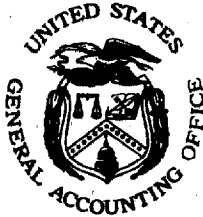


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# REPORT TO THE CONGRESS

094907



BY THE COMPTROLLER GENERAL  
OF THE UNITED STATES

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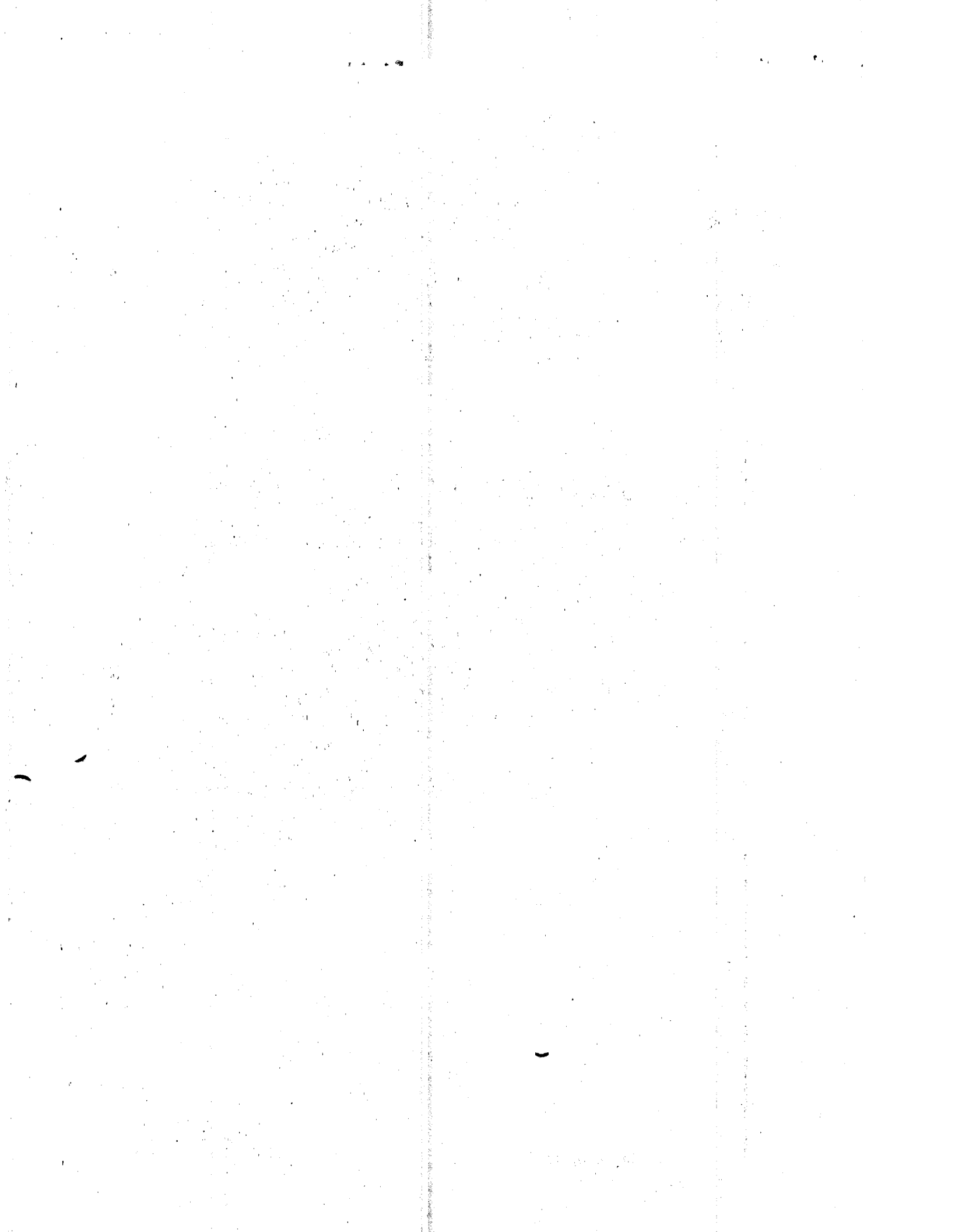
## Examination Of Financial Statements Pertaining To Insurance Operations Of The Federal Housing Administration Fiscal Year 1974

Department of Housing and Urban Development

RED-76-22

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**094907**

SEPT. 22, 1975





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

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

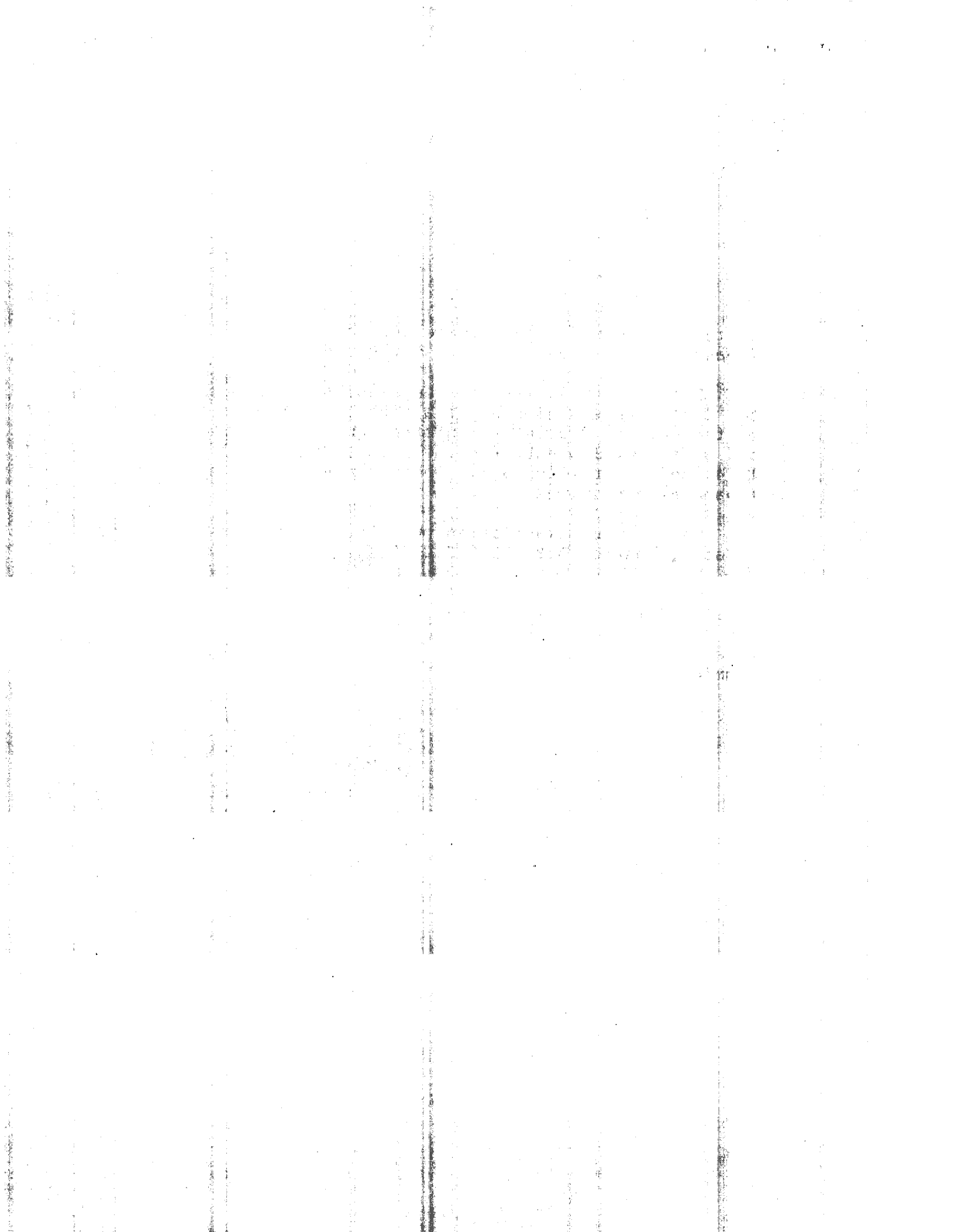
This report summarizes the results of our examination of the financial statements pertaining to insurance operations of the Federal Housing Administration, Department of Housing and Urban Development, for the fiscal year ended June 30, 1974, and other information about the program's operation and financial condition.

We made our examination pursuant to the Government Corporation Control Act (31 U.S.C. 841).

We are sending copies of this report 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.

A handwritten signature in black ink, appearing to read "James A. Atchafalua".

