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REPORT TO THE CONGRESS



LM095663

Examination Of Financial Statements Pertaining To Insurance Operations Of The Federal Housing Administration Fiscal Year 1970

B-174860

Department of Housing and
Urban Development

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

700579

MAY 7, 1971

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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 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, 1970. Our examination was made pursuant to the Government Corporation Control Act (31 U.S.C. 841).

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

A handwritten signature in cursive script that reads "James B. Axtell".

Comptroller General
of the United States

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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 insurance operations of 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 its insurance operations present fairly its financial position at June 30, 1970, 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.

RECOMMENDATIONS OR SUGGESTIONS

GAO is making no recommendations or suggestions.

AGENCY ACTIONS AND UNRESOLVED ISSUES

None.

MATTERS FOR CONSIDERATION BY THE CONGRESS

The report contains no recommendations or suggestions requiring action by the Congress. It is submitted to the Congress, as required by the Government Corporation Control Act, to show the results of GAO's annual examination of FHA's financial statements pertaining to its insurance operations and to make known to the Congress other information deemed necessary to keep it informed of the operations and financial condition of FHA.

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FINANCIAL STATEMENTS

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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

D I G E S T

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CHAPTER 1

INTRODUCTION

FHA, created by the President on June 30, 1934, under authority of the National Housing Act 12 U.S.C. 1701 et seq., 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, Department of Housing and Urban Development (HUD), FHA, who is appointed by the Secretary of Housing and Urban Development. At June 30, 1970, FHA had 7,995 full-time employees of which 1,550 were in the central office and 6,445 were employed in FHA field offices throughout the United States and Puerto Rico.

Prior to July 1, 1970, FHA's 121 field offices, including 76 insuring offices, were located in six FHA regions throughout the United States. Effective July 1, 1970, the regional structure was realigned by HUD and the FHA regions were abolished. In the realignment, 10 HUD regions were established and the FHA field and insuring offices were incorporated into the HUD regions. 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 multi-family 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, and/or improvements. The Housing and Urban Development Act of 1968 amended and liberalized the existing insurance programs and authorized additional programs which permitted FHA to insure:

1. Loans to homeowners to finance the purchase of fee simple title to the property on which their homes were located in those 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 finance the cost of rehabilitating or modernizing wartime housing purchased from the Federal Government and the properties are partly covered by uninsured mortgages which are more than 20 years old.

Most of the insurance written by FHA covers mortgages on small homes (one to four families) and on multifamily housing properties. From inception in 1934 to June 30, 1970, FHA had written about \$142 billion of insurance, of which about \$69 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. A summary of FHA's property activity for fiscal years 1970 and 1969 follows.

	Fiscal year			
	1970		1969	
	<u>Small homes</u>	<u>Multifamily properties</u>	<u>Small homes</u>	<u>Multifamily properties</u>
Number on hand at beginning of fiscal year	<u>23,318</u>	<u>588</u>	<u>26,515</u>	<u>590</u>
Sales	25,200	64	33,230	47
Acquisitions	<u>26,693</u>	<u>47</u>	<u>30,033</u>	<u>45</u>
Increase or reduction(-) in the number on hand	<u>1,493</u>	<u>-17</u>	<u>-3,197</u>	<u>-2</u>
Number on hand at end of fiscal year	<u>24,811</u>	<u>571</u>	<u>23,318</u>	<u>588</u>

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 because it is limited to FHA's insurance operations.

CHAPTER 2

COMMENTS ON FINANCIAL STATEMENTS

RESERVES

Total reserves

FHA insurance programs are conducted under four insurance funds authorized by the National Housing Act. 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 insurance 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, mortgage notes, and notes for property improvement loans. 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, 1970, is shown on the combined balance sheet (sch. 3).

At June 30, 1970, the total insurance reserves amounted to \$1,571.3 million. An analysis of the respective insurance reserve balances and the sources of these balances follows.

	<u>Total insurance reserves</u>	<u>Small homes</u>	<u>Multifamily properties</u>	<u>Property improvement loans</u>
	(millions)			
MMIF	\$1,340.2	\$1,340.2	\$ -	\$ -
GIF	208.5	35.7	59.4	113.4
CMHIF	25.7	-	25.7	-
SRIF	<u>-3.1</u>	<u>-3.3</u>	<u>0.2</u>	<u>-</u>
	<u>\$1,571.3</u>	<u>\$1,372.6</u>	<u>\$85.3</u>	<u>\$113.4</u>

Reserve requirements

FHA estimated the reserves required to settle insurance claims that might be presented by insured mortgagees and lenders under the \$69 billion insurance in force on June 30, 1970, 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 bases 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 its 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 may 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, 1970, FHA's estimated insurance funds' reserve requirements amounted to \$2,275.5 million. At the same date, FHA's total insurance reserves, as shown on the combined balance sheets (schs. 1 and 3), amounted to \$1,571.3 million, which resulted in a total estimated deficiency of \$704.2 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 deficiencies at June 30 for each of the past 5 years.

<u>Fiscal year</u>	<u>Estimated reserve requirements</u>	<u>Insurance reserves</u>	<u>Estimated reserve deficiencies</u>
	----- (millions) -----		
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
1970	2,275.5	1,571.3	704.2

^aIncludes \$10 million borrowed from the U.S. Treasury. At June 30, 1970, 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 (schs. 1 and 3) and is not included in the insurance reserve amount of \$1,571 million.

FHA attributes the increases in the estimated reserve deficiencies to a combination of factors, such as (1) the increased estimated reserve requirements because of new insurance written and the large proportion of mortgages having 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 \$1,571 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

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, 1970, the total reserve of MMIF, as shown on the combined balance sheet (sch. 3), amounted to \$1,340 million and consisted of a statutory reserve of \$116 million and an insurance reserve of \$1,224 million. The MMIF reserve of \$1,340 million is included in the total reserves of \$1,571 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, 1970.

Section 205 of the act authorized the establishment of a General Surplus Account and a Participating Reserve Account¹ in MMIF and authorized the Assistant Secretary-Commissioner, to allocate the income or loss from operations in any semiannual period to either or both accounts. The act also authorizes the Assistant Secretary-Commissioner 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. The need to build up the General Surplus Account evidenced primarily by the excess of the estimated reserve requirement over the insurance reserves prompted the Assistant Secretary-Commissioner to allocate all net income for the semiannual period ended June 30, 1970,

¹ Shown in the MMIF section of the combined balance sheet-- schedule 3, page 31--as insurance reserve and statutory reserve, respectively.

to the General Surplus Account. Low levels of net income from MMIF operations in the preceding 16 semiannual periods led to the allocation of all net income to the General Surplus Account. Distributions to mortgagors from the Participating Reserve Account in fiscal year 1970 were \$3.7 million compared with \$4.5 million distributed during fiscal year 1969.

For each year since 1959, the MMIF estimated reserve requirement has exceeded the total MMIF reserves for the fund. The estimated reserve deficiency of \$73.9 million at June 30, 1970, is part of the \$704.2 million estimated reserve deficiency discussed in the preceding section of this report. The following tabulation shows the available reserves, the estimated reserve requirement, and the estimated reserve deficiency at June 30 for each of the past 5 years.

