under CMHIF mortgages are insured which finance the purchase, construction, or rehabilitation of multifamily cooperative housing property. Also insured are supplementary loans which finance improvements or repairs of multifamily cooperative housing property or provide funds for necessary community facilities. At June 30, 1969, the insurance reserves of CMHIF, totaling $22.9 million, are included in the total reserves of $1,394.3 million shown on the combined balance sheets (schedules 1 and 3). The FHA records show that there were no insurance claims by mortgagees applicable to CMHIF reserve pending at June 30, 1969.

Section 213(l) of the act authorized the establishment of a General Surplus Account and a Participating Reserve Account[1] in the CMHIF and authorized the Assistant Secretary-Commissioner, HUD, FHA, to allocate the income or loss from operations in any semiannual period to either or both accounts. The act also authorized the Assistant Secretary-Commissioner, HUD, FHA, to distribute a share of the Participating Reserve Account to mortgagors after the mortgages insured by CMHIF have been paid; however, the mortgagors do not have any vested rights in the account.

The act also requires that the allocation of the income or loss and the distribution from the Participating Reserve Account be made in such manner and amount as to be in accord with sound actuarial and accounting practices.

Both the General Surplus Account and the Participating Reserve Account are available to meet losses arising from the CMHIF insurance in force. The CMHIF realized income of $4.3 million from operations in the fiscal year ended June 30, 1969, of which $1.8 million was allocated to the General Surplus Account and $2.5 million was allocated to the Participating Reserve Account.

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[1]Shown in the CMHIF section of the Combined Balance Sheet, schedule 3, page 31, as insurance reserve and statutory reserve, respectively.

Documentation authorizing the allocation states that it is contemplated to continue the buildup of the General Surplus Account to approximate the reserve requirements and, at the same time, make some reserves available for participation in the event that the financial condition of the CMHIF continues to improve and reaches a position when distributions could be made to mortgagors.

At June 30, 1969, the CMHIF insurance reserves exceeded the estimated reserve requirements for the first time since inception of the fund in August 1965. The following tabulation shows for fiscal years 1966 through 1969, the available reserves, the estimated reserve requirements, and the estimated reserve deficiencies or excess.

Fiscal year	Participating reserve account	General surplus account	Total reserves	Estimated reserve requirement	Estimated reserve deficiencies (excess(–))
	(millions)				
1966	$ -	$ 8.2	$ 8.2	$12.7	$4.5
1967	-	14.6	14.6	22.6	8.0
1968	-	13.5	13.5	22.3	8.8
1969	2.5	20.4	22.9	21.1	–1.8

Special Risk Insurance Fund

SRIF was established by FHA on August 1, 1968, under authority of section 238 (b) of the National Housing Act, as amended. This section provided that SRIF be funded with a $5 million advance from GIF and that the advance be repaid at such times and at such rates of interest as the Secretary, HUD, deems appropriate.

SRIF is used to pay the claims of insured mortgagees and lenders resulting from defaulted mortgages. These mortgages had financed (1) homes purchased by low-income families who had been assisted with their mortgage payments by FHA, (2) homes purchased by low- and moderate-income families who, because of credit histories or irregular income patterns, could not qualify for mortgage insurance under other FHA insurance programs, and (3) repair, rehabilitation, construction, or purchase of property located in older, declining urban areas in which conditions were such that the FHA eligibility requirements for mortgage insurance could not be satisfied.

The SRIF reserve had a deficit of $0.7 million at June 30, 1969. Appropriations to cover losses sustained by this fund are authorized by section 238(b) of the act. However, the Housing and Urban Development Act of 1969 (Public Law 91-152) authorized the Secretary, HUD, to fund SRIF with advances from GIF at such times and in the amounts that he may determine necessary up to a total sum of $20 million. The FHA records showed that there were no insurance claims by mortgagees applicable to the SRIF reserve pending at June 30, 1969.

<u>Insurance reserve reduced to adjust for the inclusion of overstated net income in a prior year</u>

In our report dated November 29, 1968 (B-114860) on the examination of the FHA financial statements for fiscal year 1967, we stated that the net income reported by FHA for fiscal year 1967 included $8.1 million which originated in the sale of a multifamily property. Because of the uncertainty of the ultimate collection of the sales price, we expressed the opinion that the $8.1 million should not have been included in the income for fiscal year 1967. Our opinion was based on the generally accepted accounting principle that profits on a sale should not be deemed to be realized, if collection of the sales price is not reasonably assured. FHA disagreed with our position and the $8.1 million was included in the insurance reserves at June 30, 1967.

We stated that, in our opinion, the FHA statements of income and expense for fiscal year 1967 did not present fairly the result of operations in conformity with generally accepted accounting principles.

In our report dated September 9, 1969 (B-114860), on the examination of the financial statements for fiscal year 1968, we stated that, in our opinion, the financial statements, except to the extent affected by the inclusion in the insurance reserve of the $8.1 million, presented fairly the financial position of FHA at June 30, 1968, in conformity with generally accepted accounting principles.

In commenting on our draft report for fiscal year 1968, the Secretary, HUD, agreed that the transaction which gave rise to the $8.1 million was of an unusually complex nature and that it would not be inappropriate in the interest of resolving the issue to establish a special procedure for handling the transaction.

Accordingly, in fiscal year 1969, FHA increased the allowance for estimated future losses established on the note accepted in the sale of the property to $5.96 million by a charge of $4.9 million to the insurance reserve (schedules 2 and 4). FHA stated that subsequent adjustments of the allowance for estimated future losses is dependent upon the operating results of the property.