Comptroller General  
of the United States



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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

COMPTROLLER GENERAL'S  
REPORT TO THE CONGRESS

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D I G E S T

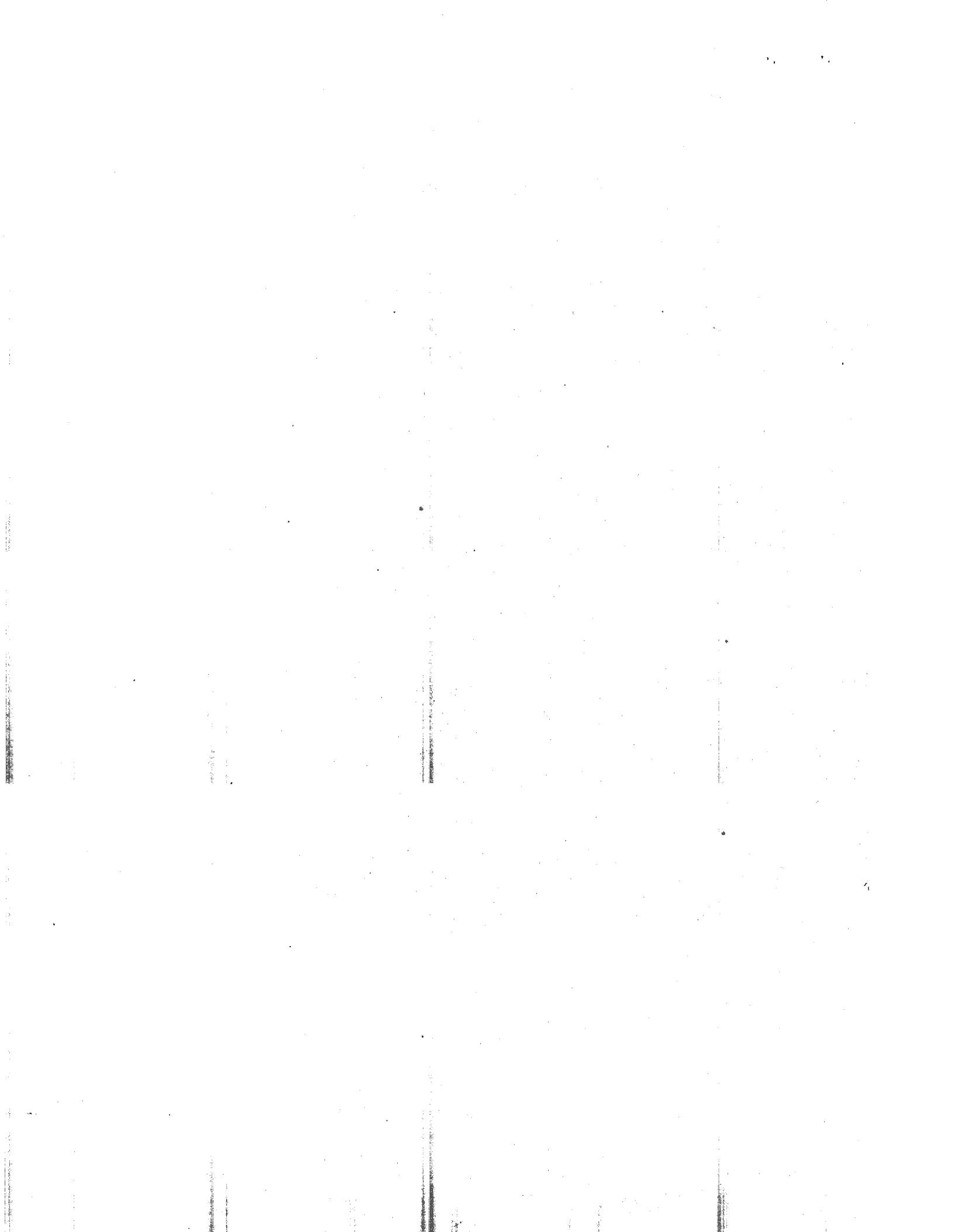
The principal purposes of the Federal Housing Administration, a noncorporate, business-type agency, are to

- 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.

The Federal Housing Administration is subject to the Government Corporation Control Act and prior to the General Accounting Office Act of 1974 was subject to annual audit by the Comptroller General. The General Accounting Office Act of 1974 eliminated the annual audit requirement and established a requirement that an audit be made at least once every 3 years. However, the Comptroller General has the discretion to audit annually if the circumstances warrant such an approach.

OPINION ON FINANCIAL STATEMENTS

In GAO's opinion the accompanying financial statements (schs. 1 through 5) present fairly the financial position of the Federal Housing Administration at June 30, 1974, 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. (See p. 21.)





## CHAPTER 1

### INTRODUCTION

The Federal Housing Administration (FHA) was created by the President on June 30, 1934, under authority of the National Housing Act (12 U.S.C. 1701 et seq.). It is a non-corporate, business-type agency made subject to the Government Corporation Control Act by the Housing Act of 1948. Accordingly, the Comptroller General was required to perform an annual audit of FHA. Effective July 1, 1974, the Government Corporation Control Act was amended and the requirement for an annual audit was changed to require that an audit be made at least once every 3 years. However, the Comptroller General has the discretion to audit annually if the circumstances warrant such an approach.

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, who is appointed by the Secretary of Housing and Urban Development.

For administrative purposes the Department of Housing and Urban Development (HUD) has divided the United States into 10 regions in which 76 area and insuring offices are responsible for writing all forms of FHA insurance required in their respective jurisdictions.

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, and mobile homes. Most of the insurance FHA writes, however, covers mortgages on small homes (one to four families) and on multifamily housing properties. From inception in 1934 to June 30, 1974, FHA wrote about \$187 billion of insurance, of which about \$87 billion was in force at June 30, 1974.

The mortgage insurance function gives rise to insurance claims by mortgagees who, because of mortgage defaults, have acquired properties through foreclosure, or, as an alternative, have assigned their mortgage notes to FHA. In settling claims, title to foreclosed properties or to mortgage notes is conveyed to FHA. The mortgagees' actions

initiate other FHA functions, which are (1) maintaining and selling acquired properties and (2) becoming the mortgagee in the case of the assigned mortgage notes. Separate summaries of FHA's property and mortgage note activity are presented in this report. In prior reports a consolidated summary was presented.

	Property acquisitions											
	fiscal year											
	1974		1973		1972							
Small homes	Multi-family properties	Small homes	Multi-family properties	Small homes	Multi-family properties							
Number of properties and lots on hand at beginning of fiscal year (note a)	<u>72,115</u>	<u>231</u>	<u>51,917</u>	<u>195</u>	<u>32,064</u>	<u>165</u>						
Add:												
Properties acquired from mortgagees	50,845	47	54,810	60	49,202	18						
Conversions (note b)	<u>4,401</u>	<u>55,246</u>	<u>108</u>	<u>155</u>	<u>2,110</u>	<u>56,920</u>	<u>48</u>	<u>108</u>	<u>1,372</u>	<u>50,574</u>	<u>34</u>	<u>52</u>
Less sales	<u>49,796</u>	<u>81</u>	<u>36,722</u>	<u>72</u>	<u>30,721</u>	<u>22</u>						
Increase in number on hand	<u>5,450</u>	<u>74</u>	<u>20,198</u>	<u>36</u>	<u>19,853</u>	<u>30</u>						
Number of properties and lots on hand at end of fiscal year (note a)	<u>77,565</u>	<u>305</u>	<u>72,115</u>	<u>231</u>	<u>51,917</u>	<u>195</u>						

a/Small homes balance includes 7,978 vacant lots at June 30, 1974, and 9,084 vacant lots at June 30, 1973. Small homes which had been located on these lots were razed. The small homes balance at June 30, 1973, given in the summary in our prior year's report was net of vacant lots. The number of vacant lots at June 30, 1972, if any, was not available.

b/Refers to properties on which FHA held assigned defaulted mortgage notes but, because of continued defaults in payments by the mortgagors, FHA foreclosed and acquired the properties.

	Mortgage notes assigned											
	fiscal year											
	1974		1973		1972							
Small homes	Multi-family properties	Small homes	Multi-family properties	Small homes	Multi-family properties							
Number of notes on hand at beginning of fiscal year	<u>9,583</u>	<u>807</u>	<u>5,789</u>	<u>579</u>	<u>3,007</u>	<u>480</u>						
Add:												
Notes acquired	4,558	329	6,023	324	4,195	149						
Less:												
Conversions (note a)	4,401	108	2,110	48	1,372	34						
Liquidations	<u>53</u>	<u>4,454</u>	<u>11</u>	<u>119</u>	<u>2,229</u>	<u>48</u>	<u>96</u>	<u>1,372</u>	<u>41</u>	<u>1,413</u>	<u>16</u>	<u>50</u>
Increase in number of notes on hand	<u>104</u>	<u>210</u>	<u>3,794</u>	<u>228</u>	<u>2,782</u>	<u>99</u>						
Number of notes on hand at end of fiscal year	<u>9,687</u>	<u>1,017</u>	<u>9,583</u>	<u>807</u>	<u>5,789</u>	<u>579</u>						

a/Property which was collateral for assigned defaulted mortgage notes held by FHA as mortgagee was foreclosed on and acquired by FHA because of continued defaults in payments.

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 as separate financial entities by the National Housing Act. The four 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).

All four funds function as revolving funds in carrying out the insurance operations provided for in specific sections of the act. Each fund consists of the assets, liabilities, and reserves (capital) of specific sections of the act. The insurance reserves of one fund are not available for the other funds' use except when authorized by the Congress.

The funds are credited with fees, premiums, and investment income and are charged with interest on borrowings from the U.S. Treasury and with debenture interest, administrative expenses, and insurance losses. Provision is made for estimated future losses on acquired properties, mortgage notes, notes for property improvement and mobile home loans, and premiums receivable. The accumulated differences in each fund between the income of the fund 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 of the individual funds. The financial position of each fund at June 30, 1974, is shown on the combined balance sheet. (See sch. 3.)

For ease in understanding schedule 1, the financial position of the four funds is discussed on a combined basis on pages 4 through 7. Because the four funds are separate financial entities, combined figures do not present the financial position of an individual fund. The financial position of the individual funds is discussed beginning on page 7.

At June 30, 1974, the total insurance reserves amounted to \$612.1 million. An analysis of the respective insurance reserve balances and the sources of these balances follow.

	Total insurance reserves or <u>deficiency(-)</u>	Small homes <u>deficiency(-)</u>	Multifamily properties <u>deficiency(-)</u>	Property improve- ment <u>loans</u>
------(millions)-----				
MMIF	\$1,806.2	\$1,806.2	\$ -	\$ -
GIF	-552.0	-400.6	-265.6	114.2
CMHIF	19.3	-	19.3	-
SRIF	<u>-661.4</u>	<u>-547.2</u>	<u>-114.2</u>	<u>-</u>
	<u>\$ 612.1</u>	<u>\$ 858.4</u>	<u>\$-360.5</u>	<u>\$114.2</u>

The total insurance reserve of \$612.1 million is \$608.6 million less than the total insurance reserve at the end of fiscal year 1973. The decrease of \$608.6 million is attributable to decreases of \$388 million in GIF, \$308 million in SRIF, and \$3 million in CMHIF offset by an increase of \$91 million in MMIF. The decreases in the GIF and the SRIF insurance reserves from the prior year were caused by losses sustained in the insurance operations and increases in valuation reserves to show acquired properties at realizable amounts.