<u>Fiscal year</u>	<u>General surplus account</u>	<u>Participating reserve account</u>	<u>Total reserves</u>	<u>Estimated reserve requirement</u>	<u>Estimated reserve deficiency</u>
(millions)					
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
1970	1,224.2	116.0	1,340.2	1,414.1	73.9

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, and/or improvement of small homes, multifamily property, nonresidential property, and commercial or farm structures. The insurance reserve of GIF, totaling \$208.5 million (sch. 3) is included in the total reserves of \$1,571 million shown on the June 30, 1970, combined balance sheets. The FHA records showed that claims pending against the \$208.5 million GIF reserve but not accepted by FHA at June 30, 1970, amounted to \$21.4 million. Therefore the GIF reserve at June 30, 1970, was sufficient to meet insurance claims pending acceptance.

The estimated reserve requirement has exceeded the insurance reserve since inception of the fund in August 1965. The estimated reserve deficiency of \$490.8 million at June 30, 1970, is part of the total \$704.2 million estimated reserve deficiency discussed in a preceding section of this report. The following tabulation shows the estimated reserve requirement, the insurance reserve, and the estimated reserve deficiency at June 30 for each of the past 5 years.

<u>Fiscal</u> <u>year</u>	<u>Estimated</u> <u>reserve</u> <u>requirement</u>	<u>Insurance</u> <u>reserve</u>	<u>Estimated</u> <u>reserve</u> <u>deficiency</u>
	-----(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
1970	699.3	208.5	490.8

^aIncludes \$10 million borrowed from the U.S. Treasury. At June 30, 1970, 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 (schs. 1 and 3) and is not included in the insurance reserve amount of \$208.5 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, and/or rehabilitation of multifamily cooperative housing property. Also insured are supplementary loans which finance improvements and/or repairs of multifamily cooperative housing property or provide funds for necessary community facilities. The insurance reserves of CMHIF, which total \$25.7 million, are included in the total reserves of \$1,571 million shown on the combined balance sheets (schs. 1 and 3). The FHA records showed that there were no insurance claims by mortgagees applicable to CMHIF reserve pending at June 30, 1970.

Section 213(1) of the act authorized the establishment of a General Surplus Account and a Participating Reserve Account¹ in CMHIF and authorized the Assistant Secretary-Commissioner to allocate the income or loss from operations in any semiannual period to either or both accounts. The act also authorizes the Assistant Secretary-Commissioner 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. CMHIF realized income of \$6.1 million from operations in fiscal year 1970, of which \$2.6 million was allocated to the General Surplus Account and \$3.5 million was allocated to the Participating Reserve Account.

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 requirement and, at the same time, make some of the reserve in the Participating Reserve Account available for distribution to mortgagors.

At June 30, 1970, the CMHIF insurance reserves exceeded the estimated reserve requirement by \$6.6 million. The following tabulation shows the available reserves, the estimated reserve requirement, and the estimated reserve deficiency or excess at June 30 for each of the past 5 years.

<u>Fiscal</u> <u>year</u>	Partici- pating reserve <u>account</u>	General surplus <u>account</u>	Total re- serves	Estimated reserve require- <u>ment</u>	Estimated reserve deficiency (<u>excess(-)</u>)
	----- (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
1970	4.1	21.6	25.7	19.1	-6.6

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. The Housing and Urban Development Act of 1969 (Pub. L. 91-152) authorized the Secretary to fund SRIF with advances from GIF in amounts that the Secretary may determine necessary up to a total sum of \$20 million. At June 30, 1970, \$15 million had been advanced by GIF.

SRIF is used to pay the claims of insured mortgagees and lenders that resulted from defaulted mortgages which financed (1) homes purchased by low-income families that had been assisted with their mortgage payments by FHA, (2) homes purchased by low- and moderate-income families that, 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.

At June 30, 1970, the SRIF reserve had a deficit of \$3.1 million. Appropriations to cover losses sustained by the fund were authorized by section 238(b) of the act; however, the Congress had not appropriated funds for this purpose. Consequently, the operations of SRIF had been financed principally by advances from GIF. The following tabulation shows the estimated reserve requirement, the deficit in the insurance reserve, and the estimated reserve deficiency at June 30, 1970, and at June 30, 1969, the close of the fiscal year in which SRIF was established.

<u>Fiscal year</u>	<u>Estimated reserve requirement</u>	<u>Insurance reserve</u>	<u>Estimated reserve deficiency</u>
	----- (millions) -----		
1969	\$ 20.6	\$-0.7	\$ 21.3
1970	143.0	-3.1	146.1

The FHA records showed that there were no insurance claims by mortgagees applicable to the SRIF reserve pending at June 30, 1970.

SIGNIFICANT CHANGES IN BALANCES
FROM PRIOR YEAR

Assets

Accounts receivable

The total accounts receivable, as shown in the combined balance sheets (schs. 1 and 3), amounted to \$68.5 million at June 30, 1970, an increase of \$41.5 million from the total accounts receivable of \$27 million at June 30, 1969. The increase of \$41.5 million was comprised of (1) \$26.3 million due from purchasers of mortgages and assigned mortgage notes which FHA sold in June 1970, (2) an increase of \$10 million in the amount advanced by GIF to SRIF, and (3) a net increase of \$5.2 million in other receivable accounts.

Accrued assets

The total accrued assets, as shown in the combined balance sheets (schs. 1 and 3), amounted to \$156.6 million at June 30, 1970, an increase of \$18.7 million from the amount of \$137.9 million at June 30, 1969.

The increase of \$18.7 million was comprised principally of (1) an increase of \$11 million in accrued premiums which occurred as a result of FHA having 220,533 more small home mortgages insured at June 30, 1970, than it had at June 30, 1969, and (2) an increase of \$7 million in accrued interest on U.S. Government securities attributable to the increase in securities held by FHA at June 30, 1970, from that held at the close of the prior fiscal year.

Investments in U.S. Government securities

The investments in U.S. Government securities at amortized cost, as shown in the combined balance sheets (schs. 1 and 3), amounted to \$1,047 million at June 30, 1970, an increase of \$124 million from the prior year's investment of \$923 million. The increase was attributable mainly to the increase in holdings by MMIF which was authorized, by section 206 of the National Housing Act, to invest moneys

not needed for current operations in U.S. Government securities. The moneys came from revenue-producing-fund activities. The increase in investments in U.S. Government securities in fiscal year 1969 amounted to \$163.7 million and also resulted mainly from the increased holdings by MMIF.

Acquired property--at cost
plus net expenses to date

The amount of \$600.8 million for acquired property, as shown in the combined balance sheets (schs. 1 and 3), was \$22.4 million more than at the close of the prior year. A comparison of changes in the acquired property inventories during fiscal years 1970 and 1969 follows.

	<u>Fiscal year</u>	
	<u>1970</u>	<u>1969</u>
	(millions)	
Acquired property inventory at beginning of fiscal year	<u>\$578.4</u>	<u>\$605.8</u>
Sales	437.0	530.6
Acquisitions	<u>459.4</u>	<u>503.2</u>
Increase or decrease(-) in inventory	<u>22.4</u>	<u>-27.4</u>
Acquired property inventory at end of fiscal year	<u>\$600.8</u>	<u>\$578.4</u>

Defaulted mortgage notes--at cost
plus net expenses to date

The amount of \$407.9 million for defaulted mortgage notes, as shown in the combined balance sheets (schs. 1 and 3), was \$43.7 million less than the amount at the close of the prior year. A comparison of the changes in the amount of mortgage notes on hand during fiscal years 1970 and 1969 follows.