We consider FHA's action on this matter satisfactory.

SIGNIFICANT CHANGES IN BALANCES FROM THE PRIOR YEAR

Assets

Accounts receivable

The total accounts receivable shown in the combined balance sheets (schedules 1 and 3) amounted to $27 million at June 30, 1969, a decrease of $29.4 million from the total accounts receivable of $56.4 million at June 30, 1968. This decrease of $29.4 million is the net result of increases of $9.9 million and decreases of $39.3 million in the year-end balances of the accounts.

Decreases in accounts receivable from the prior year were $15.5 million in the interfund balances, $22.9 million in the balance due FHA from the Government National Mortgage Association for purchase-money mortgages, and $0.9 million for premiums due from insured mortgagees.

Increases in accounts receivable from the prior year were $4.5 million in the amount due from the sale of commissioner-held properties and a $5 million advance to SRIF from GIF.

Investments in U.S. Government securities

The investments in U.S. Government securities at amortized costs, shown on the combined balance sheets (schedules 1 and 3), amounted to $923.5 million at June 30, 1969, an increase of $163.7 million from the investment of $759.8 million at June 30, 1968. The increase in investments is attributable mainly to the increase in holdings by MMIF. MMIF, as authorized by section 206 of the National Housing Act, invested moneys not needed for current operations in U.S. Government securities. The moneys came from revenue-producing MMIF activities and the sale of small home properties. The increase in investments in U.S. Government securities in fiscal year 1968 amounted to $133.5 million and resulted mainly from the increased holdings of MMIF.

Mortgage notes and contracts for deed--unpaid balance

The mortgage notes and contracts for deed--unpaid balance--shown in the combined balance sheets (schedules 1 and 3) in the amount of $243.6 million is an increase of $30 million from the prior year's balance of $213.6 million. The mortgage notes accepted by FHA in the sale of multifamily properties added $34 million to the unpaid balance of mortgage notes and contracts for deed account. Collections on, and sales and cancellations of, mortgage notes on hand during the fiscal year reduced the $34 million to $29 million. Mortgage notes and contracts for deed activities during the fiscal year pertaining to small homes added $1 million to the balance at June 30, 1969.

Acquired property--at cost plus net expenses to date

The acquired property--at cost plus net expenses to date--shown on the combined balance sheets (schedules 1 and 3) in the amount of $578.4 million is $27.4 million less than the prior year's balance of $605.8 million. The acquired property balances at June 30, 1969 and 1968, and summaries of activities for the fiscal years follow:

	Fiscal year	
	1969	1968
	(millions)	
Acquired property inventory balances at beginning of fiscal years	$605.8	$738.1
Sales	530.6	774.1
Acquisitions	503.2	641.8
Reduction of inventory	27.4	132.3
Acquired property inventory balances at end of fiscal years	$578.4	$605.8

Allowance for estimated future losses

The valuation reserve--allowance for estimated future losses--provided by FHA at June 30, 1969, for mortgage notes and contracts for deed and for acquired security or collateral amounted in total to $336.8 million and was a reduction of $12 million from June 30, 1968 (schedules 1 and 3). The $12 million is a net amount after a reduction of $17 million and an addition of $4.9 million.

The reduction of $17 million, shown on schedules 2 and 4 under the caption "Increase (—) or decrease in valuation allowances," was made to adjust the allowance for estimated future losses to the amount necessary to value the inventory of acquired properties and mortgages notes at June 30, 1969. The allowance was based on consideration of (1) actual losses experienced on the sale of small home properties in fiscal year 1969, (2) losses anticipated to be incurred in the sales of multifamily properties, based on estimated sales prices, and (3) predetermined loss rates on certain other property. At June 30, 1968, the valuation reserve was reduced by $32.7 million as shown in the statement of income and expense (schedule 2).

The $4.9 million addition to the allowance for estimated future losses as shown in schedules 2 and 4 is an adjustment of the insurance reserve applicable to fiscal year 1967 operations. Details of the $4.9 million addition are given on page 16 of this report.

Liabilities

Debenture obligations--
debentures issued and outstanding

Debentures issued and outstanding at June 30, 1969, shown in the combined balance sheets (schedules 1 and 3), amounted to $576.9 million, compared with $548.4 million at June 30, 1968, an increase of $28.5 million.

In fiscal year 1969, debentures amounting to $72.1 million were issued in payment of insurance claims presented by insured multifamily property mortgagees because of defaults in mortgage payments by mortgagors.

During fiscal year 1969, outstanding debentures aggregating $43.6 million were redeemed. The net result of issuances and redemptions during the fiscal year increased the amount of issued and outstanding debentures by $28.5 million at June 30, 1969.

Income

Insurance premiums

Income from insurance premiums for fiscal year 1969 shown in the statements of income and expense (schedules 2 and 4), in the amount of $303.4 million is an increase of $16.2 million from the prior year's amount of $287.2 million. This rise in premium income stems from the increase in the number of small home mortgages insured in fiscal year 1969. The number of small home mortgages insured in fiscal year 1969 increased by 442,189 from the previous fiscal year. In fiscal year 1968 the number of small home mortgages insured had increased by 378,500 from the previous fiscal year.

Interest on U.S. Government securities

Interest on U.S. Government securities for fiscal year 1969, shown in the statements of income and expense (schedules 2 and 4), amounted to $35.6 million, an increase of $9.9 million from the prior year's amount of $25.7 million. The increase is mainly the result of the increased investment in U.S. Government securities by the MMIF discussed on page 17 of this report.

