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REPORT TO THE CONGRESS

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Examination Of Financial Statements Pertaining To Insurance Operations Of The Federal Housing Administration Fiscal Year 1973 B-114860

Department of Housing and Urban Development

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

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

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

We have examined the financial statements pertaining to insurance operations of the Federal Housing Administration, Department of Housing and Urban Development, for the fiscal year ended June 30, 1973.

We made our examination 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 Secretaries of the Treasury and Housing and Urban Development; and the Assistant Secretary for Housing Production and Mortgage Credit-FHA Commissioner.

Elmer B. Staats
Comptroller General
of the United States

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C o n t e n t s

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 1973
Department of Housing and Urban Development B-114860

D I G E S T

WHY THE EXAMINATION WAS MADE

The Government Corporation Control Act, as amended, requires GAO to examine financial statements of the insurance operations of the Federal Housing Administration (FHA) and to report the results to the Congress.

This year's examination, as in the past, was made in accordance with generally accepted auditing standards and included tests of the accounting records and other procedures considered necessary.

OPINION ON FINANCIAL STATEMENTS

FHA's financial statements on its insurance operations present fairly its financial position at June 30, 1973, 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.

OTHER MATTERS OF INTEREST

In fiscal year 1973 the four FHA insurance funds acquired 60,833 small homes and 384 multifamily properties in the settlement of mortgage insurance claims. During the fiscal year FHA sold 36,841 small homes and 120 multifamily properties; it removed 9,084 small homes from the records because they had been razed or razing was imminent.

Thus FHA's inventory of acquired properties and notes increased by 15,172, and total inventory at June 30, 1973, was 73,652 properties and notes, 72,614 of which were small homes and 1,038 of which were multifamily properties. (See ch. 1.)

At June 30, 1973, insurance reserves of the four funds available to settle mortgage insurance claims totaled $1,220.7 million. The estimated reserve requirements actuarially determined by FHA on what it considered the most conservative basis--the range of probability of future losses and related expenses that might be incurred in the event of a significant economic depression--amounted to $3,158.5 million.

This resulted in a net estimated reserve deficiency of $1,937.8 million, an increase of $477.1 million in the deficiency existing at the end of the prior fiscal year. The $1,937.8 million net estimated reserve deficiency comprised

Tear Sheet. Upon removal, the report cover date should be noted hereon.

--estimated reserve deficiencies of $1,196.0 million for the General Insurance Fund and $1,138.6 million for the Special Risk Insurance Fund and

--estimated excess reserves of $384.9 million for the Mutual Mortgage Insurance Fund and $11.8 million for the Cooperative Management Housing Insurance Fund.

The Special Risk Insurance Fund was created by the Congress to insure mortgages which finance

--homes purchased by low-income families that are assisted with their mortgage payments by FHA;

--homes purchased by low- and moderate-income families who, because of the nature of their credit histories or irregular income patterns, could not qualify for mortgage insurance under other FHA insurance programs; and

--the repair, rehabilitation, construction, or purchase of property located in older, declining urban areas where eligibility requirements for mortgage insurance could not be satisfied under other FHA insurance programs.

The Special Risk Insurance Fund was not expected to be actuarially sound, and specific statutory authority was made for appropriations to cover losses in excess of those which the fund's insurance reserve could meet. However, such appropriations have not been made.

The Special Risk Insurance Fund has sustained losses of about $354 million. To obtain funds for the payment of mortgage insurance benefits, the Assistant Secretary-FHA Commissioner borrowed $528 million from the U.S. Treasury during fiscal year 1973, which increased the amount borrowed for this fund to $810 million. (See ch. 2.)

Weaknesses in accounting for FHA's insurance operations resulted in a number of serious errors which had to be resolved. This precluded HUD from closing the books for fiscal year 1973 in a timely manner. As a result, GAO's report on FHA's financial statements is being issued later than usual. (See ch. 3.)

Some of the problems GAO encountered in its examination of FHA's insurance operation accounting records were discussed in testimony given by GAO representatives before the Legal and Monetary Affairs Subcommittee of the House Committee on Government Operations in July 1973 and March 1974.

Also, GAO advised the Secretary, HUD, of the problems encountered in the examination. GAO plans to issue a separate report to the Secretary discussing these problems in detail. The report will contain recommendations, as appropriate.

for corrective action and will include comments on the limited audit work that HUD's Office of Washington Operations and Special Projects, Office of Inspector General, has performed on the FHA insurance operation accounting records.

RECOMMENDATIONS OR SUGGESTIONS

This report contains no recommendations or suggestions.

MATTERS FOR CONSIDERATION BY THE CONGRESS

This report 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 other matters deemed necessary to inform the Congress about FHA's operations and financial condition.

CHAPTER 1

INTRODUCTION

The Federal Housing Administration (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. FHA's principal purposes are to improve home-financing practices, act as a stabilizing influence in the mortgage field, encourage improvements in housing standards and conditions, facilitate homeownership, help eliminate slums and blighted conditions, and prevent residential properties from deteriorating.

FHA is headed by the Assistant Secretary for Housing Production and Mortgage Credit-FHA Commissioner, Department of Housing and Urban Development (HUD), who is appointed by the Secretary of HUD.

For administrative purposes HUD has divided the United States into 10 regions in which are located the area and insuring offices that are responsible for writing all forms of FHA insurance required in their respective jurisdictions (in New York State, 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, and/or improvements.

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, 1973, FHA wrote about $181 billion of insurance, of which about $88 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 settling claims, title to the properties is conveyed to FHA. This action gives rise to another FHA function, the maintenance and sale of acquired properties. A summary of FHA's property and mortgage note activity for fiscal years 1971-73 follows.

	Fiscal year					
	1973		1972		1971	
	Small homes	Multi-family properties	Small homes	Multi-family properties	Small homes	Multi-family properties
Number on hand at beginning of fiscal year	57,706	774	35,071	645	24,811	571
Acquisitions	60,833	384	53,397	167	35,240	114
Sales	36,841	120	30,762	38	24,980	40
Demolitions	9,084	-	-	-	-	-
Increase in number on hand	14,908	264	22,635	129	10,260	74
Number on hand at end of fiscal year	72,614	1,038	57,706	774	35,071	645

FHA also administers a number of programs that do not involve mortgage insurance; therefore, FHA does not commingle the financial results of these operations with the results of its mortgage insurance activities. FHA's financial statements covering the nonmortgage insurance programs are not included in this report.

CHAPTER 2

COMMENTS ON FINANCIAL STATEMENTS

RESERVES

Total reserves

FHA's 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).

These are revolving funds used for carrying out the insurance operations of specific sections of the act. The 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, 1973, is shown on the combined balance sheet. (See sch. 3.)

At June 30, 1973, the total insurance reserves amounted to $1,220.7 million. An analysis of the respective insurance reserve balances and the sources of these balances follows.

	Total insurance reserves (deficiency(-))	Small homes (deficiency(-))	Multifamily properties (deficiency(-))	Property improvement loans
	(millions)			
MMIF	$1,715.6	$1,715.6	$ -	$ -
GIF	-163.9	-207.8	-70.3	114.2
CMHIF	22.8	-	22.8	-
SRIF	-353.8	-314.4	-39.6	.2
	$1,220.7	$1,193.4	$-87.1	$114.4

Reserve requirements

On the basis of actuarial studies of the risks underwritten, FHA estimated the reserves required to settle insurance claims that might be presented by insured mortgages under the $88 billion of insurance in force on June 30, 1973. The reserve requirements are estimated annually.

Estimated reserve requirements are affected principally by the amount of insurance in force. An increase in the volume of new mortgage insurance increases the estimated reserve requirements because the insured mortgage balances are at their highest level at inception of the insurance. As the mortgages age and balances are reduced, the reserve requirements decrease. Thus, the longer the insurance is in force, the lower the reserve 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 in 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--the range of probability of future losses and related expenses that might be incurred if an economic reversal were to develop immediately.