	<u>Fiscal year</u>	
	<u>1970</u>	<u>1969</u>
	(millions)	
Defaulted mortgage notes--at cost plus net expenses--on hand at beginning of fiscal year	<u>\$451.6</u>	<u>\$454.2</u>
Sales	54.2	51.6
Acquisitions	<u>10.5</u>	<u>49.0</u>
Reduction in mortgage notes on hand	<u>43.7</u>	<u>2.6</u>
Defaulted mortgage notes--at cost plus net expenses--on hand at end of fiscal year	<u>\$407.9</u>	<u>\$451.6</u>

Allowances for estimated future losses

The valuation reserves--allowances for estimated future losses--provided by FHA at June 30, 1970, for mortgage notes and contracts for deed and for acquired security or collateral amounted to \$348.9 million, an increase of \$12.1 million from the amount at June 30, 1969, of \$336.8 million (see schs. 1 and 3).

The increase of \$12.1 million in the valuation reserves--shown in schedules 2 and 4 under the caption "Increase(-) or decrease in valuation allowances"--consisted of the adjustments necessary to value the acquired properties and mortgage notes held by the four funds at June 30, 1970, at market prices and at amounts considered to be collectible. The valuation allowances for MMIF and SRIF were increased by \$10.4 million and \$4.3 million, respectively. The valuation allowances for GIF and CMHIF were each reduced by \$1.3 million.

The valuation allowances were based on consideration of (1) actual losses experienced on the sale of small home properties in fiscal year 1970, (2) losses anticipated to be incurred in the sales of multifamily properties on the

basis of estimated sales prices, and (3) predetermined loss rates on certain other property. At June 30, 1969, the valuation reserves were reduced by \$17 million as shown in the statement of income and expense (sch. 2).

Liabilities

Accounts payable

The amount of \$66.3 million for accounts payable, as shown in the combined balance sheets (schs. 1 and 3), was \$22.3 million more than at the close of the prior year.

The increase of \$22.3 million was comprised of (1) an increase of \$11.5 million in the amounts due to mortgagees for securities (properties) acquired in the settlement of mortgage insurance claims and sundry amounts due vendors by MMIF, GIF, and SRIF, (2) an increase of \$10 million in accounts payable as a result of the increase in the liability of SRIF to GIF, and (3) a net increase of \$0.8 million in the other payable accounts.

Debenture obligations-- debentures issued and outstanding

Debentures issued and outstanding at June 30, 1970, as shown in the combined balance sheets (schs. 1 and 3), amounted to \$516.9 million compared with \$576.9 million at June 30, 1969, a decrease of \$60 million.

During fiscal year 1970, debentures amounting to \$25.8 million were issued in payment of insurance claims presented by insured multifamily property mortgagees because of defaults in mortgage payments by mortgagors, and debentures aggregating \$85.8 million were redeemed.

Income

Total income

The total income of \$426.7 million for fiscal year 1970, as shown in the statements of income and expense (schs. 2 and 4), was the combined income of the four insurance funds, and was \$46.4 million more than the combined income of \$380.3 million in the preceding fiscal year. Each of the four insurance funds had more income in fiscal year 1970 than in fiscal year 1969. The increases were MMIF, \$24.8 million; GIF, \$8 million; CMHIF, \$0.3 million; and SRIF, \$13.3 million.

The increase of \$24.8 million in the income of MMIF resulted principally from increases in revenues derived from insurance premiums and interest earned on U.S. Government securities. Insurance premiums increased by \$10.2 million as a result of insuring an additional 268,962 mortgages and interest earned increased by \$13.9 million as a result of increased investments. Sundry increases and a decrease in the remaining income accounts netted to an increase of \$0.7 million.

The increase of \$8 million in the income of GIF resulted from increases in revenue from (1) fees, \$1.3 million, (2) insurance premiums, \$4.7 million, and (3) profit on the sale of mortgages, \$2 million. The increase in fees and insurance premiums came from the addition of insurance on 65,149 mortgages to the insurance in force.

The \$0.3 million increase in the income of CMHIF resulted from an increase in interest earned on the additional \$3 million investment in U.S. Government securities, offset by decreases in fees and other interest earnings.

The \$13.3 million increase in the total income of SRIF resulted principally from (1) increases in revenue from fees and insurance premiums of \$7.7 million and \$5.7 million, respectively, and (2) a net decrease of \$0.1 million in the remaining income accounts. The increase in fees and insurance premiums resulted from the addition of insurance on 84,608 mortgages to the insurance in force.

Expense

Loss on acquired security

The loss sustained on acquired security in fiscal year 1970, as shown in the statements of income and expense (schs. 2 and 4), amounted to \$73.9 million, a decrease of \$31.8 million from the loss of \$105.7 million sustained in the prior fiscal year.

Of the \$31.8 million decrease (1) \$15.2 million was attributable to the reduction in the number of small homes sold--from 33,230 in fiscal year 1969 to 25,200 in fiscal year 1970--and (2) \$16.6 million was attributable to an

increase in the number of multifamily properties sold--from 47 in fiscal year 1969 to 64 in fiscal year 1970. The average loss on a small home sold in fiscal year 1969 was \$3,054 and in fiscal year 1970 was \$3,424. Multifamily properties were sold at a profit in fiscal year 1970--the average profit on a property amounted to \$193,143--whereas multifamily properties were sold at a loss in fiscal year 1969--the average loss amounted to \$90,423.

CHAPTER 3

SCOPE OF EXAMINATION

We have examined FHA's financial statements pertaining to its insurance operations for the fiscal year ended June 30, 1970. 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 HUD internal auditors' examination of the accounting records pertaining to the insurance operations. We found that the internal auditors had not done a sufficient amount of audit work on the balance sheet and income and expense accounts to have enabled us to reduce our tests on the insurance accounting records. We were able, however, to use certain other audit work performed by the internal auditors.

CHAPTER 4

OPINION OF FINANCIAL STATEMENTS

The financial statements, schedules 1 through 5, are the statements of FHA pertaining to its insurance operations. 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 (schs. 1 through 5) present fairly the financial position of FHA at June 30, 1970, 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