Expense

Loss on acquired security

The loss sustained on acquired security in fiscal year 1969, shown on the statements of income and expense (schedules 2 and 4), amounted to $105.7 million, a decrease of $44 million from the loss of $149.7 million sustained in the prior fiscal year. The decrease of $44 million is attributable to the reduced volume of both small home and multifamily property sales in fiscal year 1969.

Of the $44 million decrease, about $34 million is attributable to the reduction in small home sales from 49,772 in fiscal year 1968 to 33,230 in fiscal year 1969. However, the average loss on a small home sold in fiscal year 1969 increased to $3,054 from $2,716 in the previous fiscal year.

Of the $44 million decrease, about $10 million is attributable to the reduction in sales of multifamily properties in fiscal year 1969 together with a smaller average loss on a property. In fiscal year 1969, 47 multifamily properties were sold, compared with 87 sold in the preceding fiscal year. The average loss on a property decreased from $166,200 in fiscal year 1968 to $90,423 in fiscal year 1969.

CHAPTER 3

SCOPE OF EXAMINATION

We have examined the financial statements pertaining to the insurance operations of FHA for the fiscal year ended June 30, 1969, included herein. Our examination was made in accordance with generally accepted auditing standards and included such tests of the accounting records and such auditing procedures as we considered necessary in the circumstances.

We reviewed the work performed on the accounting records revelant to the insurance operations by the HUD internal auditors. Although the internal auditors had not examined most balance sheet or income and expense accounts at the time of our review, they had performed certain other audit work which was used by us in our examination.

CHAPTER 4

OPINION OF FINANCIAL STATEMENTS

The financial statements, schedules 1 through 5, are the statements of the Federal Housing Administration relating to insurance operations, adjusted by us to present the data on a comparative basis. Schedule 5 is based on the combined statement of source and application of funds submitted by the agency to the Treasury Department.

In our opinion, the accompanying financial statements (schedules 1 through 5) present fairly the financial position of the Federal Housing Administration at June 30, 1969, and the results of its operations and source and application of its funds for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year and with applicable Federal laws.

FINANCIAL STATEMENTS

F E D E R A L   H O U S I N G   A D M I N I S T R A T I O N

COMBINED COMPARATIVE BALANCE SHEET

AS OF JUNE 30, 1969 AND 1968

A S S E T S

	1969	1968
CASH AND FUND BALANCES:		
Cash on hand and in transit	$ 8,106,080	$ 5,448,159
Fund balances with U.S. Treasury	77,173,717	88,475,253
Total cash	85,279,797	93,923,412
ACCOUNTS RECEIVABLE:		
Fees	3,326,135	2,953,270
Premiums:		
Government agencies	51,465	151,233
Other	9,053,742	9,862,743
Sale of Commissioner-held properties:		
Government agencies	40,000	40,000
Other	7,519,610	2,947,566
Sale of Commissioner-held mortgages:		
Government agencies	-	-
Other	-	20,000
Other:		
Government agencies	354,144	15,881,076
Other	1,684,411	24,574,924
Advance to Special Risk Insurance Fund from General Insurance Fund	5,000,000	-
Total accounts receivable	27,029,507	56,430,812
ACCRUED ASSETS:		
Premiums	116,960,714	107,311,162
Interest on U.S. Government securities	7,856,398	5,522,750
Interest on mortgage notes receivable	13,175,026	10,951,478
Total accrued assets	137,992,138	123,785,390
INVESTMENTS:		
U.S. Government securities at amortized cost (Market value $884,176,620 at June 30, 1969, and $733,279,177 at June 30, 1968) (note 1)	923,490,230	759,769,052
Stock in rental and cooperative housing corporations: 220,858 shares at June 30, 1969, and 233,138 shares at June 30, 1968--at cost	248,120	261,420
Total investments	923,738,350	760,030,472
MORTGAGE NOTES AND CONTRACTS FOR DEED--UNPAID BALANCE	243,610,561	213,575,657
Less allowance for estimated future losses	16,603,630	10,285,501
Net mortgage notes and contracts for deed	227,006,931	203,290,156
ACQUIRED SECURITY OR COLLATERAL:		
Acquired property--at cost plus net expenses to date	578,406,405	605,837,709
Defaulted mortgage notes--at cost plus net expenses to date	451,652,999	454,238,441
Defaulted Title I Notes--at unpaid principal balance	46,881,954	49,698,427
Total cost of acquired security or collateral	1,076,941,358	1,109,774,577
Less principal recoveries on defaulted mortgage notes	39,372,844	33,622,138
Less undisbursed mortgage proceeds	885,524	885,524
Unrecovered cost	1,036,682,990	1,075,266,915
Less allowance for estimated future losses	320,226,838	338,566,655
Net acquired security or collateral	716,456,152	736,700,260
FURNITURE AND EQUIPMENT	9,448,881	9,322,035
Less allowance for depreciation	5,225,842	5,052,801
Net furniture and equipment	4,223,039	4,269,234
OTHER ASSETS--HELD FOR THE ACCOUNT OF MORTGAGORS	3,039,773	3,019,965
Total assets (note 2)	$2,124,765,687	$1,981,449,701

The notes on pages 36 and 37 are an integral part of this statement.