Thus 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, 1973, FHA's estimated insurance funds' reserve requirements amounted to $3,158.5 million. At the same date FHA's total insurance reserves, as shown on the combined balance sheets (see schs. 1 and 3), amounted to $1,220.7 million, which resulted in a total estimated reserve deficiency of $1,937.8 million in the insurance reserves for meeting estimated reserve requirements.

The following table shows the estimated reserve requirements, the insurance reserves, and the estimated reserve deficiencies at June 30 for each of the past 5 years.

Fiscal year	Estimated reserve requirements	Insurance reserves	Estimated reserve deficiencies
		(millions)	
1969	$2,041.2	$1,394.3	$ 646.9
1970	2,275.5	1,571.3	704.2
1971	2,699.2	1,698.9	1,000.3
1972	3,091.0	1,630.3	1,460.7
1973	3,158.5	1,220.7	1,937.8

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 $1,220.7 million will be contingent upon the amount of insurance claims that FHA may be required to pay to insured mortgagees because of mortgagors' defaults in mortgage payments. Conceivably, the insurance reserves could be totally expended and an actual reserve deficiency could develop if an unusually large number of mortgage defaults occurred. However, whether the actual reserve deficiency would reach the estimated reserve deficiency of $1,937.8 million is not predictable.

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, 1973, the total reserve of MMIF, as shown on the combined balance sheet (see sch. 3), amounted to $1,715.6 million and consisted of a statutory reserve of $269.4 million and an insurance reserve of $1,446.2 million.

The MMIF reserve of $1,715.6 million is included in the total reserves of $1,220.7 million shown on the combined balance sheets. FHA records showed that no mortgagee insurance claims applicable to the MMIF reserve were pending at June 30, 1973.

Section 205 of the act authorized the establishment of a General Surplus Account and a Participating Reserve Account[1] in MMIF and provided that both accounts be available to meet losses arising from MMIF insurance in force. Section 205 also authorized the Assistant Secretary-Commissioner to allocate the income or loss from operations in any semiannual period to either or both accounts and 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.

Section 205 of the act also required 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.

The net income of MMIF for the fiscal year ended June 30, 1973, amounted to $74.5 million, and the entire amount was allocated to the Participating Reserve Account. In addition, $17.5 million was transferred to the Participating Reserve Account from the General Surplus Account because the balance in the latter account had accumulated to an amount that exceeded the estimated reserve requirements.

FHA estimated that at June 30, 1973, the balances in the two accounts, when combined, would exceed the estimated reserve requirements by $384.9 million. The estimated financial position of the two accounts in relation to the estimated reserve requirement formed the basis for allocating the $74.5 million to the Participating Reserve Account. Distribution to mortgagors from the Participating Reserve Account in fiscal year 1973 was $26.7 million compared with $9.8 million in fiscal year 1972.

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[1] Shown in the MMIF section of the combined balance sheet (see sch. 3) as insurance reserve and statutory reserve, respectively.

From fiscal year 1960 until fiscal year 1971, the estimated reserve requirement for MMIF exceeded MMIF reserves. However, beginning in fiscal year 1967, the relationship between MMIF reserves and the estimated reserve requirement started to improve; by the end of fiscal year 1973, MMIF reserves exceeded the estimated reserve requirement by $384.9 million. The estimated excess reserve of $384.9 million at June 30, 1973, is included in the $1,937.8 million estimated reserve deficiency discussed in the preceding section of this report. The following table 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.

Fiscal year	General Surplus Account	Participating Reserve Account	Total reserves	Estimated reserve requirement	Estimated reserve deficiency or excess (-)
			(millions)		
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
1971	1,393.8	135.1	1,528.9	1,452.8	-76.1
1972	1,455.1	204.1	1,659.2	1,454.0	-205.2
1973	1,446.2	269.4	1,715.6	1,330.7	-384.9

General Insurance Fund

GIF was established on August 10, 1965, under the authority of section 519 of the National Housing Act and was directed to carry out the mortgage insurance programs authorized by a number of sections of the National Housing Act. As a result GIF insures a mixed assortment of mortgage insurance risks, including some high-risk insurance programs that might have been made part of SRIF if it had existed when these programs were enacted. The deficit in GIF is attributable to the high-risk insurance programs.

GIF insures mortgages and notes which finance the purchase, construction, and/or improvement of small homes, multifamily property, nonresidential property, and commercial or farm structures. The deficit in the GIF insurance reserve totals $164.0 million (see sch. 3) and is included in the total reserves of $1,220.7 million shown on the June 30, 1973, combined balance sheets.

FHA records showed that $120.4 million in claims were pending against the $164.0 million deficit but had not been accepted by FHA at June 30, 1973. The GIF insurance reserve deficit will increase by the amount of pending claims that are ultimately accepted.

The estimated reserve requirement has exceeded the insurance reserve since inception of the fund in August 1965. The estimated reserve deficiency of $1,196.0 million at June 30, 1973, is part of the total $1,937.8 million estimated reserve deficiency discussed in a preceding section of this report. The following table shows the estimated reserve requirement, the insurance reserve, and the estimated reserve deficiency at June 30 for each of the past 5 years.

Fiscal year	Estimated reserve requirement	Insurance reserve (deficiency (-))	Estimated reserve deficiency
	(millions)		
1969	$ 631.3	$195.5	$ 435.8
1970	699.3	208.5	490.8
1971	829.0	171.6	657.4
1972	990.4	63.3	927.1
1973	1,032.0	-164.0	1,196.0

During fiscal year 1973, the Assistant Secretary-Commissioner, FHA, borrowed $448 million from the U.S. Treasury for GIF, which increased the amount borrowed to $831 million. The borrowed funds had not been repaid at June 30, 1973.

The ultimate reserve deficiency that might develop could exceed the $1,196.0 million estimate if large-scale mortgage defaults occur--an event which would necessitate the outlay of large sums to settle the resultant claims for the unpaid balance of defaulted mortgages. In such settlements, FHA acquires the properties that secured the defaulted mortgages. In fiscal year 1973, 15,841 home properties and notes were acquired, compared with 12,904 in fiscal year 1972. In addition, 246 multifamily properties and notes were acquired in fiscal year 1973, compared with 132 multifamily properties and notes in fiscal year 1972. According to FHA records, acquisitions in the first 4 months of fiscal year 1974 are occurring at a slightly slower pace than in the prior year.

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 which provide funds for necessary community facilities. CMHIF's insurance reserves, which total $22.8 million, are included in the total reserves of $1,220.7 million shown on the combined balance sheets. (See schs. 1 and 3.) FHA records showed that $1.4 million in claims were pending against the $22.8 million reserve but had not been accepted by FHA at June 30, 1973. Therefore, the CMHIF reserve was sufficient to meet insurance claims pending acceptance.

Section 213(l) of the act authorized the establishment of a General Surplus Account and a Participating Reserve Account[1] 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 authorized the Assistant Secretary-Commissioner to distribute a share of the Participating Reserve Account to mortgagors after the mortgages insured by CMHIF have been paid and at such times before payment as he may determine; however, the mortgagors do not have any vested rights in the account.

The act requires that the allocation of the income or loss and the distribution from the Participating Reserve

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[1]Shown in the CMHIF section of the combined balance sheet (see sch. 3) as insurance reserve and statutory reserve, respectively.

Account be made in such a 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 $4.7 million from operations in fiscal year 1973, and the entire amount was allocated to the Participating Reserve Account. In addition, $0.1 million was transferred to the Participating Reserve Account from the General Surplus Account because the balance in the latter account exceeded the estimated reserve requirement. Distribution to mortgagors from the Participating Reserve Account in fiscal year 1973 amounted to $7 million, compared with $6 million in fiscal year 1972.

The following tabulation shows the available reserves, the estimated reserve requirement, and the estimated reserve excess at June 30 for each of the past 5 years.

