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REPORT TO THE CONGRESS

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 1975

Department Of Housing and Urban Development

GAO 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, 1975, and other information about the program's operation and financial condition.

The examinination was made pursuant to the Government Corporation Control Act (31 U.S.C. 841).

At June 30, the Federal Housing Administration's combined insurance reserves were in a deficit position for the first time--a total of $182.6 million. This situation resulted from increasing losses in the General Insurance and Special Risk Insurance Funds.

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

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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, 1975, 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-Federal Housing Commissioner.

Elmer B. Staats

Comptroller General
of the United States

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

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COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

EXAMINATION OF FINANCIAL STATEMENTS PERTAINING TO INSURANCE OPERATIONS OF THE FEDERAL HOUSING ADMINISTRATION FOR FISCAL YEAR 1975
Department of Housing and Urban Development

D I G E S T

The Federal Housing Administration administers mortgage insurance programs under which lending institutions are insured against loss in financing first mortgages on various types of housing. Insurance is also provided on loans which finance property alterations, repairs and/or improvements, and mobile homes.

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,

--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, before 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.

At June 30, 1975, the Federal Housing Administration's combined insurance reserves were in a deficit position for the first time--a total of $182.6 million. This situation resulted from increasing losses in the General Insurance and Special Risk Insurance Funds. (See p. 6.)

For the first time the Congress appropriated money to keep the General Insurance and Special Risk Insurance Funds solvent. The Supplemental Appropriations Act of 1976, dated December 18, 1975, made available $42.5 million to the General Insurance Fund and $100 million to the Special Risk Insurance Fund. (See pp. 12 and 16.)

GAO noted a number of accounting deficiencies affecting the insurance operations which are of a continuing nature and which have been addressed in earlier audits. (See pp. 23 to 26.)

GAO issued two reports on weaknesses in the Department of Housing and Urban Development's financial procedures pertaining to the Federal Housing Administration. One report issued to the Congress in November 1975 dealt with weaknesses in the Department's procedures and practices in administering its property tax payment system. The other report issued to the Secretary of Housing and Urban Development dealt with the need to take prompt action to collect millions of dollars of delinquent mortgage insurance premiums. (See p. 26.)

In addition, GAO noted that the accounts receivable of about $150.2 million from the sale of Secretary-held properties and the trust and deposit liabilities from earnest money of about $142.7 million collected on pending sales shown on the Federal Housing Administration's balance sheet were materially overstated. GAO estimates that about $143 million of the accounts receivable were collected by June 30, 1975, and about $141 million of the trust and deposit liabilities were for completed sales and were no longer liabilities at June 30, 1975. These overstated amounts should have been excluded from the balance sheet at June 30, 1975. The Federal Housing Administration's statement of income and expense was not affected by these overstatements.

The overstatement of the accounts receivable and trust and deposit liabilities resulted from a combination of a relatively complicated accounting procedure and a delay in preparing accounting entries pertinent to the sale of property. A new computer process scheduled for operation is intended to speed up the accounting for sales of property and, therefore, reduce or eliminate the overstatement of the accounts. (See p. 21.)

In GAO's opinion, except for the overstatement of the balance sheet accounts discussed above, the accompanying financial statements (schs. 1 through 5) present fairly the financial position of the Federal Housing Administration at June 30, 1975, 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. (See p. 28.)

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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.). Its 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 was headed by the Assistant Secretary for Housing Production and Mortgage Credit-FHA Commissioner, who was appointed by the Secretary of Housing and Urban Development. Effective June 14, 1976, a reorganization within the Department of Housing and Urban Development (HUD) combined the offices of the Assistant Secretaries for Housing Production and Mortgage Credit-FHA Commissioner and Housing Management into a single office under an Assistant Secretary for Housing-Federal Housing Commissioner.

FHA is a noncorporate, business-type agency which was made subject to the Government Corporation Control Act by the Housing Act of 1948. Accordingly, we are required to audit FHA at least once every 3 years.