LIABILITIES

	1969	1968
ACCOUNTS PAYABLE:	$	$
Salaries and expenses:		
Government agencies	5,172,759	1,292,915
Other	5,672,892	5,208,919
Acquired security, investments and miscellaneous:		
Government agencies	6,148,454	21,520,841
Other	19,001,394	23,870,093
MMI Fund participations payable	3,590,081	3,278,985
Advance from General Insurance Fund to Special Risk Insurance Fund	5,000,000	-
Total accounts payable	44,585,580	55,171,753
ACCRUED LIABILITIES:		
Interest on debentures:		
Government agencies	1,186,600	1,221,611
Other	10,287,893	9,831,993
Total accrued liabilities	11,474,493	11,053,604
TRUST AND DEPOSIT LIABILITIES:		
Fee deposits held for future disposition	-	2,250
Employees' payroll deductions:		
U.S. savings bonds	95,776	96,079
Federal taxes	-	2,875,139
State taxes	250,529	248,360
Deposits held for mortgagors and lessees (note 7)	14,652,729	14,421,807
Earnest money on pending sales	2,554,017	1,833,666
General fund receipts in process of deposit	401	1,274
Excess proceeds of sale:		
Government agencies	156,361	148,571
Other	1,745,198	1,287,234
Total trust and deposit liabilities	19,455,011	20,914,380
DEFERRED CREDITS:		
Unearned premium income	47,379,301	46,625,565
Unearned fee income	515,760	517,965
Unapplied credits	1,106,089	841,841
Total deferred credits	49,001,150	47,985,371
DEBENTURE OBLIGATIONS:		
Debentures issued and outstanding:		
Government agencies	73,320,900	76,089,600
Other	503,575,250	472,337,800
Total issued and outstanding	576,896,150	548,427,400
Debentures authorized for issue:		
Government agencies	-	-
Other	95,350	7,698,050
Total authorized for issue	95,350	7,698,050
Debenture claims in process:		
Government agencies	27,000	27,000
Other	5,178,000	6,730,550
Total in process	5,205,000	6,757,550
Total debenture obligations	582,196,500	562,883,000
OTHER LIABILITIES:		
Reserve for foreclosure costs--defaulted mortgage notes	4,668,372	4,621,841
Employees' accrued annual leave	9,024,168	8,517,536
Total other liabilities	13,692,540	13,139,377
Total liabilities	720,405,274	711,147,485

RESERVES AND BORROWINGS FROM U. S. TREASURY

	1969	1968
RESERVES:		
Statutory Reserve--for participation payments and future losses (note 5)	122,137,026	124,117,638
Insurance Reserve--available for future losses and expenses (note 5)	1,272,223,387	1,136,184,578
Total reserves	1,394,360,413	1,260,302,216
BORROWINGS FROM U.S. TREASURY (note 4)	10,000,000	10,000,000
Total reserves and borrowings from U.S. Treasury	1,404,360,413	1,270,302,216
Total liabilities, reserves and borrowings from U.S. Treasury (notes 3, 4, 5, 6, and 7)	$2,124,765,687	$1,981,449,701

FEDERAL HOUSING ADMINISTRATION

COMBINED COMPARATIVE STATEMENT OF INCOME AND EXPENSE AND CHANGES IN INSURANCE RESERVES AND BORROWINGS FOR THE FISCAL YEARS ENDED JUNE 30, 1969 AND 1968

INCOME AND EXPENSE	1969	1968
INCOME:		
Fees	$ 40,230,883	$ 35,286,926
Insurance premiums	303,412,803	287,201,834
Interest on U.S. Government securities	35,600,670	25,708,427
Profit on sale of investments	-	229
Dividends received on stock held in rental and cooperative housing corporations	1,097	1,585
Interest on mortgage notes	434,389	341,774
Other interest	21,739	-
Interest and other income on defaulted Title I notes	900,468	889,487
Income or expense (-) on settled properties	-317,137	-266,284
Miscellaneous income	21,518	23,595
Total income	380,306,430	349,187,573
EXPENSE:		
Salaries and expenses (note a)	104,918,863	94,646,794
Interest on borrowings from U.S. Treasury	450,000	976,786
Interest on debenture obligations	23,936,651	24,302,452
Other interest	21,739	-
Loss on acquired security	105,741,746	149,651,194
Loss on defaulted Title I notes	8,887,728	9,984,565
Discount on sale of home purchase money mortgages	6,905,651	12,718,234
Fee appraisal expense	2,669,200	1,307,800
Fee inspection expense	33,974	16,628
Miscellaneous expense	211,282	195,214
Total expense	253,776,834	293,799,667
Net income before adjustment of valuation allowances	126,529,596	55,387,906
INCREASE(-) OR DECREASE IN VALUATION ALLOWANCES:		
Allowance for estimated future losses on acquired properties and notes	14,766,248	32,823,304
Allowance for estimated future losses on defaulted Title I notes	2,252,000	-109,388
Total adjustment of valuation allowances	17,018,248	32,713,916
Net income	$ 143,547,844[c]	$ 88,101,822

ANALYSIS OF INSURANCE RESERVES AND BORROWINGS	1969	1968
DISTRIBUTION OF NET INCOME:		
Statutory reserve (participating reserve account):		
Balance at beginning of period	$ 124,117,638	$ 128,432,311
Allocation of net income	2,512,875[c]	-
Participations declared	-4,493,487	-4,314,673
Balance at end of period	122,137,026	124,117,638
Insurance reserve:		
Balance at beginning of period	1,136,184,578	1,048,082,431
Adjustments during the period (note b)	-4,996,160	325
Net income for the period	141,034,969[c]	88,101,822
Capital contribution to or from (-) the General Insurance Fund	-4,136,499	4,136,499
Capital contribution to or from (-) the Cooperative Management Housing Insurance Fund	4,136,499	-4,136,499
Balance at end of period	1,272,223,387	1,136,184,578
BORROWINGS FROM U.S. TREASURY:		
Balance at beginning of period	10,000,000	25,000,000
Borrowings during the period	-	-
Repayments during the period	-	15,000,000
Balance at end of period	10,000,000	10,000,000
Total reserves and borrowings at end of period	$1,404,360,413	$1,270,302,216

[a]Does not include unfilled orders totaling $1,070,433 for operating expenses at June 30, 1969, and $635,408 at June 30, 1968.