Fiscal year	Participating Reserve Account	General Surplus Account	Total reserves	Estimated reserve requirement	Estimated reserve excess
	(millions)				
1969	$2.5	$20.4	$22.9	$21.1	$ 1.8
1970	4.1	21.6	25.7	19.1	6.6
1971	6.0	19.5	25.5	17.5	8.0
1972	7.5	17.4	24.9	15.3	9.6
1973	5.4	17.4	22.8	11.0	11.8

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. Under this fund, mortgages are insured which finance (1) homes purchased by low-income families that are assisted with their mortgage payments by FHA, (2) homes purchased by low- and moderate-income families that, because of the nature of their credit histories or irregular income patterns, could not qualify for mortgage insurance under other FHA insurance programs, and (3) the repair, rehabilitation, construction, or purchase of property located in older, declining urban areas in which conditions are such that eligibility requirements for mortgage insurance could not be satisfied under other FHA insurance programs.

Section 238(b) provides 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 of HUD deems appropriate. The Housing and Urban Development Act of 1969 (12 U.S.C. 1715z-3(b)) 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, 1973, $20 million had been advanced by GIF.

The Congress did not intend that SRIF be actuarially sound because appropriations to cover losses sustained by the fund were authorized by section 238(b) of the act; however, the Congress did not appropriate funds for this purpose. SRIF has sustained substantial losses, and to obtain funds for the payment of mortgage insurance benefits, the Assistant Secretary-Commissioner, FHA, borrowed $528 million from the Treasury during fiscal year 1973, which increased the amount borrowed to $810 million. The borrowed funds had not been repaid at June 30, 1973.

The following tabulation shows the estimated reserve requirement, the deficit in the insurance reserve, and the estimated reserve deficiency at June 30, 1973, for each of the past 5 years.

Fiscal year	Estimated reserve requirement	Insurance reserve deficit	Estimated reserve deficiency
	(millions)		
1969	$ 20.6	$ 0.7	$ 21.3
1970	143.0	3.1	146.1
1971	399.9	27.1	427.0
1972	631.3	117.1	748.4
1973	784.8	353.8	1,138.6

The ultimate reserve deficiency that may develop could conceivably exceed the estimated $1,138.6 million if large-scale mortgage defaults occur--an event which would necessitate the outlay of large sums to settle the resultant claims for unpaid balances of defaulted mortgages. In such settlements FHA acquires the properties that secured the defaulted mortgages. Acquisitions in fiscal year 1973 which were applicable to SRIF amounted to 23,833 properties and notes. In fiscal year 1972, 17,730 properties and notes were acquired, and, according to FHA records, acquisitions were continuing at a high rate in fiscal year 1974.

FHA records showed also that at June 30, 1973, $31.0 million in claims were pending against the SRIF insurance reserve but had not yet been accepted for payment by FHA.

SIGNIFICANT CHANGES IN BALANCES FROM PRIOR YEAR

Assets

Accounts receivable

The total accounts receivable, as shown in the combined balance sheets (see schs. 1 and 3), amounted to $132.5 million at June 30, 1973, an increase of $38.3 million over the $94.2 million in accounts receivable at June 30, 1972. Increases totaling $39.6 million included $25.9 million from insurance premiums ($28.4 million less a $2.5 million allowance for estimated future losses), $11.3 million from the sale of Secretary-held properties, and $2.4 million of miscellaneous increases. The increase of $39.6 million was offset by a decrease of $1.3 million in the amount owed for insurance fees.

Our analysis of the premium receivable amount showed that the increase of $28.4 million in the balance had occured principally in amounts past due. To value the premium receivable balance at an amount considered to be collectible, FHA established a $2.5 million allowance for estimated future losses at June 30, 1973.

Investments in U.S. Government securities

The investments in U.S. Government securities at amortized cost, as shown in the combined balance sheets (see schs. 1 and 3), amounted to $1,329.6 million at June 30, 1973, an increase of $37.6 million from the $1,292 million in investments at June 30, 1972. The increase in investments is attributable to the increase of $43.3 million in holdings by MMIF offset by decreases totaling $5.7 million in the holdings of CMHIF and GIF.

Acquired property--at cost plus net expenses to date

The acquired property inventory balance of $1,425.7 million at the end of the fiscal year, as shown in the following schedule, differs by $97.3 million from the acquired property balance of $1,523 million shown in schedules 1 and 3. The $97.3 million difference is the cost attributed by FHA to 9,084 properties which had been carried in the acquired property inventory until an audit procedure conducted by GAO disclosed that the properties either had been razed or razing was imminent.

It was not feasible for FHA to ascertain and remove the cost of the individual properties from the acquired property balance. Using a method which we considered equitable, FHA attributed a cost of $97.3 million to the 9,084 properties and increased the allowance for estimated future losses by a like amount. The increase had the effect of reducing the acquired property inventory balance from $1,523 million to $1,425.7 million. A comparison of changes in the acquired property inventories during fiscal years 1973 and 1972 follows.

		Fiscal year 1973	1972
		(millions)	
Acquired property inventory at beginning of fiscal year		$1,131.3	$ 751.3
Acquisitions		1,203.9	968.7
Cost of sold properties	$812.2		588.7
Cost attributed to demolished properties	97.3	909.5	-
Increase in inventory		294.4	380.0
Acquired property inventory at end of fiscal year		$1,425.7	$1,131.3

An analysis of the $235.2 million increase in acquisitions and $223.5 million increase in the cost of properties sold from the prior fiscal year is shown by insurance funds in the schedule that follows.

	Increases or decreases (-) in acquisitions	Increases in cost of properties sold
	(millions)	
MMIF	$-15.2	$ 11.1
GIF	106.3	94.0
CMHIF	-.3	-
SRIF	144.4	118.4
Total	$235.2	$223.5

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

The $1,079.9 million for defaulted mortgage notes, as shown in the combined balance sheets (see schs. 1 and 3), was $347.2 million more than the amount at the end of the prior year. A comparison of the changes in the amount of mortgage notes on hand during fiscal years 1973 and 1972 follows.

	Fiscal year 1973	Fiscal year 1972
	(millions)	
Defaulted mortgage notes--at cost plus net expenses--on hand at beginning of fiscal year	$ 732.7	$519.8
Acquisitions	466.7	265.3
Conversions and liquidations	119.5	52.4
Increase of mortgage notes on hand	347.2	212.9
Defaulted mortgage notes--at cost plus net expenses--on hand at end of fiscal year	$1,079.9	$732.7

An analysis of the increase of $201.4 million in acquisitions and $67.1 million in conversions and liquidations from the prior fiscal year is shown by insurance funds in the following schedule.

	Increase in acquisitions	Increase in conversions and liquidations
	(millions)	
MMIF	$ -	$ -
GIF	89.6	47.6
CMHIF	2.4	-
SRIF	109.4	19.5
	$201.4	$67.1

Allowances for estimated future losses

The valuation reserves--allowances for estimated future losses--provided by FHA at June 30, 1973, for premiums receivable ($2.5 million), for mortgage notes and contracts for deed

($18.1 million), and for acquired security or collateral ($1,097.7 million) totaled $1,118.3 million, an increase of $433.9 million from the amount of $684.4 million at June 30, 1972. (See schs. 1 and 3.)

The increase of $433.9 million in the valuation reserves is shown in schedules 2 and 4 under the caption "Increase (-) or decrease (+) in valuation allowance." The $433.9 million consisted of the adjustments necessary to value the acquired properties and mortgage notes held by the four funds at June 30, 1973, at market prices and at amounts considered to be collectible. The $433.9 million includes $97.3 million, the cost attributed by FHA to 9,084 properties which either had been razed or razing was imminent, as discussed on page 14 of this report. The valuation allowances were increased by $77.4 million for MMIF, by $183.7 million for GIF, by $0.2 million for CMHIF, and by $172.6 million for SRIF.