For administrative purposes HUD has divided the United States into 10 regions, including 76 area and insuring offices. Officials at these 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. Insurance is also provided on loans which finance property alterations, repairs and/or improvements, and mobile homes. Most of the FHA insurance, however, covers mortgages on small homes (one to four families) and on multifamily housing properties. From inception in 1934 to June 30, 1975, FHA insured mortgages amounting to about $194 billion, of which about $87 billion was in force at June 30, 1975. About 25,000 multifamily properties and about 11.5 million small homes have been insured under FHA insurance programs.

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, titles to foreclosed properties or to mortgage notes are conveyed to FHA. Other FHA functions include (1) maintaining and selling acquired properties and (2) becoming the mortgagee in the case of the assigned mortgage notes.

From inception in 1934 to June 30, 1975, FHA has acquired 3,194 multifamily properties and mortgage notes, representing 327,914 housing units, at a cost of about $3.4 billion. During the same period 632,663 small homes and notes were acquired at a cost of about $10 billion. A summary of FHA's property and mortgage note activity for fiscal years 1974 and 1975 follows.

Property Acquisitions

	Fiscal year			
	1975		1974	
	Small homes	Multifamily properties	Small homes	Multifamily properties
Number of properties and lots on hand at beginning of fiscal year (note a)	77,565	305	72,115	231
Add properties acquired (note b)	51,181	180	55,246	155
Less sales	62,376	123	49,796	81
Increase or decrease(-) in number on hand	-11,195	57	5,450	74
Number of properties and lots on hand at end of fiscal year (note a)	66,370	362	77,565	305

a/ Small homes balances include 4,735 vacant lots at June 30, 1975, and 7,978 vacant lots at June 30, 1974. Small homes which had been located on these lots were razed.

b/ Properties acquired include 5,627 small homes and 139 multifamily properties for fiscal year 1975 and 4,401 small homes and 108 multifamily properties for fiscal year 1974 on which FHA held assigned defaulted notes, but because of continued defaults in payments by the mortgagors, FHA foreclosed and acquired the properties.

	Mortgage Notes Assigned			
	Fiscal year			
	1975		1974	
	Small homes	Multifamily properties	Small homes	Multifamily properties
Number of notes on hand at beginning of fiscal year	9,687	1,017	9,583	807
Add notes acquired	1,626	466	4,558	329
Less liquidations and conversions (note a)	5,716	147	4,454	119
Increase or decrease(-) in number on hand	-4,090	319	104	210
Number of notes on hand at end of fiscal year	5,597	1,336	9,687	1,017

a/ Conversions refer to properties on which FHA held assigned notes, but because of continued defaults in payments by the mortgagors, FHA foreclosed and acquired the properties. Conversions include 5,627 small homes and 139 multifamily properties for fiscal year 1975 and 4,401 small homes and 108 multifamily properties for fiscal year 1974.

CHAPTER 2

COMMENTS ON FINANCIAL STATEMENTS

The Federal Housing Administration'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 of the specific sections. The insurance reserves of one fund are not available for the other funds' use except when authorized by the Congress.

Income to the funds include fees and premiums from insurance operations and interest income derived from any investments of the funds. The funds' expenses include insurance losses, interest on borrowings from the U.S. Treasury, debenture interest, and administrative expenses. In addition, provision is made for estimated future losses on acquired properties, mortgage notes, notes for property improvement and mobile home loans, and premiums receivable. The results of operations (statement of income and expense) on a combined basis for all four funds are shown on schedule 2. Schedule 4 shows the separate results of operations for each of the four funds.

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 the funds (balance sheet) at June 30, 1975, is shown on a combined basis on schedule 1. Schedule 3 shows the financial position for each of the four funds.

For ease in understanding the financial statements (schs. 1 through 4) the results of operation and the financial position of the four funds are discussed on a combined basis on pages 5 through 8. 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 8.

RESULTS OF OPERATIONS

During fiscal year 1975 FHA incurred a net loss in the operations of the four insurance funds of $753.5 million, an increase of $181.0 million over the loss of the previous year. The fiscal year 1975 loss consisted of (1) an excess of expenses over income of $506.2 million and (2) increases from the previous year of $247.3 million in the allowances for estimated future losses on certain assets of the insurance funds. Increases in the allowances for estimated future losses from the prior year represent a net decrease in the value of FHA's assets and, therefore, add to the net loss for the year.