[b]Includes an adjustment in the amount of $4,996,560 applicable to the allowance for estimated future losses provided in fiscal year 1967 for mortgage notes and contracts for deed.

[c]The net income was distributed to the statutory reserve and the insurance reserve by the acting Secretary-Commissioner, HUD, FHA, under authority of section 213 of the National Housing Act.

FEDERAL HOUSING ADMINISTRATION

COMBINED BALANCE SHEET

ANALYSIS BY FUND

AS OF JUNE 30, 1969

ASSETS	Combined	Mutual Mortgage Insurance Fund	General Insurance Fund	Cooperative Management Housing Insurance Fund	Special Risk Insurance Fund	Salaries and Expenses Fund
CASH AND FUND BALANCES:						
Cash on hand and in transit	$ 8,106,080	$ -	$ 1,148	$ -	$ -	$ 8,104,932
Fund balances with U.S. Treasury	77,173,717	34,746,523	38,031,776	1,810,801	-139,739	2,724,356
Total cash	85,279,797	34,746,523	38,032,924	1,810,801	-139,739	10,829,288
ACCOUNTS RECEIVABLE:						
Fees	3,326,135	2,868,855	293,745	-	163,535	-
Premiums:						
Government agencies	51,465	-	51,465	-	-	-
Other	9,053,742	5,992,369	2,986,372	74,950	51	-
Sale of Commissioner-held properties:						
Government agencies	40,000	-	40,000	-	-	-
Other	7,519,610	5,594,216	1,925,394	-	-	-
Sale of Commissioner-held mortgages:						
Government agencies	-	-	-	-	-	-
Other	-	-	-	-	-	-
Other:						
Government agencies	354,144	153	167,827	-	-	186,164
Other	1,684,411	1,144,418	315,250	-	-	224,743
Advance to Special Risk Insurance Fund	5,000,000	-	5,000,000	-	-	-
Total accounts receivable	27,029,507	15,600,011	10,780,053	74,950	163,586	410,907
ACCRUED ASSETS:						
Premiums	116,960,714	104,207,213	12,054,614	-	698,887	-
Interest on U.S. Government securities	7,856,398	7,678,652	-	177,746	-	-
Interest on mortgage notes receivable	13,175,026	337,865	12,640,343	196,576	242	-
Total accrued assets	137,992,138	112,223,730	24,694,957	374,322	699,129	-
INVESTMENTS:						
U.S. Government securities at amortized cost (Market Value $884,176,620) (note 1)	923,490,230	892,059,451	-	27,584,024	3,846,755	-
Stock in rental and cooperative housing corporations: 220,858 shares--at cost	248,120	-	226,320	21,800	-	-
Total investments	923,738,350	892,059,451	226,320	27,605,824	3,846,755	-
MORTGAGE NOTES AND CONTRACTS FOR DEED--UNPAID BALANCE	243,610,561	14,471,918	229,138,643	-	-	-
Less allowance for estimated future losses	16,603,630	395,360	16,208,270	-	-	-
Net mortgage notes and contracts for deed	227,006,931	14,076,558	212,930,373	-	-	-
ACQUIRED SECURITY OR COLLATERAL:						
Acquired property--at cost plus net expenses to date	578,406,405	204,658,461	371,175,829	2,351,662	220,453	-
Defaulted mortgage notes--at cost plus net expenses to date	451,652,999	7,425,220	431,000,593	13,190,708	36,478	-
Defaulted Title I notes--at unpaid principal balance	46,881,954	-	46,881,954	-	-	-
Total cost of acquired security or collateral	1,076,941,358	212,083,681	849,058,376	15,542,370	256,931	-
Less principal recoveries on defaulted mortgage notes	39,372,844	596,928	38,775,916	-	-	-
Less undisbursed mortgage proceeds	885,524	-	885,524	-	-	-
Unrecovered cost	1,036,682,990	211,486,753	809,396,936	15,542,370	256,931	-
Less allowance for estimated future losses	320,226,838	46,425,062	269,428,009	4,225,570	148,197	-
Net acquired security or collateral	716,456,152	165,061,691	539,968,927	11,316,800	108,734	-
FURNITURE AND EQUIPMENT	9,448,881	-	-	-	-	9,448,88
Less allowance for depreciation	5,225,842	-	-	-	-	5,225,84
Net furniture and equipment	4,223,039	-	-	-	-	4,223,03
OTHER ASSETS--HELD FOR THE ACCOUNT OF MORTGAGORS	3,039,773	21,722	3,018,051	-	-	-
Total assets (note 2)	$2,124,765,687	$1,233,789,686	$829,651,605	$41,182,697	$4,678,465	$15,463,23

The notes on pages 36 and 37 are an integral part of this statement.