The valuation allowances were based on (1) actual losses experienced on the sale of small-home properties in fiscal year 1973, (2) losses anticipated to be incurred in the sales of multifamily properties on the basis of estimated sales prices, (3) acquisition cost and accumulated expenses for demolished properties, and (4) predetermined loss rates on certain other property. At June 30, 1972, the valuation reserves were increased by $237 million, as shown in the statement of income and expense. (See sch. 2.)

Liabilities

Accounts payable

The $237.5 million for accounts payable, as shown in the combined balance sheets (see schs. 1 and 3), was $67 million less than the amount at the close of the prior year.

The decrease of $67 million comprised a decrease of $79.7 million in the amounts due to mortgagees for securities acquired by FHA in the settlement of mortgage insurance claims and in sundry amounts due for salaries and expenses, offset by an increase of $12.7 million in the liability of MMIF participations payable.

Debenture obligations--
debentures issued and outstanding

Debentures issued and outstanding at June 30, 1973, as shown in the combined balance sheets (see schs. 1 and 3), amounted to $411.7 million, compared with $453.8 million at June 30, 1972--a decrease of $42.1 million.

During fiscal year 1973, debentures amounting to $44.3 million were issued in payment of insurance claims presented by insured mortgagees because of defaults in mortgage payments by mortgagors, and debentures aggregating $86.4 million were redeemed.

Borrowings from U.S. Treasury

On October 13, 1971, the Assistant Secretary-FHA Commissioner and the Secretary of the Treasury exchanged two notes dated November 25, 1970, which had been issued by the former and held by the latter, for two new notes dated October 13, 1971. The new notes were "open end," that is, notes that did not stipulate the dollar amount that could be advanced to either GIF or SRIF by the U.S. Treasury. The November 25, 1970, notes had provided for advances up to an aggregate amount of $200 million for GIF and $100 million for SRIF.

Under the terms of the October 13, 1971, notes, each advance is to mature 15 years from the date of the advance, and interest on the unpaid balances is to be paid on June 30 and December 31 of each year at a rate to be established by the Secretary of the Treasury.

At June 30, 1973, GIF borrowings totaled $831 million and SRIF borrowings totaled $810 million--increases of $448 million and $528 million respectively, from June 30, 1972. (See sch. 4.)

Income

Total income

The total income of $559.3 million for fiscal year 1973, as shown in the statements of income and expense (see schs. 2 and 4), was the combined income of the four insurance funds and was $4.4 million less than the combined income of $563.7

million in the preceding fiscal year. Each fund except MMIF had more income in fiscal year 1973 than in the preceding fiscal year. The income of MMIF decreased by $18.4 million. Increases in income amounted to $1.4 million for GIF, $0.1 million for CMHIF, and $12.5 million for SRIF.

The $18.4 million decrease in MMIF's income resulted from decreases of $15 million in fees and $17 million in premiums. The decreases were offset by increases of $13.2 million in interest on U.S. Government securities and increases in income on settled property and other interest income totaling $0.4 million.

The decrease in fees occurred because 119,147 fewer mortgages were insured by MMIF in fiscal year 1973 than in the prior fiscal year. Correlatively, the revenue from insurance premiums decreased. The average principal amount of mortgages insured in fiscal year 1973 decreased to $19,314 from the prior year's principal amount of $19,504.

The $1.4 million income increase of GIF is the net effect of a $12.1 million increase in the revenue from insurance premiums, reduced by $10.7 million resulting from decreases in income from fees, interest, and income on settled properties.

The $0.1 million increase in income of CMHIF resulted from an increase of $0.2 million in interest on investments in U.S. Government securities, offset by decreases totaling $0.1 million in fees and revenue from insurance premiums.

The $12.5 million increased income of SRIF resulted from an increase of $16.6 million in revenue from insurance premiums, reduced by $4.1 million resulting from decreases in income from fees, interest, and income on settled properties.

Although 49,742 fewer mortgages were insured by SRIF in fiscal year 1973 than in the prior fiscal year, the average principal mortgage balance insured for both small homes and multifamily housing properties increased by $399 and $68,801, respectively. Consequently, insurance premiums based on the mortgage principal balance increased, and fees decreased because of the reduced number of applications for mortgage insurance.

Expense

Interest on borrowings from U.S. Treasury

The $62.5 million interest on borrowings from the U.S. Treasury, shown in the statements of income and expense (see schs. 2 and 4), is $38.8 million more than the $23.7 million in the prior fiscal year. The $38.8 million increase resulted from increased borrowings by GIF and SRIF in fiscal year 1973. The GIF increase amounted to $448 million, which brought the total borrowed at June 30, 1973, to $831 million. The SRIF increase amounted to $528 million, which brought its total to $810 million.

Loss on acquired security

The loss sustained on acquired security in fiscal year 1973, as shown in the statements of income and expense (see schs. 2 and 4), amounted to $220 million, an increase of $62.7 million from the loss of $157.3 million sustained in the prior fiscal year.

The $62.7 million increase in the loss of acquired security was composed of a $67 million loss sustained in the sale of small home properties, offset by income of $4.3 million--the net amount remaining after income realized in the liquidation of assigned multifamily mortgage notes was reduced by the losses sustained in the sale of multifamily properties.

CHAPTER 3

OTHER MATTERS OF INTEREST

Weaknesses in accounting for FHA's insurance operations resulted in a number of serious errors which had to be resolved and which kept HUD from closing the books for fiscal year 1973 in a timely manner. HUD accounting and management officials knew some of the problems, and some surfaced in the course of our examination. The errors involved the total amount of insurance in force and the balances in the accounts captioned cash and fund balances, accounts receivable-premiums, acquired property, and defaulted title 1 notes.

We told the cognizant HUD management and accounting officials about the errors we found, and they initiated immediate corrective action. However, correction of the errors was time consuming and delayed the completion of our examination. As a result, our report is being issued later than usual.

Some of the problems we had in examining the FHA insurance operation accounting records were discussed in testimony given by GAO representatives before the Legal and Monetary Affairs Subcommittee of the House Committee on Government Operations on July 10, 1973, and March 26, 1974, regarding the financial status of FHA's mortgage insurance funds.

In addition, on March 14, 1974, we met with the Secretary of HUD and generally told him about the problems we had in examining the FHA insurance operation accounting records. We plan to issue a separate report to the Secretary discussing these problems in detail and including our recommendations, as appropriate, for corrective action. As part of our report to the Secretary, we plan to comment on the limited audit work that the HUD Office of Washington Operations and Special Projects, Office of Inspector General, has done on the FHA insurance operation accounting records.

CHAPTER 4

SCOPE OF EXAMINATION

We examined FHA's financial statements pertaining to its insurance operations for the fiscal year ended June 30, 1973. We made our examination 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.

HUD's Office of Washington Operations and Special Projects, Office of Inspector General, reviewed the activities of a number of FHA operating units during fiscal year 1973. However, the scope of these reviews did not include enough work on FHA balance sheet or income and expense accounts for fiscal year 1973 activities to enable us to reduce our examination of these accounts.