#### 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 mortgagees under the \$87 billion of insurance in force on June 30, 1974. 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. 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, 1974, FHA's estimated insurance funds' reserve requirements amounted to \$3,192 million. At the same date FHA's total insurance reserves, as shown on the combined balance sheets (see schs. 1 and 3), amounted to \$612.1 million, which resulted in a total estimated reserve deficiency of \$2,579.9 million--a \$642.1 million increase from the prior year--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</u> <u>year</u>	<u>Estimated</u> <u>reserve</u> <u>requirements</u>	<u>Insurance</u> <u>reserves</u>	<u>Estimated</u> <u>reserve</u> <u>deficiencies</u>
----- (millions) -----			
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
1974	3,192.0	612.1	2,579.9

The increase of \$642.1 million in the estimated reserve deficiency from the prior year is attributable to a combination of factors, such as (1) a \$608.6 million decrease in the insurance reserves principally because of insurance operation losses together with increases in the valuation reserves established to value purchase money mortgages, acquired properties, defaulted mortgages, Title 1 notes, and premiums receivable held by the insurance funds at amounts considered collectable and (2) a \$33.5 million increase in the estimated reserve requirement which was required, according to FHA, because a large proportion of the new insurance policies written in fiscal year 1974 have long maturities and high loan value rates (higher risk mortgages).

The adequacy of the insurance reserves 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, any of the four insurance funds' insurance reserves could be totally expended and an actual reserve deficiency could develop. However, whether the actual reserve deficiency would reach the estimated reserve deficiency is not predictable.

#### 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, 1974, the total MMIF reserve, as shown on the combined balance sheet (see sch. 3), amounted to \$1,806.2 million and consisted of a statutory reserve of \$359.9 million which is available for payment of dividends and an insurance reserve of \$1,446.3 million which is available for other fund uses. The MMIF reserve of \$1,806.2 million is included in the total reserves of \$612.1 million shown on the combined balance sheets. FHA records showed that no mortgage insurance claims applicable to the MMIF reserve were pending at June 30, 1974.

Section 205 of the act authorized the establishment of a General Surplus Account and a Participating Reserve Account <sup>1/</sup> in MMIF and provided that both accounts be available to meet losses arising from the MMIF insurance operations. Section 205 also authorized the Assistant Secretary for Housing Production and Mortgage Credit-FHA Commissioner to allocate the income or loss from operations in any semi-annual period to either or both accounts and to distribute as dividends a share of the Participating Reserve Account to mortgagors after the MMIF-insured mortgage loans 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 MMIF net income for the fiscal year ended June 30, 1974, amounted to \$105.9 million, and the entire amount was allocated to the Participating Reserve Account. In addition, \$19.7 million was transferred to the Participating Reserve Account from the General Surplus Account.

FHA estimated that at June 30, 1974, the balances in the two accounts, when combined, would exceed the estimated reserve requirements by \$440.6 million. The estimated financial position of the two accounts in relation to the estimated reserve requirement formed the basis for allocating the \$125.6 million to the Participating Reserve Account. Distribution to mortgagors from the Participating Reserve Account in fiscal year 1974 was \$35.1 million compared with \$26.7 million in fiscal year 1973.

From fiscal year 1960 until fiscal year 1971, the estimated reserve requirement for MMIF exceeded its 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 1974, MMIF reserves exceeded the estimated reserve requirement by \$440.6 million. The estimated excess reserve of \$440.6 million at June 30, 1974, is included in the \$2,579.9 million estimated reserve deficiency discussed in the preceding section of this report. The following tabulation shows the

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<sup>1/</sup>Shown in the MMIF section of the combined balance sheet (see sch. 3) as insurance reserve and statutory reserve, respectively.



insurance reserves, the estimated reserve requirement, and the estimated reserve deficiency or excess 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 or excess(-)</u>
------(millions)-----					
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
1974	1,446.3	359.9	1,806.2	1,365.6	-440.6

#### General Insurance Fund

GIF was established on August 10, 1965, under the authority of section 519 of the National Housing Act, as amended, to carry out the mortgage insurance programs authorized by a number of sections of the National Housing Act. As a result GIF is used to insure 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 GIF deficit is attributable to the high-risk insurance programs. GIF is used to insure mortgages and notes which enhance the purchase, construction, and/or improvement of small homes, multifamily property, non-residential property, and commercial or farm structures. GIF sustained a net loss of \$383 million in fiscal year 1974 operations. The GIF insurance reserve deficit at June 30, 1974, amounted to \$552 million (see sch. 3) and is included in the reserves of \$612.1 million shown on the June 30, 1974, combined balance sheets.

FHA records showed that about \$185.1 million in claims were pending against GIF at June 30, 1974. The GIF insurance reserve deficit of \$552 million will increase by the amount of pending claims that are ultimately paid.

The estimated reserve requirement has exceeded the insurance reserve since inception of the fund in August 1965. The \$1,553.5 million estimated reserve deficiency at June 30, 1974, is part of the total \$2,579.9 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 year</u>	<u>Estimated reserve requirement</u>	<u>Insurance reserve or deficiency(-)</u>	<u>Estimated reserve deficiency</u>
------(millions)-----			
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
1974	1,001.5	-552.0	1,553.5

During fiscal year 1974, the Assistant Secretary for Housing Production and Mortgage Credit-FHA Commissioner borrowed \$476 million from the U.S. Treasury for GIF, which increased the amount borrowed to \$1,307 million. The borrowed funds had not been repaid at June 30, 1974.

The ultimate reserve deficiency that might develop could exceed the \$1,553.5 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 balances of defaulted mortgages. In such settlements, FHA acquires the properties or the mortgage notes that secured the defaulted mortgages.

In fiscal year 1974, 14,046 home properties and notes were acquired, compared with 15,841 in fiscal year 1973. In addition, 267 multifamily properties and notes were acquired in fiscal year 1974, compared with 246 multifamily properties and notes in fiscal year 1973. According to FHA records, acquisitions in the first 4 months of fiscal year 1975 occurred 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, as amended. 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 total \$19.3 million, and are included in the total reserves of \$612.1 million shown on the combined balance sheets. (See schs. 1 and 3.) FHA records showed that all claims pending at June 30, 1974, against the \$19.3 million reserve had been accepted.

Section 213(1) of the act authorized the establishment of a General Surplus Account and a Participating Reserve Account 1/ in CMHIF and authorized the Assistant Secretary for Housing Production and Mortgage Credit-FHA Commissioner to allocate the income or loss from operations in any semi-annual period to either or both accounts. The act also authorized the Assistant Secretary for Housing Production and Mortgage Credit-FHA Commissioner to distribute a share of the Participating Reserve Account to mortgagors as dividends after the CMHIF-insured mortgages 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 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 \$1.6 million from operations for fiscal year 1974. HUD estimated that at December 31, 1973--the first half of fiscal year 1974--CMHIF had realized income of \$2.2 million and, as authorized by section 213(1) of the act, allocated the foregoing amount to the Participating Reserve Account. During the second half of fiscal year 1974, CMHIF incurred a \$0.6 million loss which reduced the income for the year to \$1.6 million. HUD allocated the second half loss to the General Surplus Account. Distribution to mortgagors from the Participating Reserve Account in fiscal year 1974 amounted to \$5 million, compared with \$7 million in fiscal year 1973.

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

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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.

<u>Fiscal year</u>	<u>Participating Reserve Account</u>	<u>General Surplus Account</u>	<u>Total reserves</u>	<u>Estimated reserve requirement</u>	<u>Estimated reserve excess</u>
------(millions)-----					
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
1974	2.6	16.7	19.3	10.1	9.2

### 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 who are assisted with their mortgage payments by FHA, (2) 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 (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 time 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, 1974, \$20 million had been advanced from GIF.

The Congress did not intend that SRIF be actuarially sound because appropriations to cover the fund's losses 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 for Housing Production and Mortgage Credit-FHA Commissioner has borrowed a total of \$1,155 million from the Treasury, of which amount \$345 million was borrowed during fiscal year 1974. The borrowed funds had not been repaid at June 30, 1974.

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

<u>Fiscal year</u>	<u>Estimated reserve requirement</u>	<u>Insurance reserve deficit</u>	<u>Estimated reserve deficiency</u>
------(millions)-----			
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
1974	814.8	661.4	1,476.2

The ultimate reserve deficiency that may develop could conceivably exceed the estimated \$1,476.2 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 or the mortgage notes that secured the defaulted mortgages. Acquisitions in fiscal year 1974 applicable to SRIF amounted to 24,468 properties and notes. In fiscal year 1973, 23,833 properties and notes were acquired, and, according to FHA records, acquisitions in fiscal year 1975 were continuing at a higher rate than in fiscal year 1974.

FHA records showed also that at June 30, 1974, \$75.9 million in claims were pending against the SRIF insurance reserve. The SRIF insurance reserve deficit of \$661.4 million will increase by the amount of pending claims that are ultimately paid.

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 \$177.3 million at June 30, 1974, a \$44.8 million increase over the \$132.5 million in accounts receivable at June 30, 1973. Increases totaling \$49 million in the various accounts receivable included \$47.9 million from sales of Secretary-held properties, \$0.7 million in amounts owed for insurance fees, and \$0.4 million from the sale of Secretary-held mortgages. The \$49 million increase was offset by a \$2.9 million

decrease in net premiums due FHA and a \$1.3 million decrease in miscellaneous receivables.

The accounts receivable-premiums balance of \$56.1 million at June 30, 1974, was substantially unchanged from the balance at the end of the prior fiscal year. However, the allowance for estimated future losses established to value the accounts receivable-premiums at an amount considered collectable was increased to \$5.4 million from \$2.5 million because our analysis of the June 30, 1974, premium balances showed a substantial increase in premiums outstanding 6 months or more.

#### 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 \$1,393.7 million at June 30, 1974, a \$64.1 million increase from the \$1,329.6 million in investments at June 30, 1973. The increase in investments is attributable to the \$64.9 million increase in the MMIF holdings offset by a \$0.8 million decrease in the CMHIF holdings.