FEDERAL HOUSING ADMINISTRATION

COMBINED COMPARATIVE BALANCE SHEET

AS OF JUNE 30, 1970 AND 1969

ASSETS

	1970	1969
CASH AND FUND BALANCES:		
Cash on hand and in transit	\$ -1,695,334.83	\$ 8,106,079.06
Fund balances with U. S. Treasury	<u>89,156,709.84</u>	<u>77,473,756.72</u>
Total cash	<u>87,461,375.01</u>	<u>85,579,835.78</u>
ACCOUNTS RECEIVABLE:		
Fees	4,590,592.00	3,326,135.00
Premiums:		
Government agencies	63,414.35	51,465.25
Other	11,560,084.05	9,053,741.74
Sale of Commissioner-held properties:		
Government agencies	40,000.00	40,000.00
Other	7,499,719.92	7,519,610.67
Sale of Commissioner-held mortgages:		
Other	26,304,395.14	-
Other:		
Government agencies	1,089,864.48	354,143.67
Other	2,430,987.86	1,634,400.92
Advance to Special Risk Insurance Fund from General Insurance Fund	<u>15,000,000.00</u>	<u>5,000,000.00</u>
Total accounts receivable	<u>68,579,057.80</u>	<u>27,023,527.26</u>
ACCRUED ASSETS:		
Premiums	127,982,408.37	116,960,713.60
Interest on U. S. Government securities	14,608,356.95	7,556,363.40
Interest on mortgage notes receivable	<u>14,085,683.65</u>	<u>17,175,026.25</u>
Total accrued assets	<u>156,680,448.97</u>	<u>141,692,103.25</u>
INVESTMENTS:		
U. S. Government securities at amortized cost (Market value \$1,015,041,440.42 at June 30, 1970, and \$584,176,619.54 at June 30, 1969) (note 1)	1,047,721,765.35	923,490,230.12
Stock in rental and cooperative housing corporations: 209,222 shares at June 30, 1970, and 220,858 shares at June 30, 1969--at cost	<u>235,820.00</u>	<u>23,100.00</u>
Total investments	<u>1,047,957,585.35</u>	<u>923,723,330.12</u>
MORTGAGE NOTES AND CONTRACTS FOR DEED--UNPAID BALANCE	236,808,263.27	243,610,551.22
Less allowance for estimated future losses	<u>15,920,719.00</u>	<u>16,653,070.00</u>
Net mortgage notes and contracts for deed	<u>220,887,544.27</u>	<u>226,957,481.22</u>
ACQUIRED SECURITY OR COLLATERAL:		
Acquired property--at cost plus net expenses to date	600,868,324.82	578,406,424.82
Defaulted mortgage notes--at cost plus net expenses to date	407,903,239.67	451,652,933.87
Defaulted Title I Notes--at unpaid principal balance	<u>44,014,405.27</u>	<u>46,831,252.85</u>
Total cost of acquired property and notes	1,052,792,019.76	1,076,941,357.56
Less principal recoveries on defaulted mortgage notes	42,643,749.60	39,372,843.74
Less undischursed mortgage proceeds	-	835,523.31
Unrecovered cost	1,010,148,270.16	1,036,632,989.93
Less allowance for estimated future losses	<u>332,797,316.00</u>	<u>320,256,839.00</u>
Net acquired property and notes	<u>677,350,954.16</u>	<u>716,456,151.98</u>
Other notes receivable	260,467.92	-
Less allowance for estimated future losses	<u>258,792.00</u>	<u>-</u>
Net other notes receivable	<u>1,675.92</u>	<u>-</u>
Net acquired security or collateral	<u>678,352,630.08</u>	<u>716,456,151.98</u>
FURNITURE AND EQUIPMENT	10,020,174.04	9,448,891.37
Less allowance for depreciation	<u>5,550,434.06</u>	<u>5,225,842.21</u>
Net furniture and equipment	<u>4,469,739.98</u>	<u>4,223,049.16</u>
OTHER ASSETS--HELD FOR THE ACCOUNT OF MORTGAGORS	<u>3,096,055.24</u>	<u>3,022,772.83</u>
Total assets (note 2)	<u>\$ 2,266,475,375.70</u>	<u>\$ 2,174,708,677.74</u>

The notes on page are an integral part of this statement.

LIABILITIES

	1970	1969
ACCOUNTS PAYABLE:		
Salaries and expenses:		
Government agencies	\$ 5,372,241.02	\$ 5,172,758.79
Other	6,858,593.39	5,672,891.73
Acquired security and miscellaneous:		
Government agencies	9,617,365.74	6,148,454.51
Other	26,931,220.82	19,031,394.43
MHI Fund participations payable	3,062,996.40	3,591,080.80
Advance from General Insurance Fund to Special Risk Insurance Fund	15,000,000.00	5,000,000.00
Total accounts payable	<u>66,842,416.97</u>	<u>44,586,580.26</u>
ACCRUED LIABILITIES:		
Interest on debentures:		
Government agencies	1,147,364.98	1,186,600.51
Other	8,839,274.40	10,281,592.54
Total accrued liabilities	<u>9,986,639.38</u>	<u>11,478,193.05</u>
TRUST AND DEPOSIT LIABILITIES:		
Employees' payroll deductions:		
U. S. savings bonds	83,572.63	95,775.90
State taxes	283,139.74	252,528.89
Deposits held for mortgagors and lessees (note 7)	14,619,924.95	14,651,729.07
Earnest money on pending sales	3,824,352.59	2,551,017.52
General fund receipts in process of deposit	-	401.16
Excess proceeds of sale:		
Government agencies	250,843.09	156,360.95
Other	2,417,322.87	1,721,197.52
Total trust and deposit liabilities	<u>21,479,155.86</u>	<u>19,455,011.01</u>
DEFERRED CREDITS:		
Unearned premium income	50,065,933.20	47,379,300.97
Unearned fee income	563,370.56	511,751.72
Unapplied credits	1,224,389.74	1,101,091.45
Total deferred credits	<u>51,853,693.50</u>	<u>49,092,150.14</u>
DEBENTURE OBLIGATIONS:		
Debentures issued and outstanding:		
Government agencies	70,385,750.00	73,320,900.00
Other	446,468,230.00	433,571,250.00
Total issued and outstanding	<u>516,853,980.00</u>	<u>506,892,150.00</u>
Debentures authorized for issue:		
Government agencies	-	-
Other	910,100.00	95,350.00
Total authorized for issue	<u>910,100.00</u>	<u>95,350.00</u>
Debenture claims in process:		
Government agencies	20,300.00	27,000.00
Other	2,446,250.00	5,171,000.00
Total in process	<u>2,466,550.00</u>	<u>5,208,000.00</u>
Total debenture obligations	<u>520,229,300.00</u>	<u>512,195,500.00</u>
OTHER LIABILITIES:		
Reserve for foreclosure costs--defaulted mortgage notes	4,205,164.19	4,662,371.68
Employees' accrued annual leave	10,507,467.29	9,001,167.23
Total other liabilities	<u>14,712,631.48</u>	<u>13,663,538.91</u>
Total liabilities	<u>685,183,837.19</u>	<u>720,405,272.87</u>
RESERVES AND BORROWINGS FROM U. S. TREASURY		
RESERVES:		
Statutory Reserve--for participation payments and future losses (note 5)	120,105,799.77	122,137,025.65
Insurance Reserve--available for future losses and expenses (note 5)	1,451,185,739.74	1,272,221,297.86
Total reserves	<u>1,571,291,539.51</u>	<u>1,394,358,323.51</u>
LOANS FROM U. S. TREASURY (note 4)		
Total reserves and borrowings from U. S. Treasury	<u>1,581,291,539.51</u>	<u>1,404,358,412.51</u>
Total liabilities, reserves and borrowings from U. S. Treasury (notes 3, 4, 5, 6, and 7)	<u>\$2,266,475,376.70</u>	<u>\$2,124,763,685.38</u>

FEDERAL HOUSING ADMINISTRATION

COMBINED COMPARATIVE STATEMENT OF INCOME AND EXPENSE
AND CHANGES IN INSURANCE RESERVES AND BORROWINGS
FOR THE FISCAL YEARS ENDED JUNE 30, 1970 AND 1969