CHAPTER 5

OPINION ON FINANCIAL STATEMENTS

The financial statements, schedules 1 through 5, are FHA's statements pertaining to its insurance operations. Schedule 5 is based on the combined statement of source and application of funds submitted by FHA 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, 1973, 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, 1973 AND 1972

A S S E T S

	1973	1972	Increase or Decrease (-)
CASH AND FUND BALANCES	$ 226,371,862	$ 137,989,356	$ 88,382,506
ACCOUNTS RECEIVABLE:			
Fees	2,867,245	4,173,831	-1,306,586
Premiums - less allowance for estimated future losses $2,500,000	53,645,013	27,761,352	25,883,661
Sale of Secretary-held properties	52,710,609	41,446,506	11,264,103
Sale of Secretary-held mortgages	503,375	468,660	34,715
Other	2,785,921	353,426	2,432,495
Advance to Special Risk Insurance Fund from General Insurance Fund	20,000,000	20,000,000	-
Total accounts receivable	132,512,163	94,203,775	38,308,388
ACCRUED ASSETS:			
Premiums	156,851,586	156,398,541	453,045
Interest on U. S. Government securities	28,459,924	23,186,080	5,273,844
Interest on mortgage notes receivable	36,140,069	25,872,597	10,267,472
Total accrued assets	221,451,579	205,457,218	15,994,361
INVESTMENTS:			
U. S. Government securities at amortized cost (Market Value $1,298,064,493 at June 30, 1973 and $1,312,122,664 at June 30, 1972) (note 1)	1,329,615,021	1,292,021,597	37,593,424
Stock in rental and cooperative housing corporations: 158,975 shares at June 30, 1973 and 181,633 shares at June 30, 1972--at cost	180,800	205,900	-25,100
Total investments	1,329,795,821	1,292,227,497	37,568,324
MORTGAGE NOTES AND CONTRACTS FOR DEED--UNPAID BALANCE	286,221,044	289,130,785	-2,909,741
Less allowance for estimated future losses	18,038,649	18,309,946	-271,297
Net mortgage notes and contracts for deed	268,182,395	270,820,839	-2,638,444
ACQUIRED SECURITY OR COLLATERAL:			
Acquired property--at cost plus net expenses to date	1,522,996,056	1,131,260,263	391,735,793
Defaulted mortgage notes--at cost plus net expenses to date	1,079,881,217	732,693,662	347,187,555
Defaulted Title I notes--at unpaid principal balance	44,718,208	46,845,192	-2,126,984
Total cost of acquired property and notes	2,647,595,481	1,910,799,117	736,796,364
Less principal recoveries on defaulted mortgage notes	50,694,812	53,735,844	-3,041,032
Less undisbursed mortgage proceeds	1,499,269	253,304	1,245,965
Unrecovered cost	2,595,401,400	1,856,809,969	738,591,431
Less allowance for estimated future losses	1,097,377,171	665,854,532	431,522,639
Net acquired property and notes	1,498,024,229	1,190,955,437	307,068,792
Other notes receivable	265,259	266,419	-1,160
Less allowance for estimated future losses	244,091	245,110	-1,019
Net other notes receivable	21,168	21,309	-141
Net acquired security or collateral	1,498,045,397	1,190,976,746	307,068,651
OTHER ASSETS--HELD FOR THE ACCOUNT OF MORTGAGORS	2,239,355	2,792,911	-553,556
UNAPPLIED CHARGES	358,872	11,194,881	-10,836,009
Total assets (notes 2)	$3,678,957,444	$3,205,663,223	$473,294,221

The notes on page 36 are an integral part of this statement.

LIABILITIES

	1973	1972	Increase or Decrease (-)
ACCOUNTS PAYABLE:			
Salaries and expenses	$ -	$ 187,268	$ -187,268
Acquired security and miscellaneous	195,218,698	274,689,429	-79,470,731
MMI Fund participations payable	22,285,815	9,573,238	12,712,577
Advances from General Insurance Fund to Special Risk Insurance Fund	20,000,000	20,000,000	-
Total accounts payable	237,504,513	304,449,935	-66,945,422
ACCRUED LIABILITIES:			
Interest on debentures	10,050,167	9,661,719	388,448
TRUST AND DEPOSIT LIABILITIES:			
Deposits held for mortgagors and lessees (note 7)	16,938,737	16,742,016	196,721
Earnest money on pending sales	48,081,499	40,278,333	7,803,166
Excess proceeds of sale	4,027,302	3,207,640	819,662
Total trust and deposit liabilities	69,047,538	60,227,989	8,819,549
DEFERRED CREDITS:			
Unearned premium income	53,316,950	59,641,793	-6,324,843
Unearned fee income	720,713	926,701	-205,988
Unapplied credits	3,628,796	2,951,497	677,299
Total deferred credits	57,666,459	63,519,991	-5,853,532
DEBENTURE OBLIGATIONS:			
Debentures issued and outstanding	411,650,450	453,770,200	-42,119,750
Debentures authorized for issue	7,593,650	4,225,450	3,368,200
Debenture claims in process	16,312,900	8,708,150	7,604,750
Total debenture obligations	435,557,000	466,703,800	-31,146,800
OTHER LIABILITIES:			
Reserve for foreclosure costs--defaulted mortgage notes	7,454,161	5,726,785	1,727,376
Total liabilities	817,279,838	910,290,219	-93,010,381

RESERVES AND BORROWINGS FROM U. S. TREASURY

	1973	1972	Increase or Decrease (-)
RESERVES:			
Statutory Reserve--for participation payments and future losses and expenses (note 5)	274,787,207	211,656,417	63,130,790
Insurance Reserve--available for future losses and expenses (note 5)	945,890,399	1,418,716,587	-472,826,188
Total reserves	1,220,677,606	1,630,373,004	-409,695,398
BORROWINGS FROM U. S. TREASURY (note 4)	1,641,000,000	665,000,000	976,000,000
Total reserves and borrowings from U. S. Treasury	2,861,677,606	2,295,373,004	566,304,602
Total liabilities, reserves and borrowings from U. S. Treasury (notes 3, 4, 5, 6, and 7)	$3,678,957,444	$3,205,663,223	$ 473,294,221

FEDERAL HOUSING ADMINISTRATION
COMBINED COMPARATIVE STATEMENT OF INCOME AND EXPENSE
AND CHANGES IN INSURANCE RESERVES AND BORROWINGS
FOR THE FISCAL YEARS ENDED JUNE 30, 1973 AND 1972

INCOME AND EXPENSE	1973	1972	Increase or Decrease (-)
INCOME:			
Fees	$ 41,703,974	$ 68,350,741	$ -26,646,767
Premiums	428,375,275	416,792,579	11,582,696
Interest on U. S. Government securities and dividends	88,317,212	74,888,238	13,428,974
Interest income	1,053,235	4,052,705	-2,999,470
Income or expense (-) on settled properties	-156,761	-370,552	213,791
Miscellaneous income	46,682	26,805	19,877
Total income	559,339,617	563,740,516	-4,400,899
EXPENSE:			
Salaries and expenses	184,965,207	165,401,346	19,563,861
Interest on borrowings from U. S. Treasury	62,521,879	23,694,807	38,827,072
Interest on debenture obligations	21,196,259	19,239,682	1,956,577
Loss on acquired security	220,029,301	157,320,312	62,708,989
Loss on defaulted Title I notes	10,137,167	7,892,396	2,244,771
Discount on sale of Secretary-held mortgages	7,751,959	534,488	7,217,471
Fee expenses	3,325,946	6,873,020	-3,547,074
Repairs of structural defects	3,623,711	2,680,220	943,491
Miscellaneous expense	327,652	418,063	-90,411
Total expense	513,879,081	384,054,334	129,824,747
Net income before adjustment of valuation allowances	45,460,536	179,686,182	-134,225,646
INCREASE (-) OR DECREASE (+) IN VALUATION ALLOWANCES:			
Allowance for estimated future losses on:			
Purchase money mortgages	+110,897	-466,796	577,693
Acquired properties	-282,192,589	-163,117,354	-119,075,235
Defaulted mortgage notes	-149,437,189	-73,223,656	-76,213,533
Defaulted Title I notes	+107,139	-186,845	293,984
Other notes receivable	+1,019	+248	771
Insurance premiums receivable	-2,500,000	-	-2,500,000
Net adjustment of valuation allowances	-433,910,723	-236,994,403	-196,916,320
Net income or loss (-)	$ -388,450,187	$ -57,308,221	$ -331,141,966