Two of the insurance funds showed profits totaling $112.7 million during fiscal year 1975 while the other two insurance funds showed losses of $866.2 million. A breakdown of the profit and losses for fiscal year 1975 of the four funds and a comparison to fiscal year 1974 follows.

	Profit or loss (-)	
	Fiscal Year	
Insurance funds	1975	1974
	(millions)	
MMIF	$109.4	$105.9
GIF	-490.7	-383.1
CMHIF	3.3	1.6
SRIF	-375.5	-296.9
Total	-$753.5	-$572.5

INSURANCE RESERVES

Total reserves

At June 30, 1975, FHA's combined insurance reserves were in a deficit position of $182.6 million. This marks the first time that FHA's combined reserves were in a deficit position. An analysis of the respective insurance reserves balances and the sources of these balances follow.

	Total reserves or deficiency(-)	Small homes deficiency(-)	Multifamily properties deficiency(-)	Property improvement loans
	(millions)			
MMIF	$1,873.9	$1,873.9	$ -	$ -
GIF	-1,041.3	-570.3	-582.9	111.9
CMHIF	20.6	-	20.6	-
SRIF	-1,035.8	-795.3	-240.5	-
Total	$ -182.6	$ 508.3	$ -802.8	$111.9

The deficit balance of $182.6 million in the insurance reserve represents a decrease of $794.7 million from the total insurance reserves of $612.1 million at the end of fiscal year 1974. The decrease is attributable to decreases of $489.3 million in GIF and $374.4 million in SRIF, offset by increases of $67.7 million in MMIF and $1.3 million in CMHIF.

Reserve requirements

On the basis of actuarial studies of the risks underwritten, FHA annually estimates 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, 1975.

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 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 on 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, 1975, FHA's estimated insurance funds' reserve requirements amounted to $2,882 million. At the same date FHA's total insurance reserves, as shown on the combined balance sheets (see schs. 1 and 3), were in a deficit position of $182.6 million, which resulted in a total estimated reserve deficiency of $3,064.6 million--a $484. million increase in the deficiency from the prior year.

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.

Fiscal year	Estimated reserve requirements	Insurance reserve or deficit(-)	Estimated reserve deficiencies
	(millions)		
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
1975	2,882.0	-182.6	3,064.6

The $484.7-million increase in the estimated reserve deficiency from the prior year is attributable to the net of (1) the $794.7-million decrease in the insurance reserves resulting from insurance losses, offset by (2) a $310-million decrease in the estimated reserve requirement resulting from the fact that the decrease in reserve requirements for older insured mortgages exceeded the increase in reserve requirements for newly insured mortgages.

The adequacy of the estimated reserve requirement is not predictable because it will be contingent on the amount of future insurance claims that FHA may be required to pay to insured mortgagees because of mortgagors defaults in mortgage payments.

MUTUAL MORTGAGE INSURANCE FUND

MMIF was established under the authority of section 202 of the National Housing Act. Under this fund only mortgages which finance the purchase of small homes are insured. Section 205 of the act authorized the establishment of a Participating Reserve Account and a General Surplus Account[1] in MMIF and provided that both accounts be available to meet losses arising from the MMIF insurance operations. Section 205 also authorized allocation of the income or loss from operations in any semiannual 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. The mortgagors, however, 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 a manner and amount as to be in accord with sound actuarial and accounting practices.

The net income of MMIF for fiscal year 1975 was $109.4 million, an increase of $3.5 million over the net income of $105.9 million in fiscal year 1974. The increase is the net result of

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

	(millions)
--an increase in income	+$12.2
--a decrease in allowances for estimated future losses	+28.7
--an increase in expenses	-37.4
Increase in net income	$ 3.5

The major changes affecting the insurance operations of MMIF resulted from an increase in interest income on U.S. Government securities of $13.1 million, an increase in the loss on sale of acquired security of $29.1 million, and a decrease in the allowance for estimated future losses on acquired property of $25.3 million.

The higher interest earned is attributable to increased investments of the fund of $194 million. Losses on the sale of acquired securities were higher in fiscal year 1975 because 1,265 more properties were sold and the average loss per property sold increased by $945. MMIF's inventory of acquired property decreased by 5,473 small homes accounting for the decrease in the allowance needed for future losses.