INCOME AND EXPENSE	1970	1969
INCOME:		
Fees	\$ 49,060,790.45	\$ 40,230,883.36
Insurance premiums	324,052,685.66	303,412,803.44
Interest on U. S. Government securities	49,808,075.94	35,600,669.51
Profit or loss (-) on sale of investments	-18,991.66	-
Dividends received on stock held in rental and cooperative housing corporations	1,467.63	1,097.30
Interest on mortgage notes	487,908.47	434,389.36
Other interest	-	21,739.13
Interest and other income on defaulted Title I notes	887,365.69	900,467.94
Income or expense (-) on settled properties	358,048.15	-317,137.52
Premium on sale of Secretary-held mortgages	1,960,706.75	-
Miscellaneous income	94,871.37	21,517.87
Total income	<u>426,692,923.45</u>	<u>380,306,430.39</u>
EXPENSE:		
Salaries and expenses (note a)	120,477,322.74	104,918,862.50
Interest on borrowings from U. S. Treasury	450,000.00	450,000.00
Interest on debenture obligations	21,779,639.77	23,936,651.17
Other interest	-	21,739.13
Loss on acquired security	73,941,012.23	105,741,746.05
Loss on defaulted Title I notes	10,823,446.01	8,887,728.18
Discount on sale of Secretary-held mortgages	1,908,145.51	6,905,651.15
Fee appraisal expense	2,640,675.00	2,669,200.00
Fee inspection expense	186,658.50	33,974.00
Miscellaneous expense	138,651.95	211,281.92
Total expense	<u>232,345,551.71</u>	<u>253,776,834.10</u>
Net income before adjustment of valuation allowances	<u>194,347,371.74</u>	<u>126,529,596.29</u>
INCREASE (-) OR DECREASE IN VALUATION ALLOWANCES:		
Allowance for estimated future losses on acquired properties and notes	-13,422,501.00	14,766,248.00
Allowance for estimated future losses on defaulted Title I notes	1,524,934.00	2,252,000.00
Allowance for estimated future losses on other notes receivable	-259,792.00	-
Total adjustment of valuation allowances	<u>-12,156,359.00</u>	<u>17,018,248.00</u>
Net income	<u>\$ 182,191,012.74^c</u>	<u>\$ 143,547,844.29^c</u>
ANALYSIS OF INSURANCE RESERVES AND BORROWINGS		
DISTRIBUTION OF NET INCOME:		
Statutory reserve (participating reserve account):		
Balance at beginning of period	122,137,025.65	124,117,637.60
Adjustments during the period	-247,576.81	-
Allocation of net income	3,476,767.67 ^c	2,512,874.84 ^c
Participations declared	-5,260,416.74	-4,493,498.79
Balance at end of period	<u>120,105,799.77</u>	<u>122,137,025.65</u>
Insurance reserve:		
Balance at beginning of period	1,272,223,387.86	1,136,184,578.41
Adjustments during the period	248,101.81	-4,995,160.00
Net income for the period	178,714,250.07 ^c	141,034,959.45 ^c
Capital contribution to or from (-) the General Insurance Fund	-	-4,136,498.76
Capital contribution to or from (-) the Cooperative Management Housing Insurance Fund	-	4,136,498.76
Balance at end of period	<u>1,451,185,739.74</u>	<u>1,272,223,387.86</u>
BORROWINGS FROM U. S. TREASURY:		
Balance at beginning of period	10,000,000.00	10,000,000.00
Borrowings during the period	-	-
Repayments during the period	-	-
Balance at end of period	<u>10,000,000.00</u>	<u>10,000,000.00</u>
Total reserves and borrowings at end of period	<u>\$ 1,591,291,539.51</u>	<u>\$ 1,404,760,417.51</u>

^aDoes not include unfilled orders totaling \$1,197,140.36 for operating expenses at June 30, 1970, and \$1,070,433.00 at June 30, 1969.

^bIncludes 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.

^cThe net income was distributed to the statutory reserve and the insurance reserve by the Assistant 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, 1970

ASSETS	Combined	Mutual Mortgage Insurance Fund	General Insurance Fund	Cooperative	Special	Salaries
				Management Mortgage Insurance Fund	Risk Insurance Fund	and Expenses Fund
CASH AND FUND BALANCES-						
Cash on hand and in transit	\$ -1,695,334.83	\$ --.33	\$ 1,000.89	\$ -	\$ -	\$ -1,696,335.39
Fund balances with U. S. Treasury	89,156,779.84	40,012,400.11	28,803,770.77	4,375,342.44	4,927,602.53	13,126,865.77
Total cash	87,461,445.01	40,012,400.00	28,804,771.66	4,375,342.44	4,927,602.53	11,440,222.38
ACCOUNTS RECEIVABLE:						
Fees	4,390,522.00	3,895,712.00	653,735.00	-	40,145.00	-
Premiums:						
Government agencies	63,414.35	-	63,388.35	-	26.00	-
Other	11,560,094.05	8,468,174.15	2,739,461.37	125,418.06	227,032.47	-
Sale of Government-owned properties:						
Government agencies	40,000.00	-	40,000.00	-	-	-
Other	7,499,719.92	5,575,429.94	1,743,121.15	-	126,058.82	-
Sale of Government-owned mortgages:						
Other	26,304,395.14	-	26,304,395.14	-	-	-
Other:						
Government agencies	1,039,364.48	24,510.19	64,971.18	934.13	-	999,518.68
Other	2,430,987.86	1,647,752.25	501,623.78	-	39,450.00	249,032.83
Advance to Special Risk Insurance Fund	15,000,000.00	-	15,000,000.00	-	-	-
Total accounts receivable	68,573,057.80	19,605,176.21	47,165,805.98	126,752.19	432,711.89	1,248,611.51
ACCRUED ASSETS:						
Premiums	127,982,408.37	110,899,379.97	13,646,548.49	-	3,436,479.91	-
Interest on U. S. Government securities	14,608,356.95	18,317,350.04	-	201,246.91	-	-
Interest on mortgage notes receivable	14,037,653.65	762,662.13	11,695,891.98	1,578,088.88	26,805.66	-
Total accrued assets	156,628,418.97	132,579,192.14	27,212,430.47	1,779,335.79	3,463,285.57	-
INVESTMENTS:						
U. S. Government securities at amortized cost (Market Value \$1,015,041,440.42) (note 1)	1,047,721,765.35	1,017,213,577.84	-	30,508,187.51	-	-
Stock in rental and cooperative housing corporations - 298,222 shares-at cost	235,820.00	-	214,020.00	21,212.00	-	-
Total investments	1,047,957,585.35	1,017,213,577.84	214,020.00	30,529,399.51	-	-
MORTGAGE NOTES AND CONTRACTS FOR DEED--UNPAID BALANCE						
BALANCE	236,803,263.27	18,632,875.40	215,873,046.35	7,322,441.52	-	-
Less allowance for estimated future losses	13,977,719.00	493,273.00	13,316,847.00	135,172.00	-	-
Net mortgage notes and contracts for deed	222,825,544.27	18,139,602.40	202,556,203.35	7,187,269.52	-	-
ACQUIRED SECURITY OR COLLATERAL:						
Acquired property--at cost plus net expenses to date	600,868,324.82	217,030,319.14	367,547,453.60	3,936,180.98	12,304,251.10	-
Defaulted mortgage notes--at cost plus net expenses to date	407,909,289.67	8,875,538.20	388,910,576.03	8,479,323.94	1,643,851.50	-
Defaulted Title I notes--at unpaid principal balance	45,014,405.27	-	44,014,405.27	-	-	-
Total cost of acquired property and notes	1,052,792,019.76	225,905,857.34	800,522,434.90	12,415,504.92	13,948,102.60	-
Less principal recoveries on defaulted mortgage notes	42,643,749.60	787,578.74	41,811,123.95	44,640.63	506.28	-
Less undistributed mortgage proceeds	-	-	-	-	-	-
Unrecovered cost	1,010,148,270.16	225,118,278.60	758,711,310.95	12,371,264.29	13,947,596.32	-
Less allowance for estimated future losses	132,777,316.00	56,440,800.00	268,947,022.00	2,821,443.00	4,487,091.00	-
Net acquired property and notes	677,350,954.16	168,577,478.60	489,764,288.95	9,549,721.29	9,459,605.32	-
Other notes receivable	260,467.92	247,725.00	12,732.92	-	-	-
Less allowance for estimated future losses	258,792.00	246,114.00	12,679.00	-	-	-
Net other notes receivable	1,675.92	1,611.00	54.92	-	-	-
Net acquired security or collateral	677,352,630.08	168,579,089.60	489,764,343.87	9,549,721.29	9,459,605.32	-
FURNITURE AND EQUIPMENT						
BALANCE	10,020,174.04	-	-	-	-	10,020,174.04
Less allowance for depreciation	5,550,464.06	-	-	-	-	5,550,464.06
Net furniture and equipment	4,469,709.98	-	-	-	-	4,469,709.98
OTHER ASSETS--HELD FOR THE ACCOUNT OF MORTGAGORS						
BALANCE	3,046,955.24	21,771.83	3,075,263.41	-	-	-
Total assets (note 2)	\$2,261,475,377.20	\$1,200,045,411.05	\$745,912,519.74	\$44,105,799.24	\$18,353,203.31	\$17,158,634.87

The notes on page are an integral part of this statement.