#### Acquired property--at cost plus net expenses to date

The acquired property inventory balances of \$1,772.9 million and \$1,523.0 million at the end of fiscal years 1974 and 1973, respectively, are shown in schedule 1. An analysis of the activity in acquired property follows.

	<u>Fiscal year</u>	
	<u>1974</u>	<u>1973</u>
	(millions)	
Acquired property inventory at beginning of fiscal year	<u>\$1,523.0</u>	<u>\$1,131.3</u>
Acquisition cost and other net property expenses	1,343.9	1,203.9
Cost of sold properties	<u>1,094.0</u>	<u>812.2</u>
Increase in inventory	<u>249.9</u>	<u>391.7</u>
Acquired property inventory at end of fiscal year (note a)	<u>\$1,772.9</u>	<u>\$1,523.0</u>

a/The allowances for estimated future losses of \$1.4 billion and \$1.1 billion at June 30, 1974 and 1973, respectively, shown as a deduction from the balances of acquired property and notes (see sch. 1), include amounts required to reduce the property balances by the cost attributed by FHA to 7,978 razed small-home properties at June 30, 1974, and 9,084 razed small-home properties at June 30, 1973. (See p. 2.)

An analysis of the increases from the prior year of \$140 million (\$1,343.9 million less \$1,203.9 million) in acquisition cost and net property expenses, as well as the \$281.8 million (\$1,049.0 million less \$812.2 million) in the cost of property sold is shown by insurance fund in the tabulation that follows.

	<u>Increases or decreases(-) in acquisition cost and other net property expenses</u>	<u>Increases in cost of properties sold</u>
	(millions)	
MMIF	\$-58.7	\$ 31.3
GIF	52.0	78.5
CMHIF	.2	-
SRIF	<u>146.5</u>	<u>172.0</u>
Total	<u>\$140.0</u>	<u>\$281.8</u>

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

The \$1,384 million for defaulted mortgage notes, as shown in the combined balance sheets (see schs. 1 and 3),

was \$304.1 million more than the amount at the end of the prior year. A comparison of the activity resulting in changes in the amount of mortgage notes on hand during fiscal years 1974 and 1973 follows.

	<u>Fiscal year</u>	
	<u>1974</u>	<u>1973</u>
	(millions)	
Defaulted mortgage notes--at cost plus net expenses--on hand at beginning of fiscal year	<u>\$1,079.9</u>	<u>\$ 732.7</u>
Acquisitions	506.0	466.7
Conversions (note a) and liquidations	<u>201.9</u>	<u>119.5</u>
Increase of mortgage notes on hand	<u>304.1</u>	<u>347.2</u>
Defaulted mortgage notes--at cost plus net expenses--on hand at end of fiscal year	<u>\$1,384.0</u>	<u>\$1,079.9</u>

a/Refers to defaulted mortgage notes on which HUD took foreclosure action, subsequently acquiring title to the properties that had been the security backing the defaulted mortgage notes.

An analysis of the increase from the prior year of \$39.3 million (\$506.0 million less \$466.7 million) in acquisitions and \$82.4 million (\$201.9 million less \$119.5 million) in conversions and liquidations is shown by insurance fund in the following schedule.

	<u>Increases or decreases(-) in acquisitions</u>	<u>Increases or decreases(-) in conversions and liquidations</u>
	(millions)	
MMIF	\$ -.3	\$ -.5
GIF	53.4	25.9
CMHIF	3.2	-
SRIF	<u>-17.0</u>	<u>56.0</u>
Total	<u>\$39.3</u>	<u>\$82.4</u>



### Allowances for estimated future losses

The valuation reserves--allowances for estimated future losses--provided by FHA at June 30, 1974, for premiums receivable (\$5.4 million), for mortgage notes and contracts for deed (\$19.2 million), and for acquired security or collateral (\$1,427.4 million) totaled \$1,452.0 million, a \$333.7 million increase from the amount of \$1,118.3 million at June 30, 1973. (See schs. 1 and 3.)

The \$333.7 million increase in the valuation reserves consists of \$333.9 million added to the reserve based on fiscal year 1974 operations and a minor adjustment of \$0.2 million decrease in reserves pertaining to prior years. The \$333.9 million is shown in schedules 2 and 4 under the caption "Increase(-) or decrease(+) in valuation allowances" and represents adjustments necessary to value the acquired properties, insurance premiums receivable, and Title 1 and other mortgage notes held by the four funds at June 30, 1974, at amounts considered to be collectable. The major increases to the reserves were \$170.3 million for acquired properties and \$153.5 million for defaulted mortgage notes. Further, FHA increased the valuation allowance on premiums receivable from \$2.5 million in fiscal year 1973 to \$5.4 million in fiscal year 1974 because of the substantial increases in balances in the 6 months or more past due category. (See p. 14.) By fund the valuation allowances were increased by \$6 million for MMIF, \$196.7 million for GIF, \$2.8 million for CMHIF, and \$128.5 million for SRIF.

The valuation allowances were based on (1) actual losses experienced on the sale of small-home properties in fiscal year 1974, (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, 1973, the valuation reserves were increased by \$433.9 million, as shown in the statement of income and expense. (See sch. 2.)

### Liabilities

#### Accounts payable

The \$213.5 million for accounts payable, as shown in the combined balance sheets (see schs. 1 and 3), was \$24.1 million less than the amount at the close of the prior year.

The \$24.1 million decrease consisted of a \$34.6 million decrease in the amounts due to mortgagees for securities

acquired by FHA in the settlement of mortgage insurance claims, offset by a \$10.5 million increase in the liability of MMIF participations payable.

Debenture obligations--debentures  
issued and outstanding

Debentures issued and outstanding at June 30, 1974, as shown in the combined balance sheets (see schs. 1 and 3), amounted to \$408.1 million, compared with \$411.7 million at June 30, 1973--a \$3.6 million decrease.

During fiscal year 1974, debentures totaling \$58.1 million were issued in payment of insurance claims presented by insured mortgagees because of mortgagors' defaults in mortgage payments, and debentures totaling \$61.7 million were redeemed.

Borrowings from U.S. Treasury

On October 13, 1971, the then 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 are "open end," that is, notes that do not stipulate the dollar amount that the U.S. Treasury could advance to either GIF or SRIF. The November 25, 1970, notes had provided for advances up to a total 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, 1974, GIF's borrowings totaled \$1,307 million and SRIF's borrowings totaled \$1,155 million--increases of \$476 million and \$345 million, respectively, from June 30, 1973. (See sch. 4.)

Income

Total income

The total income of \$536.6 million for fiscal year 1974, 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 \$22.7 million less than the combined income of \$559.3 million in the preceding fiscal year. The income from each fund decreased in fiscal year 1974 from the preceding

fiscal year. The decreases were \$15.7 million for MMIF, \$4.9 million for GIF, \$21,000 for CMHIF, and \$2.1 million for SRIF.

The \$15.7 million decrease in MMIF's income resulted from decreases of \$3.5 million in fees, \$15.4 million in premiums, and \$0.1 million in income from the combined decrease on settled property and other interest income. The decreases were offset by an increase in interest on U.S. Government securities of \$3.3 million.

The decrease in fees occurred because MMIF insured 41,352 fewer mortgages during fiscal year 1974 than in the prior fiscal year. Correspondingly, the revenue from insurance premiums decreased because the amount of the insurance in force was about \$2 billion less during fiscal year 1974. The average principal amount of mortgages insured during fiscal year 1974, however, increased to \$19,646 from the prior year's principal amount of \$19,314.

The \$4.9 million decrease in GIF's income is the net effect of increases in premiums of \$0.4 million, interest income, and income on settled properties of \$2.2 million, reduced by decreases in income from fees of \$7.5 million and minor decreases in income from interest on Government securities and miscellaneous income. The reduction in fee income of \$7.5 million is attributable to the decrease of 25,860 small loans and multifamily projects insured by GIF in fiscal year 1974--43,277 compared to 69,137 in fiscal year 1973.

The decrease in the CMHIF income was minor--\$21,000. A \$0.1 million decrease in premiums was offset by the \$0.1 million combined increase in interest on U.S. Government securities and fees.

The \$2.1 million decrease in SRIF's income resulted from decreases of \$9.3 million in fees and \$0.6 million in interest income on settled properties. These decreases were offset by a \$7.8 million increase in premiums. The \$9.3 million decrease in fees was a consequence of 69,506 fewer mortgage insurance policies SRIF wrote in fiscal year 1974 on small homes and multifamily projects. In 1974, 34,839 small homes and multifamily projects were insured, whereas 104,345 were insured in fiscal year 1973. Although the number of new insured cases decreased in 1974, the total amount of insurance in force increased during the year by about \$1 billion because the average SRIF-insured mortgage balance in fiscal year 1974 was larger than the average mortgage balance insured in the preceding fiscal year. Consequently, premium income for the fund increased during the year.

## Expense

### Interest on borrowings from U.S. Treasury

The \$126.9 million interest on borrowings from the U.S. Treasury, shown in the statements of income and expense (see schs. 2 and 4), is \$64.4 million more than the \$62.5 million in the prior fiscal year. The \$64.4 million increase resulted from increased GIF and SRIF borrowings in fiscal year 1974. The GIF increased borrowings amounted to \$476 million and the SRIF increase amounted to \$345 million.

### Loss on acquired security

The loss sustained on acquired security in fiscal year 1974, as shown in the statements of income and expense (see schs. 2 and 4), amounted to \$422.8 million, a \$220.0 million increase in the amount sustained in the prior fiscal year.

The \$202.8 million increase in the loss of acquired security was comprised of a \$157.2 million loss in the sale of small homes, a \$31.6 million loss in the sale of multi-family properties, and a \$14.0 million loss in the liquidation of multifamily property notes. The increase in losses for small homes is attributed to an increase in FHA sales of small homes during the year by about 13,000 and a \$1,550 increase in the average loss per property.