LIABILITIES	Combined	Mutual Mortgage Insurance Fund	General Insurance Fund	Cooperative Management Housing Insurance Fund	Special Risk Insurance Fund	Salaries and Expenses Fund
ACCOUNTS PAYABLE:						
Salaries and expenses:						
Government agencies	$ 5,172,759	$ -	$ -	$ -	$ -	$ 5,172,759
Other	5,672,892	-	-	-	-	5,672,892
Acquired security, investments and miscellaneous:						
Government agencies	6,148,454	4,093,141	2,031,913	-	23,400	-
Other	19,001,394	12,478,553	6,414,999	4,403	103,439	-
MMI Fund participations payable	3,590,081	3,590,081	-	-	-	-
Advance from General Insurance Fund	5,000,000	-	-	-	5,000,000	-
Inter fund (receivables(-))	-	-3,182,451	-1,051,440	-1,812	12,664	4,223,039
Total accounts payable	44,585,580	16,979,324	7,395,472	2,591	5,139,503	15,068,690
ACCRUED LIABILITIES:						
Interest on debentures:						
Government agencies	1,186,600	-	1,174,689	11,911	-	-
Other	10,287,893	484,120	9,517,648	286,125	-	-
Total accrued liabilities	11,474,493	484,120	10,692,337	298,036	-	-
TRUST AND DEPOSIT LIABILITIES:						
Employees' payroll deductions:						
U.S. Savings Bonds	95,776	-	-	-	-	95,776
State taxes	250,529	-	-	-	-	250,529
Deposits held for mortgagors and lessees (note 7)	14,652,729	193,882	14,315,884	142,820	143	-
Earnest money on pending sales	2,554,017	1,649,833	904,184	-	-	-
General fund receipts in process of deposit	401	-	-	-	-	401
Excess proceeds of sale:						
Government agencies	156,361	-	156,361	-	-	-
Other	1,745,198	1,003	1,744,195	-	-	-
Total trust and deposit liabilities	19,455,011	1,844,718	17,120,624	142,820	143	346,706
DEFERRED CREDITS:						
Unearned premium income	47,379,301	5,377,771	39,760,548	2,138,740	102,242	-
Unearned fee income	515,760	-	419,125	3,148	93,487	-
Unapplied credits	1,106,089	-237	1,058,488	-	-	47,838
Total deferred credits	49,001,150	5,377,534	41,238,161	2,141,888	195,729	47,838
DEBENTURE OBLIGATIONS:						
Debentures issued and outstanding:						
Government agencies	73,320,900	-	72,685,650	635,250	-	-
Other	503,575,250	26,162,700	462,525,250	14,887,300	-	-
Total issued and outstanding	576,896,150	26,162,700	535,210,900	15,522,550	-	-
Debentures authorized for issue:						
Government agencies	-	-	-	-	-	-
Other	95,350	-	95,350	-	-	-
Total authorized for issue	95,350	-	95,350	-	-	-
Debenture claims in process:						
Government agencies	27,000	-	27,000	-	-	-
Other	5,178,000	-	5,178,000	-	-	-
Total in process	5,205,000	-	5,205,000	-	-	-
Total debenture obligations	582,196,500	26,162,700	540,511,250	15,522,550	-	-
OTHER LIABILITIES:						
Reserve for foreclosure costs--defaulted mortgage notes	4,668,372	-	4,536,331	132,041	-	-
Employees' accrued annual leave	9,024,168	6,342,580	2,666,194	701	14,693	-
Total other liabilities	13,692,540	6,342,580	7,202,525	132,742	14,693	-
Total liabilities	$ 720,405,274	$ 57,190,976	$624,160,369	$18,240,627	$5,350,068	$15,463,234
RESERVES AND BORROWINGS FROM U.S. TREASURY						
RESERVES:						
Statutory Reserve--for participation payments and future losses (note 5)	$ 122,137,026	$ 119,624,151	$ -	$ 2,512,875	$ -	$ -
Insurance Reserve--available for future losses and expenses (note 5)	1,272,223,387	1,056,974,559	195,491,236	20,429,195	-671,603	-
Total reserves	1,394,360,413	1,176,598,710	195,491,236	22,942,070	-671,603	-
BORROWINGS FROM U.S TREASURY (note 4)	10,000,000	-	10,000,000	-	-	-
Total reserves and borrowings from U.S. Treasury	1,404,360,413	1,176,598,710	205,491,236	22,942,070	-671,603	-
Total liabilities, reserves and borrowings from U.S. Treasury (notes 3, 4, 5, 6, and 7)	$2,124,765,687	$1,233,789,686	$829,651,605	$41,182,697	$4,678,465	$15,463,234

FEDERAL HOUSING ADMINISTRATION

COMBINED STATEMENT OF INCOME AND EXPENSE
AND CHANGES IN INSURANCE RESERVES AND BORROWINGS
ANALYSIS BY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1969