At June 30, 1975, the total MMIF reserves as shown on the combined balance sheet (see sch. 3) amounted to $1,873.9 million, including $1,445.9 million in the General Surplus Account and $428 million in the Participating Reserve Account. The entire net income of $109.4 million earned in MMIF for fiscal year 1975 was allocated to the Participating Reserve Account. In addition, $1.7 million was transferred to the Participating Reserve Account from the General Surplus Account, making a total addition to the Participating Reserve Account of $111.1 million. Dividends declared to mortgagors from the Participating Reserve Account in fiscal year 1975 was $43 million compared with $35.1 million in fiscal year 1974.

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, and by the end of fiscal year 1975, MMIF reserves exceeded the estimated reserve requirement by $672 million. The following tabulation shows the insurance reserve, the estimated reserve requirements, and the excess of reserves over the estimated requirement at June 30 for each of the past 5 years.

Fiscal year	General Surplus Account	Partici-pating Reserve Account	Total reserves	Estimated reserve requirement	Excess of reserve over the estimated requirements
	(millions)				
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
1975	1,445.9	428.0	1,873.9	1,201.9	672.0

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. GIF is used to insure mortgages under various programs, 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 that enhance the purchase, construction, and/or improvement of small homes, multifamily property, nonresidential property, and commercial or farm structures.

In fiscal year 1975 GIF sustained a loss of $490.7 million, an increase of $107.6 million over the loss of $383.1 million incurred in fiscal year 1974. The increase in loss is the net result of

	(millions)
--decrease in income	+$ 2.4
--an increase in expenses	+123.6
--a decrease in allowances for estimated future losses	-18.4
Increase in net loss	$107.6

The major changes affecting the insurance operations of GIF resulted from increases in interest expense on borrowings from the U.S. Treasury of $40.5 million and for debentures of $8.5 million, an increase in the loss on sale of acquired property and mortgage notes of $75.5 million, a decrease in the allowance for estimated future losses on acquired property of $92.3 million; and an increase in the allowance for estimated future losses on defaulted mortgage notes of $69 million.

The higher interest expense this year was due to an increase in borrowings from the U.S. Treasury of $730.3 million and increased debenture obligations issued and outstanding of $85.2 million. Increased losses on the sale and liquidation of acquired property and mortgage notes were attributable to (1) a sales increase of 6,145 small homes during fiscal year 1975, (2) an increase in the average loss per case of $1,124 and (3) a reduction of $3.5 million in the loss on the sale and liquidation of multifamily projects and mortgage notes. The decrease in the allowance for estimated future losses on acquired property was due to a reduction of 5,830 in FHA's small home inventory of acquired property at June 30, 1975. In comparison, at June 30, 1974, GIF's inventory of small homes increased by 2,560 from the prior year. The higher allowance for estimated future losses on defaulted mortgage notes resulted from an increase of $474.3 million in mortgage notes acquired during the year. The increase during fiscal year 1974 was $208.5 million.

At June 30, 1975, GIF's insurance reserve was in a deficit position of $1,041.3 million. (See sch. 3.) FHA records showed that about $248 million in claims were pending against GIF at June 30, 1975. The GIF insurance reserve deficit of $1,041.3 million will increase by the amount of loss, if any, ultimately sustained on the disposition of properties or notes acquired by FHA applicable to the pending claims. The estimated reserve requirement has exceeded the insurance reserve since inception of the fund in August 1965. 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.

Fiscal year	Estimated reserve requirement	Insurance reserve or deficiency(-)	Estimated reserve deficiency
		(millions)	
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
1975	929.5	-1,041.3	1,970.8

The ultimate reserve deficiency that might develop could exceed the $1,970.8 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 1975, 11,790 home properties and notes were acquired compared with 14,046 in fiscal year 1974. In addition, 334 multifamily properties and notes were acquired in fiscal year 1975, compared with 267 multifamily properties and notes in fiscal year 1974.

GIF has sustained substantial losses over the years and to obtain funds for the payment of mortgage insurance benefits $2,037 million was borrowed from the Treasury including $730.3 million borrowed during fiscal year 1975. The borrowed funds had not been repaid at June 30, 1975.[1]

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.