	Combined	Mutual Mortgage Insurance Fund	General Insurance Fund	Cooperative Management Housing Insurance Fund	Special Risk Insurance Fund	Salaries and Expenses Fund
LIABILITIES						
ACCOUNTS PAYABLE:						
Salaries and expenses:						
Government agencies	\$ 5,372,241.02	-	-	-	-	\$ 5,372,241.02
Other	6,858,593.39	-	-	-	-	6,858,593.39
Acquired security and miscel- laneous:						
Government agencies	9,617,365.34	5,373,163.91	3,120,376.63	6.00	1,123,818.20	-
Other	26,931,220.82	15,582,735.36	9,673,009.61	5,496.00	1,669,378.85	-
FMI Fund participations payable	3,062,996.48	3,062,996.40	-	-	-	-
Advance from General Insurance Fund	15,000,000.00	-	-	-	15,000,000.00	-
Inter-fund (receivables(-))	-	-3,343,946.36	-1,132,963.33	-2,277.10	9,416.86	4,462,762.93
Total accounts payable	66,842,416.97	20,674,950.31	11,667,422.86	2,224.90	17,833,214.51	16,720,604.34
ACCRUED LIABILITIES:						
Interest on debentures:						
Government agencies	1,147,364.98	-	1,130,543.38	16,821.60	-	-
Other	8,839,274.40	270,992.49	8,283,519.38	231,845.53	-	-
Total accrued liabilities	9,986,639.38	270,992.49	9,414,062.76	248,667.13	-	-
TRUST AND DEPOSIT LIABILITIES:						
Employees' payroll deductions:						
U. S. Savings Bonds	83,572.63	-	-	-	-	83,572.63
State taxes	283,139.74	-	-	-	-	283,139.74
Deposits held for mortgagors and lessees (note 7)	14,619,924.95	232,343.15	14,224,079.22	162,090.03	1,812.55	-
Earnest money on pending sales	3,824,352.58	2,212,856.67	1,523,179.10	-	86,316.81	-
Excess proceeds of sale:						
Government agencies	250,843.09	-	213,065.94	37,777.15	-	-
Other	2,417,322.87	1,092.53	2,416,323.34	-	-	-
Total trust and deposit liabilities	21,422,155.86	2,446,292.35	19,379,644.60	199,867.18	87,729.36	766,712.37
DEFERRED CREDITS:						
Unearned premium income	50,065,933.20	4,488,034.90	40,259,026.06	2,107,191.17	3,211,691.07	-
Unearned fee income	563,373.56	-	399,362.97	2,217.00	161,190.59	-
Unapplied credits	1,224,232.74	2,365.48	1,121,235.47	23,876.28	23,876.28	91,219.11
Total deferred credits	51,853,693.50	4,490,400.38	41,779,421.50	2,131,235.15	3,372,668.25	91,219.11
DEBTURE OBLIGATIONS:						
Debentures issued and outstanding:						
Government agencies	70,335,750.00	-	69,547,000.00	838,650.00	-	-
Other	446,466,900.00	14,759,350.00	416,935,550.00	14,811,320.00	-	-
Total issued and outstanding	516,802,650.00	14,759,350.00	486,482,550.00	15,650,000.00	-	-
Debentures authorized for issue:						
Government agencies	910,100.00	-	910,100.00	-	-	-
Other	-	-	-	-	-	-
Total authorized for issue	910,100.00	-	910,100.00	-	-	-
Debenture claims in process:						
Government agencies	20,300.00	-	-	20,300.00	-	-
Other	2,446,250.00	-	2,446,250.00	-	-	-
Total in process	2,466,550.00	-	2,446,250.00	20,300.00	-	-
Total debenture obligations	520,229,300.00	14,759,350.00	489,409,000.00	15,670,300.00	-	-
OTHER LIABILITIES:						
Reserve for foreclosure costs--defaulted mortgage notes	4,285,164.19	-	4,195,724.92	89,439.27	-	-
Employees' accrued annual leave	10,507,467.84	7,225,301.28	3,177,230.62	5,123.26	162,812.23	-
Total other liabilities	14,792,632.03	7,225,301.28	7,372,955.54	94,562.53	162,812.23	-
Total liabilities	685,131,937.12	47,867,113.81	578,344,597.16	18,332,156.89	21,431,428.46	17,158,634.37
RESERVES AND BORROWINGS FROM U. S. TREASURY						
RESERVES:						
Statutory Reserve--for participation payments and future losses (note 5)	120,105,799.77	115,955,787.68	-	4,147,012.09	-	-
Insurance Reserve--available for future losses and expenses (note 5)	1,451,185,739.74	1,224,219,552.55	208,468,311.58	21,576,089.76	-3,078,221.15	-
Total reserves	1,571,291,539.51	1,340,175,340.23	208,468,311.58	25,723,101.85	-3,078,221.15	-
BORROWINGS FROM U. S. TREASURY (note 4)						
Total reserves and borrowings from U. S. Treasury	1,571,291,539.51	1,340,175,340.23	208,468,311.58	25,723,101.85	-3,078,221.15	-
Total liabilities, reserves and bor- rowings from U. S. Treasury (notes 3, 4, 5, 6, and 7)	\$2,266,475,376.20	\$1,300,045,461.04	\$706,817,818.74	\$44,176,258.74	\$19,353,207.31	\$17,158,634.37