### Errors in accounting records and their effect on the financial statements

During fiscal year 1974 bookkeeping errors were made on FHA's books affecting fee income and accounts receivable. The errors occurred in recording overpayments and underpayments of fees by lending institutions. As a result, fees receivable (as shown on FHA's financial statements at June 30, 1974, schs. 1 and 3) and fee income (as shown on schs. 2 and 4) are overstated by about \$437,000. Further, the fees shown as a source of funds on schedule 5 and the insurance reserves shown on schedules 1 and 3 are each overstated by \$437,000.

The errors were found after closing the financial records and issuing the financial statements for fiscal year 1974. FHA made the necessary corrections to its books during fiscal year 1975 and HUD accounting officials informed us that bookkeeping procedures were revised to avoid a recurrence of similar errors. Since the \$437,000 errors are insignificant in relation to the total accounts receivable or total income, we are not qualifying our opinion on FHA's financial statements.

CHAPTER 3

SCOPE OF EXAMINATION

AND

OPINION ON FINANCIAL STATEMENTS

We examined FHA's financial statements pertaining to its insurance operations for the fiscal year ended June 30, 1974. 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 1974. However, the scope of these reviews did not include enough work on FHA balance sheet or income and expense accounts for fiscal year 1974 activities to enable us to reduce our examination of these accounts.

The financial statements, schedules 1 through 5, are FHA's statements pertaining to its insurance operations. Schedule 5 is based on the combined statements 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, 1974, 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.

## FEDERAL HOUSING ADMINISTRATION

## COMBINED COMPARATIVE BALANCE SHEET

AS OF JUNE 30, 1974 AND 1973

## ASSETS

	1974	1973	Increase or Decrease (-)
CASH AND FUND BALANCES	<u>\$ 118,406,988</u>	<u>\$ 226,371,862</u>	<u>\$ -107,964,874</u>
ACCOUNTS RECEIVABLE:			
Premiums	56,109,602	56,145,013	-35,411
Less: Allowance for estimated future losses	<u>5,400,000</u>	<u>2,500,000</u>	<u>2,900,000</u>
Net premiums	50,709,602	53,645,013	-2,935,411
Fees	3,596,018	2,867,245	728,773
Sale of Secretary-held properties	100,585,454	52,710,609	47,874,845
Sale of Secretary-held mortgages	955,150	503,375	451,775
Other	1,474,333	2,785,921	-1,311,588
Advance to Special Risk Insurance Fund from General Insurance Fund	<u>20,000,000</u>	<u>20,000,000</u>	<u>-</u>
Total accounts receivable	<u>177,320,557</u>	<u>132,512,163</u>	<u>44,808,394</u>
ACCRUED ASSETS:			
Premiums	152,304,437	156,851,586	-4,547,149
Interest on U. S. Government securities	28,950,921	28,459,924	490,997
Interest on mortgage notes receivable	<u>44,351,131</u>	<u>36,140,069</u>	<u>8,211,062</u>
Total accrued assets	<u>225,606,489</u>	<u>221,451,579</u>	<u>4,154,910</u>
INVESTMENTS:			
U. S. Government securities at amortized cost (Market Value \$1,308,519,524 at June 30, 1974 and \$1,298,064,493 at June 30, 1973) (note 1)	1,393,685,455	1,329,615,021	64,070,434
Stock in rental and cooperative housing corporations: 146,890 shares at June 30, 1974 and 158,975 shares at June 30, 1973--at cost	<u>167,300</u>	<u>180,800</u>	<u>-13,500</u>
Total investments	<u>1,393,852,755</u>	<u>1,329,795,821</u>	<u>64,056,934</u>
MORTGAGE NOTES AND CONTRACTS FOR DEED--UNPAID BALANCE	310,854,010	286,221,044	24,632,966
Less allowance for estimated future losses	<u>19,128,456</u>	<u>18,038,649</u>	<u>1,089,807</u>
Net mortgage notes and contracts for deed	<u>291,725,554</u>	<u>268,182,395</u>	<u>23,543,159</u>
ACQUIRED SECURITY OR COLLATERAL:			
Acquired property--at cost plus net expenses to date	1,772,882,943	1,522,996,056	249,886,887
Defaulted mortgage notes--at cost plus net expenses to date	1,383,994,909	1,079,881,217	304,113,692
Defaulted Title I notes--at unpaid principal balance	<u>48,873,135</u>	<u>44,718,208</u>	<u>4,154,927</u>
Total cost of acquired property and notes	3,205,750,987	2,647,595,481	558,155,506
Less principal recoveries on defaulted mortgage notes	56,253,915	50,694,812	5,559,103
Less undisbursed mortgage proceeds	<u>1,925,432</u>	<u>1,499,269</u>	<u>426,163</u>
Unrecovered cost	3,147,571,640	2,595,401,400	552,170,240
Less allowance for estimated future losses	<u>1,427,132,800</u>	<u>1,097,377,171</u>	<u>329,755,629</u>
Net acquired property and notes	<u>1,720,438,840</u>	<u>1,498,024,229</u>	<u>222,414,611</u>
Other notes receivable	264,405	265,259	-854
Less allowance for estimated future losses	<u>243,937</u>	<u>244,091</u>	<u>-154</u>
Net other notes receivable	<u>20,468</u>	<u>21,168</u>	<u>-700</u>
Net acquired security or collateral	<u>1,720,459,308</u>	<u>1,498,045,397</u>	<u>222,413,911</u>
OTHER ASSETS--HELD FOR THE ACCOUNT OF MORTGAGORS	<u>2,366,852</u>	<u>2,239,355</u>	<u>127,497</u>
UNAPPLIED CHARGES	599,126	358,872	240,254
Total assets (notes 2)	<u>\$3,930,337,629</u>	<u>\$3,678,957,444</u>	<u>\$ 251,380,185</u>

The notes on pages 32 to 33 are an integral part of this statement.

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## LIABILITIES

	1974	1973	Increase or Decrease (-)
<b>ACCOUNTS PAYABLE:</b>			
Acquired security and miscellaneous	\$ 160,637,319	\$ 195,218,698	\$ -34,581,379
MML Fund participations payable	32,813,958	22,285,815	10,528,143
Advances from General Insurance Fund to Special Risk Insurance Fund	<u>20,000,000</u>	<u>20,000,000</u>	-
Total accounts payable	<u>213,451,277</u>	<u>237,504,513</u>	<u>-24,053,236</u>
<b>ACCRUED LIABILITIES:</b>			
Interest on debentures	<u>11,155,112</u>	<u>10,050,167</u>	<u>1,104,945</u>
<b>TRUST AND DEPOSIT LIABILITIES:</b>			
Deposits held for mortgagors and lessees (note 7)	22,694,093	16,938,737	5,755,356
Earnest money on pending sales	85,089,563	48,081,499	37,008,064
Excess proceeds of sale	<u>4,334,875</u>	<u>4,027,302</u>	<u>307,573</u>
Total trust and deposit liabilities	<u>112,118,531</u>	<u>69,047,538</u>	<u>43,070,993</u>
<b>DEFERRED CREDITS:</b>			
Unearned premium income	54,387,620	53,316,950	1,070,670
Unearned fee income	414,693	720,713	-306,020
Unapplied credits	<u>5,312,983</u>	<u>3,628,796</u>	<u>1,684,187</u>
Total deferred credits	<u>60,115,296</u>	<u>57,666,459</u>	<u>2,448,837</u>
<b>DEBENTURE OBLIGATIONS:</b>			
Debentures issued and outstanding	408,053,400	411,650,450	-3,597,050
Debentures authorized for issue	624,500	7,593,650	-6,969,150
Debenture claims in process	<u>40,639,670</u>	<u>16,312,900</u>	<u>24,326,770</u>
Total debenture obligations	<u>449,317,570</u>	<u>435,557,000</u>	<u>13,760,570</u>
<b>OTHER LIABILITIES:</b>			
Reserve for foreclosure costs--defaulted mortgage notes	<u>10,062,677</u>	<u>7,454,161</u>	<u>2,608,516</u>
Total liabilities	<u>856,220,463</u>	<u>817,279,838</u>	<u>38,940,625</u>
<b>RESERVES AND BORROWINGS FROM U. S. TREASURY</b>			
<b>RESERVES:</b>			
Statutory Reserve--for participation payments and future losses and expenses (note 5)	362,509,138	274,787,207	87,721,931
Insurance Reserve--available for future losses and expenses (note 5)	<u>249,608,028</u>	<u>945,890,399</u>	<u>-696,282,371</u>
Total reserves	<u>612,117,166</u>	<u>1,220,677,606</u>	<u>-608,560,440</u>
<b>BORROWINGS FROM U. S. TREASURY (note 4)</b>	<u>2,462,000,000</u>	<u>1,641,000,000</u>	<u>821,000,000</u>
Total reserves and borrowings from U. S. Treasury	<u>3,074,117,166</u>	<u>2,861,677,606</u>	<u>212,439,560</u>
Total liabilities, reserves and borrowings from U. S. Treasury (notes 3, 4, 5, 6, and 7)	<u>\$3,930,337,629</u>	<u>\$3,678,957,444</u>	<u>\$ 251,380,185</u>

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SCHEDULE 2

SCHEDULE 2

FEDERAL HOUSING ADMINISTRATION  
 COMBINED COMPARATIVE STATEMENT OF INCOME AND EXPENSE  
 AND CHANGES IN INSURANCE RESERVES AND BORROWINGS  
 FOR THE FISCAL YEARS ENDED JUNE 30, 1974 AND 1973