Section 213(1) of the act authorized the establishment of a Participating Reserve Account and a General Surplus Account[2] in CMHIF and authorized the FHA Commissioner to allocate the income or loss from operations in any semiannual period to either or both accounts. The act also authorized the 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. The mortgagors, however, do not have any vested rights in the account.

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[1] Appropriations for GIF totaling $42.5 million were approved by the Congress on December 18, 1975, under the Supplemental Appropriations Act of 1976.

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

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.

The CMHIF net income for the fiscal year ended June 30, 1975, was $3.3 million, an increase of $1.7 million over the net income of $1.6 million in fiscal year 1974. The increase is the net result of

	(millions)
--an increase in income	+$ .032
--an increase in expense	-2.1
--a decrease in allowances for estimated future losses	+3.8
Increase in net income	$1.7

The major changes affecting the CMHIF insurance operations resulted from a loss on acquired property of $2 million, as compared to a profit of $0.1 million in the prior year, a decrease in allowance for estimated future losses on acquired property, and defaulted mortgage notes of $2.3 million and $1.7 million, respectively. The losses on acquired property resulted because FHA sold four projects costing about $5.1 million, during fiscal year 1975. No projects were sold in fiscal year 1974. The decrease in allowance for estimated future losses resulted from a decrease in the cost of acquired property and defaulted mortgage notes on hand of $3.3 million and $2.1 million, respectively, during fiscal year 1975.

At June 30, 1975, the total CMHIF reserves, as shown on the combined balance sheet (see sch. 3), amounted to $16.7 million in the General Surplus Account and $3.9 million in the Participating Reserve Account. The entire net income of $3.3 million earned in CMHIF for fiscal year 1975 was allocated to the Participating Reserve Account. Dividends declared to mortgagors from the Participating Reserve Account in fiscal year 1975 amounted to $2 million compared to $5 million in fiscal year 1974.

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

Fiscal year	Partici-pating Reserve Account	General Surplus Account	Total reserves	Estimated reserve requirement	Estimated reserve excess
	(millions)				
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
1975	3.9	16.7	20.6	8.3	12.3

SPECIAL RISK INSURANCE FUND

SRIF was established 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, 1975, $20 million had been advanced from GIF.

In fiscal year 1975 SRIF sustained a loss of $375.5 million, an increase of $78.6 million over the loss of $296.9 million incurred in fiscal year 1974. The increase in loss is the net result of

	(millions)
--a decrease in income	+$ 3.7
--an increase in expenses	+110.5
--a decrease in allowances for estimated future losses	-35.6
Increase in net loss	$ 78.6

The major changes affecting the insurance operations of SRIF resulted from a $35.6-million increase in interest on borrowings from the U.S. Treasury, a $71.5-million increase in the loss on sale and liquidation of acquired property and mortgage notes, and a $41.3-million decrease in the allowance for estimated future losses on acquired property.

Higher interest expense resulted from an increase of $485 million borrowed from the U.S. Treasury during the year. The increase in the loss on the sale of acquired property and mortgage notes was due to (1) the increase of 5,170 in the number of small homes sold in fiscal year 1975, (2) an increase in the average loss per case of $1,135 and (3) an increase of $9.4 million in the loss on sale and liquidation of multifamily properties and mortgage notes. SRIF's inventory of small homes increased during fiscal year 1975 by only 108, substantially less than the increase of 5,415 during fiscal year 1974, resulting in a lesser amount being added to the allowance for estimated future losses on acquired property for fiscal year 1975.

At June 30, 1975, SRIF's insurance reserves were in a deficit position of $1,035.8 million. (See sch. 3.) FHA records showed that about $67.6 million in claims were pending against SRIF at June 30, 1975. The SRIF insurance reserve deficit of $1,035.8 will increase ~~by the~~ amount of loss, if any, ultimately sustained on the disposition of properties and notes acquired by FHA applicable to the pending claims. The estimated reserve requirements for SRIF have exceeded the insurance reserve since inception of the fund in August 1968.

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.

Fiscal year	Estimated reserve requirement	Insurance reserve deficit	Estimated reserve deficiency
	(millions)		
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
1975	742.4	1,035.8	1,778.2

The ultimate reserve deficiency that may develop could conceivably exceed the estimated $1,778.2 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.