INCOME AND EXPENSE	Combined	Mutual Mortgage Insurance Fund	General Insurance Fund	Cooperative Management Housing Insurance Fund	Special Risk Insurance Fund
INCOME:					
Fees	$ 40,230,883	$ 26,001,820	$ 12,326,517	$ 87,459	$1,815,087
Insurance premiums	303,412,803	232,514,944	66,171,297	4,012,270	714,292
Interest on U.S. Government securities	35,600,670	34,457,154	-	951,651	191,865
Dividends received on stock held in rental and cooperative housing corporations	1,097	-	1,097	-	-
Interest on mortgage notes	434,389	295,201	138,946	-	242
Other interest	21,739	-	-	21,739	-
Interest and other income on defaulted Title I notes	900,468	-	900,468	-	-
Income or expense(–) on settled properties	–317,137	–642,891	325,754	-	-
Miscellaneous income	21,518	5,084	16,434	-	-
Total income	380,306,430	292,631,312	79,880,513	5,073,119	2,721,486
EXPENSE:					
Salaries and expenses (note a)	104,918,863	68,175,755	33,494,977	193,325	3,054,806
Interest on borrowings from U.S. Treasury	450,000	-	450,000	-	-
Interest on debenture obligations	23,936,651	1,192,548	22,150,246	593,857	-
Other interest	21,739	-	21,739	-	-
Loss on acquired security	105,741,746	76,624,774	29,111,889	-	5,083
Loss on defaulted Title I notes	8,887,728	-	8,887,728	-	-
Discount on sale of home purchase money mortgages	6,905,651	5,505,308	1,400,343	-	-
Fee appraisal expense	2,669,200	2,196,200	288,500	-	184,500
Fee inspection expense	33,974	31,179	2,379	-	416
Miscellaneous expense	211,282	188,827	22,353	14	88
Total expense	253,776,834	153,914,591	95,830,154	787,196	3,244,893
Net income or loss(–) before adjustment of valuation allowances	126,529,596	138,716,721	–15,949,641	4,285,923	–523,407
INCREASE(–) OR DECREASE IN VALUATION ALLOWANCES:					
Allowance for estimated future losses on acquired properties and notes	14,766,248	–482,054	15,390,528	5,970	–148,196
Allowance for estimated future losses on defaulted Title I notes	2,252,000	-	2,252,000	-	-
Total adjustment of valuation allowances	17,018,248	–482,054	17,642,528	5,970	–148,196
Net income or loss(–)	$ 143,547,844[c]	$ 138,234,667	$ 1,692,887	$ 4,291,893[c]	$ –671,603
ANALYSIS OF INSURANCE RESERVES AND BORROWINGS					
DISTRIBUTION OF NET INCOME:					
Statutory reserve (participating reserve account):					
Balance at beginning of period	$ 124,117,638	$ 124,117,638	$ -	$ -	$ -
Allocation of net income	2,512,875[c]	-	-	2,512,875[c]	-
Participations declared	–4,493,487	–4,493,487	-	-	-
Balance at end of period	122,137,026	119,624,151	-	2,512,875	-
Insurance reserve:					
Balance at beginning of period	1,136,184,578	918,556,262	204,156,630	13,471,686	-
Adjustments during the period (note b)	–4,996,160	183,630	–6,221,782	1,041,992	-
Net income for the period	141,034,969[c]	138,234,667	1,692,887	1,779,018[c]	–671,603
Capital contribution from the General Insurance Fund	–4,136,499	-	–4,136,499	-	
Capital contribution to the Cooperative Management Housing Insurance Fund	4,136,499	-	-	4,136,499	-
Balance at end of period	1,272,223,387	1,056,974,559	195,491,236	20,429,195	–671,603
BORROWINGS FROM U.S. TREASURY:					
Balance at beginning of period	10,000,000	-	10,000,000	-	-
Borrowings during the period	-	-	-	-	-
Repayments during the period	-	-	-	-	-
Balance at end of period	10,000,000	-	10,000,000	-	-
Total reserves and borrowings at end of period	$1,404,360,413	$1,176,598,710	$205,491,236	$22,942,070	$ –671,603

[a]Does not include unfilled orders totaling $1,070,433 for operating expenses.

[b]Comprised of the following adjustments applicable to prior years:

	Combined	Mutual Mortgage Insurance Fund	General Insurance Fund	Cooperative Management Housing Insurance Fund	Special Risk Insurance Fund
1. Allowance for estimated future losses on mortgage notes and contracts for deed	$ –4,996,560	$ -	$ –4,996,560	$ -	$ -
2. Interest on U.S. Government securities	-	-	–964,400	964,400	-
3. Other interest	-	-	–61,127	61,127	-
4. Salaries and expenses	-	183,390	–199,870	16,480	-
5. Annual leave expenses	-	–160	175	–15	-
6. Fee appraisal expenses	400	400	-	-	-
	$ –4,996,160	$ 183,630	$ –6,221,782	$ 1,041,992	$ -

[c]The net income was distributed to the statutory reserve and the insurance reserve by the Acting Assistant Secretary Commissioner, HUD, FHA, under authority of section 213 of the National Housing Act.