SCHEDULE 4

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, 1970

INCOME AND EXPENSE	Combined	Mutual Mortgage Insurance Fund	General Insurance Fund	Cooperative Housing Insurance Fund	Special Risk Insurance Fund
INCOME:					
Fees	\$49,060,790.45	\$25,888,525.00	\$13,632,069.46	\$35,677.93	\$9,504,518.05
Insurance premiums	324,052,584.66	242,751,324.88	70,859,522.47	4,018,951.66	6,422,886.65
Interest on U. S. Government securities	49,808,075.94	48,803,269.20	-	1,340,631.18	64,475.56
Profit or loss (-) on sale of investments	-18,991.66	-	-	-	-18,991.66
Dividends received on stock held in rental and cooperative housing corporations	1,467.63	-	1,467.63	-	-
Interest on mortgage notes	437,903.47	349,303.43	131,974.98	-	6,630.06
Interest and other income on defaulted Title I notes	887,365.69	-	887,365.69	-	-
Income or expense (-) on settled properties	358,048.15	71,795.93	286,248.18	-	4.01
Premium on sale of Secretary-held mortgages	1,950,706.75	-	1,950,706.75	-	-
Miscellaneous income	54,371.77	8,776.56	86,074.53	-	20.28
Total income	426,692,929.45	317,472,925.05	87,845,422.62	5,395,260.77	15,979,242.96
EXPENSE:					
Salaries and expenses (note a)	120,477,322.74	72,428,151.19	35,367,923.85	347,632.55	12,333,615.15
Interest on borrowings from U. S. Treasury	450,000.00	-	450,000.00	-	-
Interest on debt obligations	21,779,639.77	727,214.60	20,443,227.23	609,247.94	-
Loss on acquired security	73,941,012.23	63,714,506.43	9,941,530.20	-377,647.15	662,562.75
Loss on defaulted Title I notes	10,823,446.01	-	10,823,446.01	-	-
Discount on sale of Secretary-held mortgages	1,908,145.51	1,067,897.54	834,920.47	-	5,327.50
Fee appraisal expense	2,640,675.00	2,125,325.03	360,600.00	-	154,750.00
Fee inspection expense	186,658.50	143,475.50	18,746.00	-	24,437.00
Miscellaneous expense	129,621.25	75,471.28	50,427.93	44.78	8,637.91
Total expense	232,345,551.71	140,285,541.54	78,291,401.78	579,278.12	13,189,332.31
Net income before adjustment of valuation allowances	194,347,377.74	177,187,453.51	9,554,027.93	4,815,982.65^c	2,789,912.65
INCREASE(-) OR DECREASE IN VALUATION ALLOWANCES:					
Allowance for estimated future losses on acquired properties and notes	-13,422,501.00	-10,219,297.00	-152,520.00	1,289,110.00	-4,339,794.00
Allowance for estimated future losses on defaulted Title I notes	1,524,934.00	-	1,524,934.00	-	-
Allowance for estimated future losses on other notes receivable	-243,722.00	-246,114.00	-12,678.00	-	-
Total adjustment of valuation allowances	-12,141,289.00	-10,465,411.00	-1,139,776.00	1,289,110.00	-4,339,794.00
Net income or loss(-)	\$182,101,212.74^a	\$166,722,042.51	\$10,013,763.93	\$6,105,092.65^c	\$-1,649,881.35
ANALYSIS OF INSURANCE RESERVES AND BORROWINGS					
DISTRIBUTION OF NET INCOME:					
Statutory reserve (participating reserve account):					
Balance at beginning of period	\$122,137,025.65	\$119,624,150.81	\$-	\$2,512,874.84	\$-
Adjustments during the period	-247,576.81 ^b	-	-	-247,576.81 ^b	-
Allocation of net income	3,476,767.67 ^c	-	-	3,476,767.67 ^c	-
Participations declared	-5,229,416.74	-3,665,363.13	-	-1,523,053.61	-
Balance at end of period	120,109,799.77	115,958,787.68	-	4,147,012.09	-
Insurance reserve:					
Balance at beginning of period	1,272,223,347.86	1,056,974,559.33	195,491,576.29	20,429,195.77	-671,603.58
Adjustments during the period (note b)	244,101.81	522,957.66	2,063,311.30	-1,481,430.99	-856,736.22
Net income for the period	178,714,250.07^c	166,722,042.51	10,013,763.93	2,624,324.98^c	-1,429,831.35
Balance at end of period	1,451,185,739.74	1,224,219,559.55	208,469,311.58	21,576,089.76	-3,078,221.15
BORROWINGS FROM U. S. TREASURY:					
Balance at beginning of period	10,000,000.00	-	10,000,000.00	-	-
Borrowings during the period	-	-	-	-	-
Repayments during the period	-	-	-	-	-
Balance at end of period	10,000,000.00	-	10,000,000.00	-	-
Total reserves and borrowings at end of period	\$1,581,201,439.51	\$1,340,178,347.23	\$218,469,311.58	\$25,723,101.85	\$-3,078,221.15
^a Does not include unfilled orders totaling \$1,197,140.90 for operating expenses.					
^b Comprised of the following adjustments applicable to prior years:					
1. Salaries and expenses	\$247,576.81	\$519,920.30	\$2,061,721.28	\$-1,481,458.58	\$-852,616.19
2. Annual leave expenses	-	2,512.36	1,560.00	27.59	-4,120.03
3. Fee appraisal expenses	525.00	525.00	-	-	-
	\$248,101.81	\$522,957.66	\$2,063,311.28	\$-1,481,430.99	\$-856,736.22
^c The net income was distributed to the statutory reserve and the insurance reserve by the Assistant Secretary Commissioner, HUD, FIA, 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, 1970

	Combined	Mutual Mortgage Insurance Fund	General Insurance Fund	Cooperative Management Housing Insurance Fund	Special Risk Insurance Fund	Salaries and Expense Fund
APPLICATION OF FUNDS:						
Funds applied to operations:						
Expenses:						
Salaries and expenses	\$120,031,100.64	\$ -	\$ -	\$ -	\$ -	\$ 120,031,100.64
Charges to insurance funds for salaries and ex- penses	-	72,428,151.19	35,367,921.85	347,632.55	12,333,615.15	-120,477,322.74
Interest on borrowings from U. S. Treasury	450,000.00	-	450,000.00	-	-	-
Interest on debenture ob- ligations	21,779,639.77	727,214.60	20,443,227.23	609,247.94	-	-
Discount on sale of Secretary-held mortgages	1,908,145.51	1,067,897.54	834,920.47	-	5,327.50	-
Fee appraisal expense	2,640,675.00	2,125,325.00	340,600.00	-	154,750.00	-
Fee inspection expense	186,859.50	143,475.50	18,746.00	-	24,637.00	-
Miscellaneous expense	125,601.92	78,921.28	59,247.92	44.78	8,637.91	-
Total expenses	147,134,871.77	76,571,035.11	57,526,765.53	956,925.27	12,526,767.56	146,222.10
Acquisition of assets:						
Real property acquired including net capi- talized expenses	421,503,369.24	308,084,330.66	99,204,838.22	-290,027.16	14,504,227.52	-
Assigned notes acquired including net capital- ized expenses	12,068,434.48	2,162,935.49	8,675,033.61	-524,183.41	1,734,648.79	-
Defaulted Title I notes acquired	13,717,850.42	-	13,717,852.42	-	-	-
Acquisition of furniture and equipment	699,398.17	-	-	-	-	699,398.17
Purchase of stock in rental and cooperative housing corporations	600.00	-	600.00	-	-	-
Total acquisition of assets	447,999,658.31	310,247,266.15	121,598,324.25	-814,210.57	16,238,876.31	699,398.17
Mutual participations	5,260,416.74	3,665,363.13	-	1,595,053.61	-	-
Increase or decrease(-) in working capital applicable to operations	10,644,896.44	6,821,868.23	35,415,167.37	-59,164.21	-12,898,829.16	-10,638,155.79
Adjustments of prior year's expenses	-248,101.81	-522,957.66	-2,053,311.36	3,481,430.92	856,736.22	-
Total funds applied to operations	618,761,227.05	396,287,574.26	212,476,345.79	3,160,035.09	16,727,550.93	-10,384,979.72
Funds applied to financing:						
Debentures redeemed	85,851,400.00	11,403,350.00	74,362,750.00	85,300.00	-	-
U. S. securities acquired (par)	369,796,000.00	361,123,000.00	1,173,000.00	7,500,000.00	-	-
Increase or decrease(-) in working capital applicable to financing	11,962,536.66	6,165,877.56	-9,227,604.15	-504,452.02	5,137,340.30	10,391,424.97
Total funds applied to financing	467,609,936.66	378,692,227.56	66,308,145.85	7,080,847.98	5,137,340.30	10,391,424.97