INCOME AND EXPENSE	1974	1973	Increase or Decrease (-)
<b>INCOME:</b>			
Fees	\$ 21,342,343	\$ 41,703,974	\$ -20,361,631
Premiums	421,115,822	428,375,275	-7,259,453
Interest on U. S. Government securities and dividends	91,750,591	88,317,212	3,433,379
Interest income	2,417,719	1,053,235	1,364,484
Income or expense (-) on settled properties	-35,934	-156,761	120,827
Miscellaneous income	36,734	46,682	-9,948
<b>Total income</b>	<b>536,627,275</b>	<b>559,339,617</b>	<b>-22,712,342</b>
<b>EXPENSE:</b>			
Salaries and expenses	190,013,352	184,965,207	5,048,145
Interest on borrowings from U. S. Treasury	126,873,322	62,521,879	64,351,443
Interest on debenture obligations	21,685,680	21,196,259	489,421
Loss on acquired security	422,771,390	220,029,301	202,742,089
Loss on defaulted Title I notes	10,429,755	10,137,167	292,588
Discount on sale of Secretary-held mortgages	179,203	7,751,959	-7,572,756
Fee expenses	1,475,037	3,523,340	-1,850,000
Repairs of structural defects	1,365,995	3,623,711	-2,257,716
Miscellaneous expense	416,986	327,652	89,334
<b>Total expense</b>	<b>775,210,780</b>	<b>513,879,081</b>	<b>261,331,699</b>
<b>Net income or loss (-) before adjustment of valuation allowances</b>	<b>-238,583,505</b>	<b>45,460,536</b>	<b>-284,044,041</b>
<b>INCREASE (-) OR DECREASE (+) IN VALUATION ALLOWANCES:</b>			
Allowance for estimated future losses on:			
Purchase money mortgages	-1,238,588	+110,897	-1,349,485
Acquired properties	-170,293,548	-282,192,589	+111,899,041
Defaulted mortgage notes	-153,518,010	-149,437,189	-4,080,821
Defaulted Title I notes	-5,944,071	+107,139	-6,051,210
Other notes receivable	+154	+1,019	-865
Insurance premiums receivable	-2,900,000	-2,500,000	-400,000
<b>Net adjustment of valuation allowances</b>	<b>-333,894,063</b>	<b>-433,910,723</b>	<b>+100,016,660</b>
<b>Net income or loss (-)</b>	<b>\$ -572,477,568</b>	<b>\$ -388,450,187</b>	<b>\$ -184,027,381</b>
<b>ANALYSIS OF INSURANCE RESERVES AND BORROWINGS</b>			
<b>DISTRIBUTION OF NET INCOME</b>			
Statutory Reserve (participating reserve account):			
Balance at beginning of period	\$ 274,787,207	\$ 211,656,417	\$ 63,130,790
Net income allocated for the period 2/	108,135,038	79,194,064	28,940,974
Transfer from general surplus account	19,661,546	17,582,543	2,079,003
Total participating reserve	402,583,791	308,433,024	94,150,767
Participations declared	-40,068,219	-33,679,634	-6,388,585
Participations available	362,515,572	274,753,390	87,762,182
Changes in participations held in escrow	-6,434	33,817	-40,251
<b>Balance at end of period</b>	<b>\$ 362,509,138</b>	<b>\$ 274,787,207</b>	<b>\$ 87,721,931</b>
Insurance Reserve:			
Balance at beginning of period	\$ 945,890,399	\$1,418,716,586	\$-472,826,187
Adjustments during the period 1/	3,991,781	12,400,607	-8,408,826
Net income or loss (-) for the period 2/	-680,612,606	-467,644,251	-212,968,355
Transfer to participating reserve account	-19,661,546	-17,582,543	-2,079,003
<b>Balance at end of period</b>	<b>\$ 249,608,028</b>	<b>\$ 945,890,399</b>	<b>\$-696,282,371</b>
<b>Total reserves</b>	<b>\$ 612,117,166</b>	<b>\$1,220,677,606</b>	<b>\$-608,560,440</b>
<b>BORROWINGS FROM U. S. TREASURY:</b>			
Balance at beginning of period	\$1,641,000,000	\$ 665,000,000	\$ 976,000,000
Borrowings during the period	821,000,000	976,000,000	-155,000,000
<b>Balance at end of period</b>	<b>\$2,462,000,000</b>	<b>\$1,641,000,000</b>	<b>\$ 821,000,000</b>
<b>Total reserves and borrowings at end of period</b>	<b>\$3,074,117,166</b>	<b>\$2,861,677,606</b>	<b>\$ 212,439,560</b>
1/ Comprised of the following adjustments relative to prior years:			
(a) Salaries and expenses	\$ 3,843,000	\$ 3,103,508	\$ 739,492
(b) Allowance for estimated future losses on purchase money mortgages	148,781	160,400	-11,619
(c) Insurance premiums	-	9,136,699	-9,136,699
	<b>\$ 3,991,781</b>	<b>\$ 12,400,607</b>	<b>\$ -8,408,826</b>
2/ The net income was distributed to the statutory and/or the insurance reserve by the Assistant Secretary for Housing Production and Mortgage Credit - FHA Commissioner, under authority of Sections 205 and 213 of the National Housing Act.			

SCHEDULE 3

SCHEDULE 3

FEDERAL HOUSING ADMINISTRATION

COMBINED BALANCE SHEET

ANALYSIS BY FUND

AS OF JUNE 30, 1974

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:	\$ 118,406,988	\$ 84,369,762	\$ 24,164,583	\$ 737,361	\$ 7,160,913	\$1,974,369
ACCOUNTS RECEIVABLE:						
Premiums	56,109,602	28,026,623	15,345,851	555,254	12,181,874	-
Less: Allowance for estimated future losses	5,400,000	5,400,000	-	-	-	-
Net premiums	50,709,602	22,626,623	15,345,851	555,254	12,181,874	-
Fees	3,596,018	3,236,018	306,995	-	53,005	-
Sale of Secretary-held properties	100,585,454	31,953,786	21,750,060	-	46,881,606	-
Sale of Secretary-held mortgages	955,150	201,600	94,200	-	659,350	-
Other	1,474,333	308,993	709,457	-	341,169	114,714
Advances to Special Risk Insurance Fund from General Insurance Fund	20,000,000	-	20,000,000	-	-	-
Total accounts receivable	177,320,557	58,327,022	58,206,563	555,254	60,117,004	114,714
ACCRUED ASSETS:						
Premiums	152,304,437	112,027,802	21,105,647	-	19,170,988	-
Interest on U. S. Government securities	28,950,921	28,397,908	-	553,013	-	-
Interest on mortgage notes receivable	44,351,131	545,107	33,344,294	754,637	9,707,093	-
Total accrued assets	225,606,489	140,970,817	54,449,941	1,307,650	28,878,081	-
INVESTMENTS:						
U. S. Government securities at amortized cost (Market Value \$1,308,519,524) (Note 1)	1,393,685,455	1,370,552,346	-	23,133,109	-	-
Stock in rental and cooperative housing corporations, 146,890 shares at cost	167,300	-	145,700	21,600	-	-
Total investments	1,393,852,755	1,370,552,346	145,700	23,154,709	-	-
MORTGAGE NOTES AND CONTRACTS FOR DEED--UNPAID BALANCE	310,854,010	16,543,094	291,048,406	2,254,360	1,008,150	-
Less allowance for estimated future losses	19,128,456	439,471	18,530,501	112,718	45,766	-
Net mortgage notes and contracts for deed	291,725,554	16,103,623	272,517,905	2,141,642	962,384	-
ACQUIRED SECURITY OR COLLATERAL:						
Acquired property--at cost plus net expenses to date	1,772,882,943	426,745,809	734,015,854	5,065,385	607,055,895	-
Defaulted mortgage notes--at cost plus net expenses to date	1,383,994,909	13,115,237	992,338,935	16,407,679	362,133,058	-
Defaulted Title I notes--at unpaid principal balance	48,873,135	-	48,873,135	-	-	-
Total cost of acquired property and notes	3,205,750,987	439,861,046	1,775,227,924	21,473,064	969,188,953	-
Less principal recoveries on defaulted mortgage notes	56,253,915	1,530,225	54,061,421	387,804	274,465	-
Less undisbursed mortgage proceeds	1,925,432	-	1,925,432	-	-	-
Unrecovered cost	3,147,571,640	438,330,821	1,719,241,071	21,085,260	968,914,488	-
Less allowance for estimated future losses	1,427,132,800	199,911,176	802,852,293	6,012,832	418,356,499	-
Net acquired property and notes	1,720,438,840	238,419,645	916,388,778	15,072,428	550,557,989	-
Other notes receivable	264,405	245,980	18,425	-	-	-
Less allowance for estimated future losses	243,937	242,015	1,922	-	-	-
Net other notes receivable	20,468	3,965	16,503	-	-	-
Net acquired security or collateral	1,720,459,308	238,423,610	916,405,281	15,072,428	550,557,989	-
OTHER ASSETS--HELD FOR THE ACCOUNT OF MORTGAGORS	2,366,852	-	2,345,700	21,152	-	-
UNAPPLIED CHARGES	599,126	78,614	19,393	-	497,077	4,042
Total assets (note 2)	\$3,930,337,629	\$1,908,825,794	\$1,328,255,066	\$42,990,196	\$648,173,448	\$2,093,125

The notes on pages 32 to 33 are an integral part of this statement.