FEDERAL HOUSING ADMINISTRATION

COMBINED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 1969

	Combined	Mutual Mortgage Insurance Fund	General Insurance Fund	Cooperative Management Housing Insurance Fund	Special Risk Insurance Fund	Salaries and Expenses Fund
SOURCE OF FUNDS:						
Funds provided by operations:						
Income:						
Fees	$ 40,230,883	$ 26,001,820	$ 12,326,517	$ 87,459	$1,815,087	$ -
Insurance premiums	303,412,803	232,514,944	66,171,297	4,012,270	714,292	-
Interest on U.S. Government securities	35,600,670	34,457,154	-	951,651	191,865	-
Dividends received on stock held in rental and cooperative housing corporations	1,097	-	1,097	-	-	-
Interest on mortgage notes	434,389	295,201	138,946	-	242	-
Other interest	21,739	-	-	21,739	-	-
Interest and other income on defaulted Title I notes	900,468	-	900,468	-	-	-
Income or expense(–) on settled properties	–317,137	–642,891	325,754	-	-	-
Miscellaneous income	21,518	5,084	16,434	-	-	-
Total income	380,306,430	292,631,312	79,880,513	5,073,119	2,721,486	-
Realization of assets:						
Proceeds from sale of properties	131,785,616	99,029,967	32,752,273	-	3,376	-
Recoveries on assigned notes	7,980,029	349,098	7,630,931	-	-	-
Recoveries on defaulted Title I notes	6,177,814	-	6,177,814	-	-	-
Proceeds from sale of purchase money mortgages	254,301,208	202,153,820	52,147,388	-	-	-
Collections of principal on purchase money mortgages	6,739,097	792,580	5,946,517	-	-	-
Redemption or transfer of stock in rental and cooperative housing corporations	13,600	-	13,600	-	-	-
Proceeds and/or trade-in allowance on furniture and equipment sold	14,639	-	-	-	-	14,639
Total realization of assets	407,012,003	302,325,465	104,668,523	-	3,376	14,639
Adjustment of prior year's income	61,127	-	–964,400	1,025,527	-	-
Total funds provided by operations	787,379,560	594,956,777	183,584,636	6,098,646	2,724,862	14,639
Funds provided by financing:						
Debentures issued	72,079,100	-	71,979,900	99,200	-	-
U.S. securities redeemed, sold and/or transferred (par)	204,305,500	184,136,700	15,668,800	-	4,500,000	-
Principal collections on Defense Family Housing securities	280,542	-	280,542	-	-	-
Total funds provided by financing	276,665,142	184,136,700	87,929,242	99,200	4,500,000	-
Total source of funds	$1,064,044,702	$779,093,477	$271,513,878	$6,197,846	$7,224,862	$14,639

This statement is based on a combined statement of source and application of funds submitted by FHA to the Treasury Department in accordance with Treasury Department Circular No. 966.

[a]Includes the following charges for which cash is not expended:

Depreciation on furniture and equipment	$601,965
Loss on disposal of furniture and equipment	123,150
Miscellaneous	4,538
	$729,653

	Combined	Mutual Mortgage Insurance Fund	General Insurance Fund	Cooperative Management Housing Insurance Fund	Special Risk Insurance Fund	Salaries and Expenses Fund
APPLICATION OF FUNDS:						
Funds applied to operations:						
Expenses:						
Salaries and expenses	$ 104,189,210	$ -	$ -	$ -	$ -	$104,189,210
Charges to insurance funds for salaries and expenses	-	68,175,755	33,494,977	193,325	3,054,806	–104,918,863[a]
Interest on borrowings from U.S. Treasury	450,000	-	450,000	-	-	-
Interest on debenture obligations	23,936,651	1,192,548	22,150,246	593,857	-	-
Other interest	21,739	-	21,739	-	-	-
Discount on sale of purchase money mortgages	6,905,651	5,505,308	1,400,343	-	-	-
Fee appraisal expense	2,669,200	2,196,200	288,500	-	184,500	-
Fee inspection expense	33,974	31,179	2,379	-	416	-
Miscellaneous expense	211,282	188,827	22,353	14	88	-
Total expenses	138,417,707	77,289,817	57,830,537	787,196	3,239,810	–729,653
Acquisition of assets:						
Real property acquired including net capitalized expenses	452,182,889	355,522,835	96,490,805	–59,663	228,912	-
Assigned notes acquired including net capitalized expenses	49,170,351	1,594,831	48,289,776	–750,734	36,478	-
Defaulted Title I notes acquired	12,249,069	-	12,249,069	-	-	-
Acquisition of furniture and equipment	698,097	-	-	-	-	698,097
Purchase of stock in rental and cooperative housing corporations	300	-	300	-	-	-
Total acquisition of assets	514,300,706	357,117,666	157,029,950	–810,397	265,390	698,097
Mutual participations	4,493,487	4,493,487	-	-	-	-
Interfund transfers	-	-	4,136,499	–4,136,499	-	-
Increase or decrease(–) in working capital applicable to operations	2,499,489	–193,150	24,273,429	–15,096,542	–4,640,598	–1,843,650
Adjustments of prior year's expenses	60,727	–183,630	260,822	–16,465	-	-
Total funds applied to operations	659,772,116	438,524,190	243,531,237	–19,272,707	–1,135,398	–1,875,206
Funds applied to financing:						
Debentures redeemed	43,610,350	17,487,450	26,050,000	72,900	-	-
U.S. securities acquired (par)	369,090,500	332,368,000	621,500	27,601,000	8,500,000	-
Increase or decrease(–) in working capital applicable to financing	–8,428,264	–9,286,163	1,311,141	–2,203,347	–139,740	1,889,845
Total funds applied to financing	404,272,586	340,569,287	27,982,641	25,470,553	8,360,260	1,889,845
Total application of funds	$1,064,044,702	$779,093,477	$271,513,878	$ 6,197,846	$7,224,862	$ 14,639

APPENDIX

PRINCIPAL OFFICIALS OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT AND FEDERAL HOUSING ADMINISTRATION CONCERNED WITH THE ACTIVITIES DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
SECRETARY:		
George W. Romney	Jan. 1969	Present
Robert C. Wood	Jan. 1969	Jan. 1969
Robert C. Weaver	Jan. 1966	Dec. 1968
ASSISTANT SECRETARY-COMMISSIONER:		
Eugene A. Gulledge	Oct. 1969	Present
William B. Ross (acting)	Mar. 1969	Oct. 1969
Philip N. Brownstein	Mar. 1963	Feb. 1969
ASSISTANT COMMISSIONER FOR ADMINISTRATION:		
Horace B. Bazan	Jan. 1956	Present
ASSISTANT COMMISSIONER-COMPTROLLER:		
Lester H. Thompson	June 1961	Present

U.S. GAO, Wash., D.C.