ANALYSIS OF INSURANCE RESERVES AND BORROWINGS

	1973	1972	Increase or Decrease (-)
DISTRIBUTION OF NET INCOME			
Statutory Reserve (participating reserve account):			
Balance at beginning of period	$ 211,656,417	$ 141,245,801	$ 70,410,616
Net income allocated for the period 2/	79,194,064	83,255,804	-4,061,740
Transfer from general surplus account	17,582,543	3,000,000	14,582,543
Total participating reserve	308,433,024	227,501,605	80,931,419
Participations declared	-33,679,634	-15,824,779	-17,854,855
Participations available	274,753,390	211,676,826	63,076,564
Changes in participations held in escrow	33,817	-20,409	54,226
Balance at end of period	$ 274,787,207	$ 211,656,417	$ 63,130,790
Insurance Reserve:			
Balance at beginning of period	$1,418,716,586	$1,557,664,495	$ -138,947,909
Adjustments during the period 1/	12,400,607	4,616,117	7,784,490
Net income or loss (-) for the period 2/	-467,644,251	-140,564,025	-327,080,226
Transfer to participating reserve account	-17,582,543	-3,000,000	-14,582,543
Balance at end of period	$ 945,890,399	$1,418,716,587	$ -472,826,188
Total reserves	$1,220,677,606	$1,630,373,004	$ -409,695,398
BORROWINGS FROM U. S. TREASURY:			
Balance at beginning of period	$ 665,000,000	$ 223,000,000	$ 442,000,000
Borrowings during the period	976,000,000	442,000,000	534,000,000
Balance at end of period	$1,641,000,000	$ 665,000,000	$ 976,000,000
Total reserves and borrowings at end of period	$2,861,677,606	$2,295,373,004	$ 566,304,602
1/ Comprised of the following adjustments relative to prior years:			
(a) Salaries and expenses	$ 3,103,508	$ -6,405,358	$ 9,508,866
(b) Fee appraisal expense		3,815	-3,815
(c) Fee inspection expense		532	-532
(d) Annual leave expense		10,958,871	-10,958,871
(e) Allowance for estimated future losses on purchase money mortgages	160,400	58,257	102,143
(f) Insurance premiums	9,136,699	-	9,136,699
	$ 12,400,607	$ 4,616,117	$ 7,784,490

2/ The net income was distributed to the statutory and/or the insurance reserve by the Assistant Secretary-Commissioner, HUD, FHA under authority of Sections 205 and 213 of the National Housing Act.

FEDERAL HOUSING ADMINISTRATION

COMBINED BALANCE SHEET

ANALYSIS BY FUND

AS OF JUNE 30, 1973

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:	$ 226,371,862	$ 38,405,647	$ 70,391,701	$ 777,559	$116,536,298	$260,657
ACCOUNTS RECEIVABLE:						
Fees	2,867,245	2,468,710	319,450	-	79,085	-
Premiums - Less allowance for estimated future losses $2,500,000	53,645,013	27,164,152	15,979,349	455,779	10,045,733	-
Sale of Secretary-held properties	52,710,609	23,763,156	9,484,650	-	19,462,803	-
Sale of Secretary-held mortgages	503,375	307,825	103,850	-	91,700	-
Other	2,785,921	1,298,893	792,359	-	485,222	209,447
Advances to Special Risk Insurance Fund from General Insurance Fund	20,000,000	-	20,000,000	-	-	-
Total accounts receivable	132,512,163	55,002,736	46,679,658	455,779	30,164,543	209,447
ACCRUED ASSETS:						
Premiums	156,851,586	116,892,657	20,922,261	-	19,036,668	-
Interest on U. S. Government securities	28,459,924	27,895,943	-	563,981	-	-
Interest on mortgage notes receivable	36,140,069	575,444	26,634,398	309,024	8,621,203	-
Total accrued assets	221,451,579	145,364,044	47,556,659	873,005	27,657,871	-
INVESTMENTS:						
U. S. Government securities at amortized cost (Market Value $1,298,064,493) (Note 1)	1,329,615,021	1,305,668,352	-	23,946,669	-	-
Stock in rental and cooperative housing corporations, 158,975 shares at cost	180,800	-	159,100	21,700	-	-
Total investments	1,329,795,821	1,305,668,352	159,100	23,968,369	-	-
MORTGAGE NOTES AND CONTRACTS FOR DEED--UNPAID BALANCE	286,221,044	17,049,353	266,912,176	2,259,515	-	-
Less allowance for estimated future losses	18,038,649	452,664	17,473,009	112,976	-	-
Net mortgage notes and contracts for deed	268,182,395	16,596,689	249,439,167	2,146,539	-	-
ACQUIRED SECURITY OR COLLATERAL:						
Acquired property--at cost plus net expenses to date	1,522,996,056	443,854,298	636,004,158	4,782,586	438,355,014	-
Defaulted mortgage notes--at cost plus net expenses to date	1,079,881,217	12,843,760	783,848,112	10,951,893	272,237,452	-
Defaulted Title I notes--at unpaid principal balance	44,718,208	-	44,718,208	-	-	-
Total cost of acquired property and notes	2,647,595,481	456,698,058	1,464,570,478	15,734,479	710,592,466	-
Less principal recoveries on defaulted mortgage notes	50,694,812	1,357,693	49,090,693	208,454	37,972	-
Less undisbursed mortgage proceeds	1,499,269	-	1,499,269	-	-	-
Unrecovered cost	2,595,401,400	455,340,365	1,413,980,516	15,526,025	710,554,494	-
Less allowance for estimated future losses	1,097,377,171	196,786,338	607,484,823	3,232,905	289,873,105	-
Net acquired property and notes	1,498,024,229	258,554,027	806,495,693	12,293,120	420,681,389	-
Other notes receivable	265,259	246,155	19,104	-	-	-
Less allowance for estimated future losses	244,091	242,181	1,910	-	-	-
Net other notes receivable	21,168	3,974	17,194	-	-	-
Net acquired security or collateral	1,498,045,397	258,558,001	806,512,887	12,293,120	420,681,389	-
OTHER ASSETS--HELD FOR THE ACCOUNT OF MORTGAGORS	2,239,355	-	2,219,030	20,325	-	-
UNAPPLIED CHARGES	358,872	37,482	18,828	-	301,759	803
Total assets (note 2)	$3,678,957,444	$1,819,632,951	$1,222,977,030	$40,534,696	$ 595,341,860	$470,907

The notes on page 36 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:						
Acquired security and miscellaneous	$ 195,218,698	$ 48,795,625	$ 65,524,886	$ 1,964	$ 80,896,223	$ -
MMI Fund participations payable	22,285,815	22,285,815	-	-	-	-
Advances from GI Fund to SRI Fund	20,000,000	-	-	-	20,000,000	-
Inter-fund (receivables (-))	-	-892,755	71,430	5,577	760,240	55,508
Total accounts payable	237,504,513	70,188,685	65,596,316	7,541	101,656,463	55,508
ACCRUED LIABILITIES:						
Interest on debentures	10,050,167	141,950	9,573,123	335,094	-	-
TRUST AND DEPOSIT LIABILITIES:						
Deposits held for mortgagors and lessees (note 7)	16,938,737	206,014	15,391,274	177,399	1,164,050	-
Earnest money on pending sales	48,081,499	22,804,965	7,485,676		17,790,858	-
Excess proceeds of sale	4,027,302	140	3,986,330	40,832	-	-
Total trust and deposit liabilities	69,047,538	23,011,119	26,863,280	218,231	18,954,908	-
DEFERRED CREDITS:						
Unearned premium income	53,316,950	2,313,371	32,769,399	1,998,128	16,236,052	-
Unearned fee income	720,713	-	376,971	-	343,742	-
Unapplied credits	3,628,796	541,753	2,204,121	21,141	446,382	415,399
Total deferred credits	57,666,459	2,855,124	35,350,491	2,019,269	17,026,176	415,399
DEBENTURE OBLIGATIONS:						
Debentures issued and outstanding	411,650,450	7,819,150	390,452,200	13,379,100	-	-
Debentures authorized for issue	7,593,650	-	7,593,650		-	-
Debenture claims in process	16,312,900	-	14,710,650	1,602,250	-	-
Total debenture obligations	435,557,000	7,819,150	412,756,500	14,981,350	-	-
OTHER LIABILITIES:						
Reserve for foreclosure costs--defaulted mortgage notes	7,454,161	-	5,819,321	134,138	1,500,702	-
Total liabilities	817,279,838	104,016,028	555,959,031	17,695,623	139,138,249	470,907
RESERVES AND BORROWINGS FROM U. S. TREASURY						
RESERVES:						
Statutory Reserve--for participation payments and future losses and expenses (note 5)	274,787,207	269,364,328	-	5,422,879	-	-
Insurance Reserve--available for future losses and expenses (note 5)	945,890,399	1,446,252,595	-163,982,001	17,416,194	-353,796,389	-
Total reserves	1,220,677,606	1,715,616,923	-163,982,001	22,839,073	-353,796,389	-
BORROWINGS FROM U. S. TREASURY (note 4)	1,641,000,000	-	831,000,000	-	810,000,000	-
Total reserves and borrowings from U. S. Treasury	2,861,677,606	1,715,616,923	667,017,999	22,839,073	456,203,611	-
Total liabilities, reserves and borrowings from U. S. Treasury (notes 3, 4, 5, 6, and 7)	$3,678,957,444	$1,819,632,951	$1,222,977,030	$40,534,696	$595,341,860	$470,907