In fiscal year 1975, 20,151 home properties and notes were acquired compared to 24,362 in fiscal year 1974. In addition, 172 multifamily properties and notes were acquired in fiscal year 1975 compared with 106 multifamily properties and notes in fiscal year 1974.

Appropriations to cover losses sustained in SRIF were authorized by section 238(b) of the act. Through June 30, 1975, however, the Congress did not appropriate any funds for this purpose.[1] SRIF has sustained substantial losses over the years, and to obtain funds for the payment of mortgage insurance claims, a total of $1,640 million was borrowed from the Treasury, of which amount $485 million was borrowed during fiscal year 1975. The borrowed funds had not been repaid at June 30, 1975.

[1]Appropriations for SRIF totaling $100 million were approved by the Congress on December 18, 1975, under the Supplemental Appropriations Act of 1976. HUD requested additional appropriations for fiscal year 1977.

MAJOR 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 $217.2 million at June 30, 1975, a $39.9-million increase over the $177.3 million in accounts receivable at June 30, 1974. Increases totaling $49.9 million in the various accounts receivable included $49.5 million from the sales of Secretary-held properties[1], $0.2 million in amounts owed for insurance fees, and $0.2 million from other accounts receivable. The $49.9-million increase was offset by a $9.7-million decrease in premiums receivable and a $0.3-million decrease in the sale of Secretary-held mortgages.

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 $1,590.1 million at June 30, 1975, a $196.4-million increase from the $1,393.7 million in investments at June 30, 1974. The increase in investment is attributable to a $194.3-million increase in the MMIF holdings and a $2.1-million increase in the CMHIF holdings.

Acquired property--at cost plus net expense to date

The acquired property inventory balances of $1,678.5 million and $1,772.9 million at the end of fiscal years 1975 and 1974, respectively, are shown in schedule 1. An analysis of the activity in acquired property follows.

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[1] See p. 21 for comments on accounts receivable from sales of Secretary-held mortgages.

	Fiscal year	
	1975	1974
	(millions)	
Acquired property inventory at beginning of fiscal year	$1,772.9	$1,523.0
Acquisition cost and other net property expenses	1,299.1	1,343.9
Cost of sold properties	-1,393.5	-1,094.0
Increase or decrease(-) in inventory	-94.4	249.9
Acquired property inventory at end of fiscal year (note a)	$1,678.5	$1,772.9

[a] The allowances for estimated future losses of $1.7 billion and $1.4 billion at June 30, 1975 and 1974, 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 4,735 razed small home properties at June 30, 1975, and 7,978 razed small home properties at June 30, 1974. (See p. 2.)

An analysis of the decrease from the prior year of $44.8 million ($1,343.9 million less $1,299.1 million) in acquisition cost and net property expenses and the increase of $299.5 million ($1,393.5 million less $1,094.0 million) in the cost of property sold is shown by insurance fund in the tabulation that follows.

	Increases or decreases(-) in acquisition cost and other net property expenses	Increases in cost of properties sold
	(millions)	
MMIF	-$43.4	$ 31.6
GIF	-34.8	125.2
CMHIF	1.5	5.1
SRIF	31.9	137.6
Total	-$44.8	$299.5

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

The $1,958.8 million for defaulted mortgage notes, as shown in the combined balance sheets (see schs. 1 and 3), was $574.8 million more than the prior year. A comparison of the activity resulting in changes in the amount of mortgage notes on hand during fiscal years 1975 and 1974 follows.

	Fiscal year	
	1975	1974
	(millions)	
Defaulted mortgage notes--at cost plus net expenses--on hand at beginning of fiscal year	$1,384.0	$1,079.9
Acquisitions	823.7	506.0
Conversions (note a) and liquidations	-248.9	-201.9
Increase of mortgage notes on hand	574.8	304.1
Defaulted mortgage notes--at cost plus net expenses--on hand at end of fiscal year	$1,958.8	$1,384.0

[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 $317.7 million ($823.7 million less $506.0 million) in acquisitions and $47.0 million ($248.9 million less $201.9 million) in conversions and liquidations is shown by insurance fund in the following schedule.