BEST DOCUMENT AVAILABLE

SCHEDULE 3

SCHEDULE 3

LIABILITIES	Combined	Mutual Mortgage Insurance Fund	General Insurance Fund	Cooperative Management Housing Insurance Fund	Special Risk Insurance Fund	Salaries and Expenses Fund
<b>ACCOUNTS PAYABLE:</b>						
Acquired security and miscellaneous	\$ 160,637,319	\$ 30,893,847	\$ 58,945,531	\$ 5,721	\$ 69,482,220	\$1,310,000
MHI Fund participations payable	32,813,958	32,813,958	-	-	-	-
Advances from GI Fund to SR1 Fund	20,000,000	-	-	-	20,000,000	-
Inter-fund (receivables (-))	-	-892,755	71,430	5,577	760,240	55,508
<b>Total accounts payable</b>	<b>213,451,277</b>	<b>62,815,050</b>	<b>59,016,961</b>	<b>11,298</b>	<b>90,242,460</b>	<b>1,365,508</b>
<b>ACCRUED LIABILITIES:</b>						
Interest on debentures	11,155,112	125,076	10,353,039	676,997	-	-
<b>TRUST AND DEPOSIT LIABILITIES:</b>						
Deposits held for mortgagors and lessees (note 7)	22,694,093	541,162	19,480,731	181,208	2,490,992	-
Earnest money on pending sales	85,089,563	30,108,800	14,703,950	-	40,276,813	-
Excess proceeds of sale	4,334,873	141	4,292,885	41,849	-	-
<b>Total trust and deposit liabilities</b>	<b>112,118,531</b>	<b>30,650,103</b>	<b>38,477,566</b>	<b>223,057</b>	<b>42,767,805</b>	<b>-</b>
<b>DEFERRED CREDITS:</b>						
Unearned premium income	54,387,620	1,796,224	32,388,587	2,211,160	17,991,649	-
Unearned fee income	414,693	-	147,778	-	266,915	-
Unapplied credits	5,312,983	587,095	3,155,365	29,181	803,725	727,617
<b>Total deferred credits</b>	<b>60,115,296</b>	<b>2,383,319</b>	<b>35,701,730</b>	<b>2,240,341</b>	<b>19,062,289</b>	<b>727,617</b>
<b>DEBENTURE OBLIGATIONS:</b>						
Debentures issued and outstanding	408,053,400	6,701,500	386,215,300	15,136,600	-	-
Debentures authorized for issue	624,500	-	624,500	-	-	-
Debenture claims in process	40,639,670	-	35,426,870	5,212,800	-	-
<b>Total debenture obligations</b>	<b>449,317,570</b>	<b>6,701,500</b>	<b>422,266,670</b>	<b>20,349,400</b>	<b>-</b>	<b>-</b>
<b>OTHER LIABILITIES:</b>						
Reserve for foreclosure costs--defaulted mortgage notes	10,062,677	-	7,392,876	199,014	2,470,787	-
<b>Total liabilities</b>	<b>856,220,463</b>	<b>102,675,048</b>	<b>573,208,842</b>	<b>23,700,107</b>	<b>154,543,341</b>	<b>2,093,125</b>
<b>RESERVES AND BORROWINGS FROM U. S. TREASURY</b>						
<b>RESERVES:</b>						
Statutory Reserve--for participation payments and future losses and expenses (note 5)	362,509,138	359,898,151	-	2,610,987	-	-
Insurance Reserve--available for future losses and expenses (note 5)	249,608,028	1,446,252,595	-551,953,776	16,679,102	-661,369,893	-
<b>Total reserves</b>	<b>612,117,166</b>	<b>1,806,150,746</b>	<b>-551,953,776</b>	<b>19,290,089</b>	<b>-661,369,893</b>	<b>-</b>
<b>BORROWINGS FROM U. S. TREASURY (note 4)</b>	<b>2,462,000,000</b>	<b>-</b>	<b>1,307,000,000</b>	<b>-</b>	<b>1,155,000,000</b>	<b>-</b>
<b>Total reserves and borrowings from U. S. treasury</b>	<b>3,074,117,166</b>	<b>1,806,150,746</b>	<b>755,046,224</b>	<b>19,290,089</b>	<b>-493,630,107</b>	<b>-</b>
<b>Total liabilities, reserves and borrowings from U. S. Treasury (notes 3, 4, 5, 6, and 7)</b>	<b>\$3,930,337,629</b>	<b>\$1,908,825,794</b>	<b>\$1,328,255,066</b>	<b>\$42,990,196</b>	<b>\$ 648,173,448</b>	<b>\$2,093,125</b>

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SCHEDULE 4

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, 1974

	Combined	Mutual Mortgage Insurance Fund	General Insurance Fund	Cooperative Management Housing Insurance Fund	Special Risk Insurance Fund
<b>INCOME AND EXPENSE</b>					
<b>INCOME:</b>					
Fees	\$ 21,342,343	\$ 12,580,475	\$ 4,693,524	\$ 14,219	\$ 4,054,125
Premiums	421,115,822	241,073,248	104,961,919	3,838,222	71,242,433
Interest on U. S. Government securities and dividends	91,750,591	90,050,216	2,260	1,698,115	-
Interest income	2,417,719	432,515	2,315,921	-	-330,717
Income or expense (-) on settled properties	-35,934	321,115	87,974	-	-445,023
Miscellaneous income	36,734	4,527	28,244	-	3,963
<b>Total income</b>	<b>536,627,275</b>	<b>344,462,096</b>	<b>112,089,842</b>	<b>5,550,556</b>	<b>74,524,781</b>
<b>EXPENSE:</b>					
Salaries and expenses	190,013,352	84,748,877	52,151,238	263,673	52,849,564
Interest on borrowings from U. S. Treasury	126,873,322	-	66,936,728	-	59,936,594
Interest on debenture obligations	21,685,660	771,257	20,240,066	1,775,357	-
Loss on acquired security	422,771,390	146,159,325	147,871,171	-134,081	128,874,975
Loss on defaulted Title I notes	10,429,755	-	10,429,755	-	-
Discount on sale of Secretary-held mortgages	179,203	94,190	11,521	-	73,492
Fee expenses	1,475,097	1,115,584	287,196	-	72,317
Repairs of structural defects	1,365,995	89,244	-	-	1,276,751
Miscellaneous expense	416,986	31,644	571,778	-	-186,436
<b>Total expense</b>	<b>775,210,780</b>	<b>232,510,121</b>	<b>298,508,453</b>	<b>1,194,949</b>	<b>242,857,257</b>
Net income or loss (-) before adjustment of valuation allowances	-238,583,505	111,951,975	-186,518,611	4,355,607	-168,372,476
<b>INCREASE (-) OR DECREASE (+) IN VALUATION ALLOWANCES:</b>					
Allowance for estimated future losses on:					
Purchase money mortgages	-1,238,568	+13,193	-1,206,273	+258	-43,706
Acquired properties	-170,293,548	-1,982,300	-84,196,636	-1,086,858	-83,027,754
Defaulted mortgage notes	-153,518,910	-1,142,538	-105,226,763	-1,693,066	-43,455,641
Defaulted Title I notes	-5,944,971	-	-5,944,071	-	-
Other notes receivable	+154	+166	-12	-	-
Insurance premiums receivable	-2,900,000	-2,900,000	-	-	-
Net adjustment of valuation allowances	-333,894,063	-6,011,479	-196,573,755	-2,779,668	-128,529,161
<b>Net income or loss (-)</b>	<b>\$ -572,477,568</b>	<b>\$ -105,940,496</b>	<b>\$ -383,092,366</b>	<b>\$ 1,575,939</b>	<b>\$ -256,901,637</b>
<b>ANALYSIS OF INSURANCE RESERVES AND BORROWINGS</b>					
<b>DISTRIBUTION OF NET INCOME:</b>					
<b>Statutory Reserve (participating reserve account):</b>					
Balance at beginning of period	\$ 274,787,207	\$ 269,364,328	\$ -	\$ 5,422,879	\$ -
Net income allocated for the period 1/	108,135,038	105,940,496	-	2,194,542	-
Transfer from general surplus account	19,661,546	19,661,546	-	-	-
Total participating reserve	402,583,791	394,966,370	-	7,617,421	-
Participations declared	-40,068,219	-35,068,219	-	-5,000,000	-
Participations available	362,515,572	359,898,151	-	2,617,421	-
Changes in participations held in escrow decrease (-)	-6,434	-	-	-6,434	-
<b>Balance at end of period</b>	<b>\$ 362,509,138</b>	<b>\$ 359,898,151</b>	<b>\$ -</b>	<b>\$ 2,610,987</b>	<b>\$ -</b>
<b>Insurance Reserve:</b>					
Balance at beginning of period	\$ 945,890,399	\$ 1,446,252,595	\$ -163,982,001	\$ 17,416,194	\$ -353,796,384
Adjustments during the period 2/	3,991,781	19,661,546	-4,879,409	-118,489	-10,671,867
Net income or loss (-) for the period 1/	-680,612,606	-	-383,092,366	-618,603	-296,901,637
Transfer to participating reserve account	-19,661,546	-19,661,546	-	-	-
<b>Balance at end of period</b>	<b>\$ 249,608,028</b>	<b>\$ 1,446,252,595</b>	<b>\$ -551,953,776</b>	<b>\$ 16,679,102</b>	<b>\$ -661,369,893</b>
<b>Total reserves or deficit (-)</b>	<b>\$ 612,117,166</b>	<b>\$ 1,806,150,746</b>	<b>\$ -551,953,776</b>	<b>\$ 19,290,089</b>	<b>\$ -661,369,893</b>
<b>BORROWINGS FROM U. S. TREASURY</b>					
Balance at beginning of period	\$ 1,641,000,000	\$ -	\$ 831,000,000	\$ -	\$ 810,000,000
Drawings during the period	821,000,000	-	476,000,000	-	345,000,000
<b>Balance at end of period</b>	<b>\$ 2,462,000,000</b>	<b>\$ -</b>	<b>\$ 1,307,000,000</b>	<b>\$ -</b>	<b>\$ 1,155,000,000</b>
<b>Total reserves and borrowings at end of period</b>	<b>\$ 3,074,117,166</b>	<b>\$ 1,806,150,746</b>	<b>\$ 755,046,224</b>	<b>\$ 19,290,089</b>	<b>\$ -493,369,107</b>

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

Comprised of the following adjustments relative to prior years:

1. Salaries and expenses	\$ 1,743,000	\$ 19,661,546	\$ -5,028,190	\$ -118,489	\$ -10,671,867
2. Allowance for estimated future losses on purchase money mortgages	448,781	-	1,238,568	-	-10,671,867
	\$ 2,191,781	\$ 19,661,546	\$ -5,028,190	\$ -118,489	\$ -10,671,867

FEDERAL HOUSING ADMINISTRATION  
 COMBINED STATEMENT OF SOURCE AND APPLICATION OF FUNDS  
 (STATEMENT OF CHANGES IN FINANCIAL POSITION)  
 FOR THE FISCAL YEAR ENDED JUNE 30, 1974