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, 1973

INCOME AND EXPENSE	Combined	Mutual Mortgage Insurance Fund	General Insurance Fund	Cooperative Management Housing Insurance Fund	Special Risk Insurance Fund
INCOME:					
Fees	$ 41,703,974	$ 16,157,053	$ 12,153,177	$ 6,578	$ 13,387,166
Premiums	428,375,275	256,458,170	104,545,905	3,963,380	63,407,820
Interest on U. S. Government securities and dividends	88,317,212	86,711,593	3,827	1,601,792	-
Interest income	1,053,235	515,190	437,598	-	100,447
Income or expense (-) on settled properties	-156,761	359,577	-228,287	-	-288,051
Miscellaneous income	46,682	4,555	42,127	-	-
Total income	559,339,617	360,206,138	116,954,347	5,571,750	76,607,382
EXPENSE:					
Salaries and expenses	184,965,207	98,130,677	45,868,432	129,919	40,836,179
Interest on borrowings from U. S. Treasury	62,521,879	-	33,745,231	-	28,776,648
Interest on debenture obligations	21,196,259	305,568	20,174,947	715,744	-
Loss on acquired security	220,029,301	107,073,526	54,399,193	-146,446	58,703,028
Loss on defaulted Title I notes	10,137,167	-	10,137,167	-	-
Discount on sale of Secretary-held mortgages	7,751,959	122,470	7,618,399	-	11,090
Fee expenses	3,325,946	2,544,626	489,029	-	292,291
Repairs of structural defects	3,623,711	49,310	1,800	-	3,572,601
Miscellaneous expense	327,652	14,534	25,254	-	287,864
Total expense	513,879,081	208,240,711	172,459,452	699,217	132,479,701
Net income or loss (-) before adjustment of valuation allowances	45,460,536	151,965,427	-55,505,105	4,872,533	-55,872,319
INCREASE (-) OR DECREASE (+) IN VALUATION ALLOWANCES:					
Allowance for estimated future losses on:					
Purchase money mortgages	+110,897	+37,808	+72,347	+ 742	-
Acquired properties	-282,192,589	-74,083,515	-93,454,091	-17,453	-114,637,530
Defaulted mortgage notes	-149,437,189	-925,824	-90,428,464	-156,569	-57,926,332
Defaulted Title I notes	+ 107,139	-	+107,139	-	-
Other notes receivable	+ 1,019	+ 915	+ 104	-	-
Insurance premiums receivable	-2,500,000	-2,500,000	-	-	-
Net adjustment of valuation allowances	-433,910,723	-77,470,616	-183,702,965	-173,280	-172,563,862
Net income or loss (-)	$ -388,450,187	$ 74,494,811	$-239,208,070	$ 4,699,253	$-228,436,181
ANALYSIS OF INSURANCE RESERVES AND BORROWINGS					
...IBUTION OF NET INCOME:					
Statutory Reserve (participating reserve account):					
Balance at beginning of period	$ 211,656,417	$ 204,089,395	$ -	$ 7,567,022	$ -
Net income (or loss -) allocated for the period 2/	79,194,064	74,494,811	-	4,699,253	-
Transfer from general surplus account	17,582,543	17,461,233	-	121,310	-
Total participating reserve	308,433,024	296,045,439	-	12,387,585	-
Participations declared	-33,679,634	-26,681,111	-	-6,998,523	-
Participations available	274,753,390	269,364,328	-	5,389,062	-
Changes in participations held in escrow	33,817	-	-	33,817	-
Balance at end of period	$ 274,787,207	$ 269,364,328	$ -	$ 5,422,879	$ -
nsurance Reserve:					
Balance at beginning of period	$1,418,716,586	$1,455,169,669	$ 63,769,081	$ 17,416,194	$-117,138,358
Adjustments during the period 1/	12,400,607	8,544,159	11,956,988	121,310	8,221,850
Net income (or loss -) for the period 2/	-467,644,251	-	-239,208,070	-	-228,436,181
Transfer to participating reserve account	-17,582,543	-17,461,233	-	-121,310	-
Balance at end of period	$ 945,890,399	$1,446,252,595	$-163,982,001	$ 17,416,194	$-353,796,389
Total reserves or deficit (-)	$1,220,677,606	$1,715,616,923	$-163,982,001	$ 22,839,073	$-353,796,389
GS FROM U. S. TREASURY					
Balance at beginning of period	$ 665,000,000	$ -	$ 383,000,000	$ -	$ 282,000,000
Borrowings during the period	976,000,000	-	448,000,000	-	528,000,000
Balance at end of period	$1,641,000,000	$ -	$ 831,000,000	$ -	$ 810,000,000
Total reserves and borrowings at end of period	$2,861,677,606	$1,715,616,929	$ 667,017,999	$ 22,839,073	$ 456,203,611
1/ Comprised of the following adjustments relative to prior years:					
1. Salaries and expenses	$ 3,103,508	$ 8,544,159	$ 2,659,889	$ 121,310	$ -8,221,850
2. Insurance premiums	9,136,699	-	9,136,699	-	- -
3. Allowance for estimated future losses on purchase money mortgages	160,400	-	160,400	-	-
	$ 12,400,607	$ 8,544,159	$ 11,956,988	$ 121,310	$ -8,221,850

/ The net income was distributed to the statutory and/or the insurance reserve by the Assistant Secretary-Commissioner, HUD, FHA under authority of Sections 205 and 213 of the National Housing Act.

FEDERAL HOUSING ADMINISTRATION

COMBINED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

(STATEMENT OF CHANGES IN FINANCIAL POSITION)

FOR THE FISCAL YEAR ENDED JUNE 30, 1973

	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	$ 41,703,974	$ 16,157,053	$ 12,153,177	$ 6,577	$ 13,387,167	$
Premiums	428,375,275	256,458,170	104,545,905	3,963,380	63,407,820	-
Interest on U. S. Government securities	88,313,385	86,711,593	-	1,601,792	-	
Profit on sale of investments	2,993,102	-	2,993,102	-	-	-
Dividends received on stock held in rental and cooperative housing corporations	3,827	-	3,827	-	-	-
Interest on mortgage notes	854,375	515,191	238,737	-	100,447	-
Interest and other income on defaulted Title I notes	198,861	-	198,861	-	-	-
Miscellaneous income	46,682	4,555	42,127	-	-	-
Total income	562,489,481	359,846,562	120,175,736	5,571,749	76,895,434	-
Realization of assets:						
Proceeds from sale of properties	531,920,280	240,679,415	132,946,431	-	158,294,434	
Recoveries on assigned notes	25,083,317	747,689	24,234,046	66,581	35,001	-
Recoveries on defaulted Title I notes	6,713,643	-	6,713,643	-	-	-
Proceeds from sale of purchase money mortgages	42,294,952	1,597,778	40,486,624	-	210,550	-
Collections of principal on purchase money mortgages	10,612,768	709,707	9,888,218	14,843		-
Redemption or transfer of stock in rental and cooperative housing corporations	25,200	-	25,100	100	-	
Total realization of assets	616,650,160	243,734,589	214,294,062	81,524	158,539,985	-
Prior fiscal years adjustments	12,240,207	8,544,159	11,796,588	121,310	-8,221,850	-
Total funds provided by operations	$1,191,379,848	$612,125,310	$346,266,386	$ 5,774,583	$227,213,569	$ -
Funds provided by financing:						
Debentures issued	$ 44,306,250	$ -	$ 42,783,750	$ 1,522,500	$ -	$ -
U. S. securities redeemed, sold and/or transferred (par)	342,456,700	310,310,250	1,759,450	30,387,000	-	-
Principal collections on Defense Family Housing securities	6,290,918	-	6,290,918	-		
Borrowings from U. S. Treasury	976,000,000	-	448,000,000	-	528,000,000	-
Total funds provided by financing	$1,369,053,868	$310,310,250	$498,834,118	$31,909,500	$528,000,000	$ -
Total source of funds	$2,560,433,716	$922,435,560	$845,100,504	$37,684,083	$755,213,569	$ -