	Increases or decreases(-) in acquisitions	Increases in conversions and liquidations
	(millions)	
MMIF	-$ 1.0	$ .2
GIF	271.4	5.6
CMHIF	-5.8	1.7
SRIF	53.1	39.5
Total	$317.7	$47.0

Allowances for estimated future losses

The valuation reserves--allowances for estimated future losses--totaled $1,699.2 million, a $247.3-million increase from the amount of $1,451.9 million at June 30, 1974. These reserves are provided for premiums receivable ($5.8 million), for mortgage notes and contracts for deed ($21.6 million), and for acquired security or collateral ($1,671.8 million). (See sch. 1 and 3.)

The $247.3 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 I and other mortgage notes held by the four funds at June 30, 1975, at amounts considered to be collectable. The major increase to the reserves was $225.4 million for defaulted mortgage notes.

The valuation allowances were based on (1) actual losses experienced on the sale of small home properties in fiscal year 1975, (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, 1974, the valuation reserves were increased by $333.9 million, as shown in the statement of income and expense. (See sch. 2.)

Liabilities

Accounts payable

The $202.1 million for accounts payable, as shown in the combined balance sheets (see schs. 1 and 3), was $11.3 million less than the amount at the close of the prior year. The $11.3-million decrease consisted of a $21.9-million decrease in the amounts due to mortgagees for securities acquired by FHA in the settlement of mortgage insurance claims, offset by a $10.6-million increase in the liability of MMIF participations payable.

Trust and deposit liabilities

The trust and deposit liabilities at June 30, 1975, as shown in the combined balance sheets (see schs. 1 and 3), amounted to $174.4 million, a $62.2-million increase over the balance at June 30, 1974. The major increase of $57.6 million resulted from the receipt of earnest money on pending sales of FHA property. Additionally, deposits held for the accounts of mortgagors and lessees increased by $4.1 million and amounts held which were excess proceeds from sales of property increased by $0.5 million. (See p. 21 through 23 for comments on earnest money on pending sales of FHA property.)

Debenture obligations--debentures issued and outstanding

Debentures issued and outstanding at June 30, 1975, as shown in the combined balance sheets (see schs. 1 and 3), amounted to $486.9 million, compared with $408.1 million at June 30, 1974--a $78.8-million increase.

During fiscal year 1975, debentures totaling $135.8 million were issued in payment of insurance claims presented by insured mortgagees because of mortgagors' defaults in mortgage payments, and debentures totaling $57 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, 1975, GIF's borrowings totaled $2,037.3 million and SRIF's borrowings totaled $1,640 million--increases of $730.3 million and $485 million, respectively, from June 30, 1974. (See sch. 4.)

MATERIAL OVERSTATEMENT OF ACCOUNTS RECEIVABLE AND TRUST AND DEPOSIT LIABILITY ACCOUNTS

Our tests of the documents supporting accounts receivable from the sale of Secretary-held properties and liabilities for earnest money on pending sales (see schs. 1 and 3) showed that the June 30, 1975, balance sheet amounts of $150.2 million and $142.7 million, respectively, are materially overstated. On the basis of these tests we estimate that about 95 percent, or about $143 million, of the accounts receivable were collected by FHA at the end of the fiscal year and, in accordance with generally accepted accounting principles, should not have been shown as accounts receivable at June 30, 1975. Furthermore, our tests showed that about 99 percent, or about $141 million, of the trust and deposit liabilities for earnest money on pending sales were applicable to completed sales by the end of the fiscal year and, in accordance with generally accepted accounting principles, should not have been shown as liabilities at June 30, 1975.

Accounting entries for the accounts receivable and earnest money accounts are generated by the sale of Secretary-held properties. When a sales contract is entered into, FHA requires the buyer to pay a sum of money, referred to as earnest money, as a show of good faith to complete the sales transaction. At the date of settlement on the property--the day the sale is completed--the buyer pays the remaining amount due under the sales contract usually to a lawyer or settlement company handling the settlement.

An account receivable from the buyer would exist from the settlement date until FHA collects the sales proceeds. Payment to FHA generally is made a few days later. A trust and deposit liability would exist for the earnest money FHA collected before the date of settlement until the sale was completed.