SCHEDULE 5

FEDERAL HOUSING ADMINISTRATION

COMBINED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 1970

	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	\$ 49,060,790.45	\$ 25,888,525.00	\$ 13,632,069.46	\$ 35,677.99	\$ 9,504,518.06	\$ -
Insurance premiums	324,052,685.66	242,751,324.93	70,859,522.47	4,018,951.66	6,422,886.65	-
Interest on U. S. Government securities	49,808,075.94	48,403,269.20	-	1,340,631.18	64,175.56	-
Profit or loss (-) on sale of investments	-18,991.66	-	-	-	-18,991.66	-
Dividends received on stock held in rental and cooperative housing corporations	1,467.63	-	1,467.63	-	-	-
Interest on mortgage notes	487,908.47	349,303.43	131,976.98	-	6,630.06	-
Interest and other income on defaulted Title I notes	887,365.69	-	887,365.69	-	-	-
Premium on sale of Secretary-held mortgages	1,960,706.75	-	1,960,706.75	-	-	-
Income or expense (-) on settled properties	359,048.45	71,795.93	286,248.16	-	4.01	-
Miscellaneous income	94,871.37	8,776.56	86,074.53	-	20.28	-
Total Income	426,692,928.45	217,472,925.05	87,845,429.67	5,395,260.77	15,979,240.95	-
Realization of assets:						
Proceeds from sale of properties	248,652,827.06	184,326,257.16	62,353,977.91	340,000.00	1,632,591.99	-
Recoveries on assigned notes	24,131,269.11	320,979.31	23,757,742.89	44,540.63	506.28	-
Recoveries on defaulted Title I notes	5,761,955.00	-	5,761,955.00	-	-	-
Proceeds from sale of purchase money mortgages	111,038,729.06	43,405,660.00	67,380,519.06	-	252,550.00	-
Collections of principal on purchase money mortgages	5,289,596.95	679,361.00	4,604,977.47	5,258.48	-	-
Redemption or transfer of stock in rental and cooperative housing corporations	12,900.00	-	12,900.00	-	-	-
Proceeds and/or trade-in allowance on furniture and equipment sold	6,445.25	-	-	-	-	6,445.25
Total realization of assets	394,892,722.43	228,740,257.47	163,871,572.33	389,799.11	1,835,648.27	6,445.25
Adjustment of prior year's income	-247,576.81	-	-	-247,576.81	-	-
Total funds provided by operations	821,339,074.07	246,213,252.52	251,717,002.00	5,537,483.07	17,864,891.23	6,445.25
Funds provided by financing:						
Debentures issued	25,807,900.00	-	25,604,500.00	203,400.00	-	-
U. S. securities redeemed, sold and/or transferred (par)	238,932,550.00	229,261,550.00	1,171,000.00	4,500,000.00	4,000,000.00	-
Principal collections on Defense Family Housing securities	292,182.64	-	292,189.64	-	-	-
Total funds provided by financing	265,032,632.64	229,261,550.00	27,057,689.64	4,703,400.00	4,000,000.00	-
Total source of funds	\$ 1,024,371,713.21	\$ 775,474,802.52	\$ 278,784,691.64	\$ 10,240,883.07	\$ 21,864,891.23	\$ 6,445.25

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. 366.

^aIncludes the following charges for which cash is not expended:
 Depreciation on furniture and equipment \$441,516.48
 Loss on disposal of furniture and equipment 4,705.62
\$446,222.10

NOTES TO COMBINED BALANCE SHEETS

JUNE 30, 1970 AND 1969

1. Investments include debentures of FHA Insurance Funds in the amount of \$69,794,650.00 at June 30, 1970, and \$72,933,200.00 at June 30, 1969, purchased as an investment by the Mutual Mortgage Insurance Fund.
2. The following items are not recorded in the assets:
 - a. Properties and notes tendered by mortgagees but not accepted by FHA in the amount of \$21,359,400.18 at June 30, 1970, and \$15,172,208.44 at June 30, 1969.
 - b. Accrued interest receivable--collection doubtful--on defaulted Title I notes at June 30, 1970 and 1969.

	<u>1970</u>	<u>1969</u>
On Notes with principal balances	\$9,569,371.92	\$11,442,407.22
Principal balance paid-interest due	<u>1,163,612.17</u>	<u>769,360.82</u>
Total	<u>\$10,732,984.09</u>	<u>\$12,211,768.04</u>

3. The following items are not recorded in the liabilities:
 - a. Unfilled orders in the amount of \$1,512,823.98 (\$315,683.62 furniture and equipment and \$1,197,140.36 operating expenses) at June 30, 1970; \$1,363,774.16 (\$293,341.49 furniture and equipment and \$1,070,432.67 operating expenses) at June 30, 1969.
 - b. Unfilled orders and incompleted portion of contracts for property repairs in the amount of \$9,936,504.91 at June 30, 1970, and \$6,760,088.10 for incompleted portion of contracts for property repairs at June 30, 1969.
 - c. Contingent liability with respect to pending lawsuits in the amount of \$290,860.94 at June 30, 1970, and \$611,861.98 at June 30, 1969.
 - d. Pending claims on properties and notes tendered by mortgagees but not accepted by FHA in the amount of \$21,359,400.18 at June 30, 1970, and \$15,172,208.44 at June 30, 1969.
 - e. Certificates of claim relating to properties and notes tendered by mortgagees but not accepted by FHA in the amount of \$193,571.15 at June 30, 1970, and \$220,419.75 at June 30, 1969.
 - f. Certificates of claim relating to acquired security on hand of \$14,937,084.96 at June 30, 1970, and \$15,871,113.31 at June 30, 1969.
4. The amount shown as "Borrowings from U. S. Treasury" represents \$25,000,000.00 advanced to the General Insurance Fund less \$15,000,000.00 repaid to date on authorized Treasury note of \$50,000,000.00.
5. Residual of Reserves is equity of the Government upon the liquidation of all claims and settlement of contractual obligations.
6. The maximum liability for outstanding FHA insurance contracts in force at June 30, 1970 and 1969 was:

	<u>1970</u>	<u>1969</u>
Mortgage Insurance Programs	\$67,202,162,115	\$61,671,654,221
Modernization and Improvement Programs (Title I, section 2)	<u>392,128,685</u>	<u>393,539,701</u>
Total	<u>\$67,594,290,800</u>	<u>\$62,065,193,922</u>

7. The liabilities shown for the "Deposits held for mortgagors and lessees" is net of escrow advances by FHA in the amount of \$415,591.41 at June 30, 1970, and \$635,938.75 at June 30, 1969.

FHA in special circumstances would be indemnified against loss on certain insured mortgages and assigned mortgage notes up to \$952,674.35 at June 30, 1970 and \$1,133,101.74 at June 30, 1969.

APPENDIX

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

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
SECRETARY: George W. Romney	Jan. 1969	Present
ASSISTANT SECRETARY-COMMISSIONER: Eugene A. Gulledge	Oct. 1969	Present
William B. Ross (acting)	Mar. 1969	Oct. 1969
ASSISTANT COMMISSIONER FOR ADMIN- ISTRATION: Horace B. Bazan	Jan. 1956	Present
ASSISTANT COMMISSIONER- COMPTROLLER: Woodward Kingman (acting)	Apr. 1970	Present
Lester H. Thompson	June 1961	Apr. 1970