	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	$ 184,965,207	$ -	$ -	$ -	$ -	$184,965,207
Charges to insurance funds for salaries and expenses	-	98,130,677	45,868,432	129,919	40,836,179	-184,965,207
Interest on borrowings from U. S. Treasury	62,521,879	-	33,745,231	-	28,776,648	-
Interest on debenture obligations	21,196,259	305,568	20,174,947	715,744	-	-
Repairs of structural defects	3,623,711	49,310	1,800	-	3,572,601	-
Discount on sale of Secretary-held mortgages	7,751,960	122,471	7,618,399	-	11,090	-
Fee expenses	3,027,190	2,339,101	427,465	-	260,624	-
System condition certification fees	298,757	205,524	61,564	-	31,669	-
Expense on settled properties	156,761	-359,577	228,287	-	288,051	-
Miscellaneous expenses	327,652	14,534	25,254	-	287,864	-
Total expenses	283,869,376	100,807,608	108,151,379	845,663	74,064,726	-
Acquisition of assets:						
Real property acquired including net capitalized expenses	1,108,812,897	421,739,272	316,762,056	-15,990	370,327,559	-
Assigned notes acquired including net capitalized expenses	463,806,544	1,833,110	256,856,643	2,248,488	202,868,303	-
Defaulted Title I notes acquired	14,723,825	-	14,723,825	-	-	-
Purchase of stock in rental and cooperative housing corporations	100	-	100	-	-	-
Total acquisition of assets	1,587,343,366	423,572,382	588,342,624	2,232,498	573,195,862	-
Mutual participations	33,645,816	26,681,111	-	6,964,705	-	-
Increase or decrease (-) in working capital applicable to operations	119,312,628	49,242,049	35,551,476	-1,221,409	17,212,488	18,528,024
Total funds applied to operations	$2,024,171,186	$600,303,150	$732,045,479	$ 8,821,457	$664,473,076	$ 18,528,024
Funds applied to financing:						
Debentures redeemed	$ 86,426,000	$ 1,095,050	$ 81,064,700	$ 4,266,250	-	-
U. S. securities acquired (par)	379,724,500	353,642,000	1,195,500	24,887,000	-	-
Increase or decrease (-) in working capital applicable to financing	70,112,030	-32,604,640	30,794,825	-290,624	90,740,493	-18,528,024
Total funds applied to financing	$ 536,262,530	$322,132,410	$113,055,025	$28,862,626	$ 90,740,493	$-18,528,024
Total application of funds	$2,560,433,716	$922,435,560	$845,100,504	$37,684,083	$755,213,569	$ -

NOTES TO COMBINED BALANCE SHEETS

JUNE 30, 1973 and 1972

1. Investments include GNMA participation certificates in the amount of $133,877,244.56 at June 30, 1973 and $133,647,230.34 at June 30, 1972 plus debentures of FHA Insurance Funds in the amount of $57,719,150.00 at June 30, 1973 and $60,387,400.00 at June 30, 1972 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 $152,713,790.57 at June 30, 1973 and $93,746,757.84 at June 30, 1972.

   (b) Accrued interest receivable--collection doubtful--on defaulted Title I notes at June 30, 1973 and 1972.

	1973	1972
On notes with principal balances	$10,188,060.41	$10,689,762.72
On notes with principal balances paid - interest due	1,557,455.40	1,634,279.99
Total	$11,745,515.81	$12,324,042.71

3. The following items are not recorded in the liabilities:

   (a) There were no unfilled orders at June 30, 1973; at June 30, 1972 there were unfilled orders in the amount of $211,814.63 ($81,079.20 furniture and equipment and $130,735.43 operating expenses).

   (b) Unfilled orders and incompleted portion of contracts for property repairs in the amount of $98,199,101.61 at June 30, 1973 and $20,443,515.21 for incompleted portion of contracts for property repairs at June 30, 1972.

   (c) Contingent liability with respect to pending lawsuits in the amount of $4,000.00 at June 30, 1973 and $621,923.00 at June 30, 1972.

   (d) Pending claims on properties and notes tendered by mortgagees but not accepted by FHA in the amount of $152,713,790.57 at June 30, 1973 and $93,746,757.84 at June 30, 1972.

   (e) Certificates of claim relating to properties and notes tendered by mortgagees but not accepted by FHA in the amount of $991,796.35 at June 30, 1973 and $575,788.45 at June 30, 1972.

   (f) Certificates of claim relating to acquired security on hand of $18,899,543.55 at June 30, 1973 and $16,601,040.52 at June 30, 1972.

4. The amount shown as "Borrowings from U. S. Treasury" includes $831,000,000 advanced to the General Insurance Fund and $810,000,000 advanced to the Special Risk Insurance Fund.

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, 1973 and 1972 was:

	1973	1972
Mortgage Insurance Programs	$86,441,691,241	$84,622,544,854
Modernization and Improvement Programs (Title I, Section 2)	435,430,947	394,878,127
Total	$86,877,122,188	$85,017,422,981

7. The liabilities shown for the "Deposits held for mortgagors and lessees" is net of escrow advances by FHA in the amount of $3,877,748.27 at June 30, 1973 and $1,905,172.56 at June 30, 1972.

   The FHA in special circumstances is indemnified against loss on certain insured mortgages and assigned mortgage notes up to $717,960.80 at June 30, 1973 and $842,403.53 at June 30, 1972.

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

	Tenure of office	
	From	To
SECRETARY OF HOUSING AND URBAN DEVELOPMENT:		
James T. Lynn	Feb. 1973	Present (note a)
George W. Romney	Jan. 1969	Jan. 1973
ASSISTANT SECRETARY FOR HOUSING PRODUCTION AND MORTGAGE CREDIT-FHA COMMISSIONER:		
Woodward Kingman (acting)	Feb. 1973	Present
Eugene A. Gulledge	Oct. 1969	Jan. 1973
ASSISTANT COMMISSIONER FOR ADMINISTRATION:		
Horace B. Bazan	Jan. 1956	Present
ASSISTANT COMMISSIONER-COMPTROLLER (note b):		
Benjamin C. Tyner (acting)	Nov. 1972	Jan. 1973
Albert E. Hampton	Feb. 1971	Nov. 1972
DIRECTOR, OFFICE OF FINANCE AND ACCOUNTING (note c):		
John R. Kurelich (acting)	Jan. 1973	Present
DIRECTOR, MORTGAGE INSURANCE ACCOUNTING (note b):		
Benjamin C. Tyner	Jan. 1973	Present

[a] "Present" for the purpose of this report is June 30, 1973.

[b] The position of Assistant Commissioner-Comptroller was eliminated and its responsibilities assumed by the new position Director, Mortgage Insurance Accounting, in January 1973.

[c] This position was established in January 1973.

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