SOURCE OF FUNDS:	Combined	Mutual Mortgage Insurance Fund	General Insurance Fund	Cooperative Management Housing Insurance Fund	Special Risk Insurance Fund	Salaries and Expense Fund
Funds provided by operations:						
Income:						
Fees	\$ 21,342,343	\$ 12,580,475	\$ 4,693,524	\$ 14,219	\$ 4,054,125	\$ -
Insurance premiums (net of increase of \$2,900,000 valuation allowance)	418,215,822	238,173,248	104,961,919	3,838,222	71,242,433	-
Interest on U. S. Government securities	91,748,331	90,050,216	-	1,698,115	-	-
Dividends received on stock held in rental and cooperative housing corporations	2,260	-	2,260	-	-	-
Interest on mortgage notes	255,420	432,515	153,622	-	-330,717	-
Interest and other income on defaulted Title I notes	2,182,299	-	2,162,299	-	-	-
Miscellaneous income	36,734	4,527	28,244	-	3,963	-
Total income	<u>533,763,209</u>	<u>341,240,981</u>	<u>112,001,868</u>	<u>5,550,556</u>	<u>74,969,804</u>	<u>-</u>
Realization of assets:						
Proceeds from sale of properties	636,602,551	232,035,642	147,037,232	-	257,529,677	-
Recoveries on assigned notes	16,684,837	611,919	15,476,229	179,350	417,339	-
Recoveries on defaulted Title I notes	3,333,345	-	3,333,345	-	-	-
Proceeds from sale of purchase money mortgages	3,758,605	1,667,600	282,855	-	1,808,150	-
Collection of principal on purchase money mortgages	10,286,542	916,508	9,186,229	5,155	178,650	-
Redemption or transfer of stock in rental and cooperative housing corporations	13,500	-	13,400	100	-	-
Total realization of assets	<u>670,679,380</u>	<u>235,231,669</u>	<u>175,329,290</u>	<u>184,605</u>	<u>259,933,816</u>	<u>-</u>
Prior fiscal years adjustments	3,843,000	19,661,546	-5,028,190	-118,489	-10,671,867	-
Total funds provided by operations	<u>1,208,285,589</u>	<u>596,134,196</u>	<u>282,302,968</u>	<u>5,616,672</u>	<u>324,231,753</u>	<u>-</u>
Funds provided by financing:						
Debentures issued	58,054,350	-	55,086,850	2,967,500	-	-
U. S. securities redeemed, sold and/or transferred (par)	93,380,050	85,146,550	921,500	7,312,000	-	-
Principal collections on Defense Family Housing securities	12,356	-	12,356	-	-	-
Borrowings from U. S. Treasury	821,000,000	-	476,000,000	-	345,000,000	-
Decrease or increase (-) in working capital applicable to financing	108,103,626	-45,964,883	45,629,179	40,198	109,375,385	-976,273
Total funds provided by financing	<u>1,080,550,382</u>	<u>39,181,667</u>	<u>577,649,885</u>	<u>10,319,698</u>	<u>454,375,385</u>	<u>-976,273</u>
Total source of funds	<u>\$2,288,835,971</u>	<u>\$635,315,863</u>	<u>\$859,952,853</u>	<u>\$15,936,370</u>	<u>\$778,607,138</u>	<u>\$-976,273</u>

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SCHEDULE 5

SCHEDULE 5

	Combined	Mutual Mortgage Insurance Fund	General Insurance Fund	Cooperative Management Housing Insurance Fund	Special Risk Insurance Fund	Salaries and Expense Fund
<b>APPLICATION OF FUNDS:</b>						
Funds applied to operations						
Expenses:						
Salaries and expenses	\$ 190,013,352	\$ 84,748,877	\$ 52,151,238	\$ 263,673	\$ 52,849,564	\$ -
Interest on borrowings from U. S. Treasury	126,873,322	-	66,936,728	-	59,936,594	-
Interest on debenture obligations	21,685,680	271,257	20,349,066	1,065,357	-	-
Repairs of structural defects	1,365,995	89,244	-	-	1,276,751	-
Discount on sale of Secretary-held mortgages	179,203	94,190	11,521	-	73,492	-
Fee appraisal expense	837,124	663,244	164,255	-	9,625	-
Fee inspection expense	252,051	160,455	63,916	-	27,680	-
Fee mortgage credit expense	1,053	534	486	-	33	-
Systems condition certification fees	384,870	291,351	58,539	-	34,980	-
Expense on settled properties	35,934	-321,115	-87,974	-	445,023	-
Miscellaneous expense	416,986	31,644	571,779	-	-186,437	-
<b>Total expenses</b>	<b>342,045,570</b>	<b>86,029,681</b>	<b>140,219,554</b>	<b>1,329,030</b>	<b>114,467,305</b>	<b>-</b>
Acquisition of assets:						
Real property acquired including net capitalized expenses	1,157,131,791	362,326,234	333,435,753	148,718	461,221,086	-
Assigned notes acquired including net capitalized expenses	503,033,008	1,548,783	310,107,550	5,390,910	185,985,765	-
Defaulted Title I notes acquired	17,918,026	-	17,918,026	-	-	-
<b>Total acquisition of assets</b>	<b>1,678,082,825</b>	<b>363,875,017</b>	<b>661,461,329</b>	<b>5,539,628</b>	<b>647,206,851</b>	<b>-</b>
Participations declared (net of changes of amounts held in escrow)	40,074,653	35,068,219	-	5,006,434	-	-
Increase or decrease (-) in working capital applicable to operations	10,849,523	589,316	-2,039,780	-3,656,722	16,932,982	-976,273
<b>Total funds applied to operations</b>	<b>2,071,052,571</b>	<b>485,562,233</b>	<b>799,641,103</b>	<b>8,218,370</b>	<b>778,607,138</b>	<b>-976,273</b>
Funds applied to financing:						
Debentures redeemed	61,651,400	1,117,650	59,323,750	1,210,000	-	-
U. S. securities acquired (par)	156,132,000	148,636,000	988,000	6,508,000	-	-
<b>Total funds applied to financing</b>	<b>217,783,400</b>	<b>149,753,650</b>	<b>60,311,750</b>	<b>7,718,000</b>	<b>-</b>	<b>-</b>
<b>Total application of funds</b>	<b>\$2,288,835,971</b>	<b>\$635,315,883</b>	<b>\$859,952,853</b>	<b>\$15,936,370</b>	<b>\$778,607,138</b>	<b>\$-976,273</b>

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NOTES TO COMBINED BALANCE SHEETS

JUNE 30, 1974 AND 1973

1. Investments include GNMA participation certificates in the amount of \$134,122,402.36 at June 30, 1974 and \$133,877,244.56 at June 30, 1973 plus debentures of FHA Insurance Funds in the amount of \$52,016,100.00 at June 30, 1974 and \$57,719,150.00 at June 30, 1973 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 \$261,009,359.76 at June 30, 1974 and \$152,713,790.57 at June 30, 1973.
  - (b) Accrued interest receivable--collection doubtful--on defaulted Title I notes at June 30, 1974 and 1973:

	<u>1974</u>	<u>1973</u>
On notes with principal balances	\$11,153,481.71	\$10,188,060.41
On notes with principal balances paid - interest due	<u>1,705,039.98</u>	<u>1,557,455.40</u>
Total	<u>\$12,858,521.69</u>	<u>\$11,745,515.81</u>

3. The following items are not recorded in the liabilities:
  - (a) Unfilled orders and incompleted portion of contracts for property repairs in the amount of \$32,633,929.48 at June 30, 1974 and \$98,199,101.61 for incompleted portion of contracts for property repairs at June 30, 1973.
  - (b) Contingent liability with respect to pending lawsuits in the amount of \$1,866,880.10 at June 30, 1974 and \$4,000.00 at June 30, 1973.
  - (c) Pending claims on properties and notes tendered by mortgagees but not accepted by FHA in the amount of \$261,009,359.76 at June 30, 1974 and \$152,713,790.57 at June 30, 1973.
  - (d) Certificates of claim relating to properties and notes tendered by mortgagees but not accepted by FHA in the amount of \$1,976,960.70 at June 30, 1974 and \$991,796.35 at June 30, 1973.



(e) Certificates of claim relating to acquired security on hand of \$25,823,141.69 at June 30, 1974 and \$18,899,543.55 at June 30, 1973.

4. The amount shown as "Borrowings from U.S. Treasury" includes \$1,307,000,000 advanced to the General Insurance Fund and \$1,155,000,000 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, 1974 and 1973 was:

	<u>1974</u>	<u>1973</u>
Mortgage Insurance Programs	\$84,853,546,528	\$86,441,691,241
Modernization and Improvement Programs (Title I, Section 2)	<u>458,613,822</u>	<u>435,430,947</u>
Total	<u>\$85,312,160,350</u>	<u>\$86,877,122,188</u>

7. The liabilities shown for the "Deposits held for mortgagors and lessees" is net of escrow advances by FHA in the amount of \$2,968,293.15 at June 30, 1974 and \$3,877,748.27 at June 30, 1973.

The FHA in special circumstances is indemnified against loss on certain insured mortgages and assigned mortgage notes up to \$660,363.32 at June 30, 1974 and \$717,960.80 at June 30, 1973.

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

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
SECRETARY OF HOUSING AND URBAN DEVELOPMENT: James T. Lynn	Feb. 1973	June 1974
ASSISTANT SECRETARY FOR HOUSING PRODUCTION AND MORTGAGE CREDIT- FHA COMMISSIONER: Sheldon B. Lubar Woodward Kingman (acting)	July 1973 Feb. 1973	June 1974 July 1973
ASSISTANT SECRETARY FOR ADMINIS- TRATION: Thomas G. Cody W. Boyd Christensen Vincent J. Hearing (acting)	May 1974 Oct. 1973 June 1973	June 1974 May 1974 Oct. 1973
DIRECTOR, OFFICE OF FINANCE AND ACCOUNTING: Thomas J. O'Connor John R. Kurelich (acting)	May 1974 Jan. 1973	June 1974 May 1974
DIRECTOR, MORTGAGE INSURANCE ACCOUNTING: Benjamin C. Tyner	Jan. 1973	June 1974

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