We tested the sales documents for a representative sample of 185 accounts receivable and 114 trust and deposit liability accounts pertaining to the June 30, 1975, balances. We found that about 95 percent of the accounts receivable tested had been collected as of June 30, 1975. On the basis of generally accepted accounting principles, under the accrual basis of accounting, receivables representing amounts due from others are accounted for as assets from the time the acts giving rise to such claims are completed until they are collected. Therefore, since the accounts were collected at June 30, 1975, they should not have been included in FHA's balance of accounts receivable at that date.

A similar situation existed with the amounts included in the earnest money on pending sales account. We found that for over 99 percent of those amounts tested the settlement date of the sale was before June 30, 1975. On the basis of generally accepted accounting principles, all liabilities should be measured and recorded in the accounts in the period in which they a . incurred and they should be removed in the period in which they are liquidated. Since the sale of property was complete by June 30, 1975, the trust and deposit liability, for money collected by FHA and held in trust, no longer existed and the liability should not have been included in FHA's balance of trust and deposit liabilities at that date.

The overstatement of these accounts resulted from a combination of a relatively complicated accounting procedure and a delay in preparing accounting entries pertinent to the sales. Documents pertaining to sales of properties are prepared in FHA field offices throughout the country and are forwarded after the date of settlement to Washington, D.C., where the transaction is recorded in the accounting records.

FHA accounting procedures provide that when the sale is recorded in the accounting records, an account receivable be set up for the amount of sales proceeds due from the buyer. This is done even though the funds may have been collected at the time the sale was recorded in the accounting records because the accounting group had not yet received verification that the funds were actually collected. Further, when the funds are actually collected the procedures provide that a trust and deposit liability be set up to account for the cash received. At some date after the sale is recorded, the accounting group receives a confirmation that the sales proceeds were actually collected. It then writes off the liability and the account receivable. At June 30, 1975, although most of the accounts receivable still on the books had been collected and the liabilities did not exist because the sales had been completed, the accounting group had not yet adjusted the accounts receivable and the trust and deposit liability accounts.

An FHA accounting official agreed with our finding. He informed us that the manual process, currently in use, of verifying that sales proceeds are actually collected is being replaced by a computer process. The computer process, scheduled for operation in fiscal year 1977, is intended to speed up the verification of collection of sales proceeds and thus should substantially reduce or eliminate the overstatement of both the accounts receivable and the trust and deposit liability accounts.

ACCOUNTING DEFICIENCIES CONCERNING INSURANCE OPERATIONS

During our examination of the financial statements of FHA's insurance operations, we noted additional accounting deficiences which affected the fiscal year 1975 financial results in varying degrees. These deficiencies did not affect our opinion on the financial statements because either the net effect was not material or FHA adjusted the account to a level which permitted us to accept the balance as reasonable. However, some of the problems are of a continuing nature and, if not corrected, could result in serious accounting deficiencies in future years. We reported the following problems to the Secretary of HUD on December 11, 1974.

Overdue premiums receivable

Under FHA insurance programs homeowners and other mortgagors of FHA-insured properties pay mortgage insurance premiums to banking institutions (mortgagees) which service their mortgage loans. FHA then bills the mortgagees for premiums due. We found that the premiums receivable accounts contain substantial amounts of premiums due from the mortgagees that are considerably delinquent and the collectability of these accounts is questionable. FHA, for balance sheet presentation purposes, established a reserve against the premium receivable account that, in effect, reduces the receivable to an amount considered collectable. However, for the past several years, FHA has been unable to find the causes of the problems in the accounts.

Our examination of FHA's financial statements for fiscal year 1972 disclosed that about $0.8 million in the premiums receivable account was past due for 6 or more months. By June 30, 1973, the amount 6 or more months past due had increased to $6.2 million, and by June 30, 1974, it was about $11 million. At June 30, 1975, the amount of premiums receivable past due 6 or more months had been reduced to $8.4 million.

On June 30, 1975, a reserve for estimated future losses of $5.8 million was established that, in effect, reduced the premium receivable account downward to $41 million, an amount estimated by FHA to be collectable. Although the establishment of the reserve adjusts the premium receivable account to an amount we can accept for purposes of certification of the account at June 30, 1975, FHA has been unable, over the past several years, to correct the underlying causes of the problems.

HUD officials informed us that the principal reasons for the past due accounts included (1) difficulties in identifying mortgagees to be billed for the premiums because a substantial number of mortgages were sold by one mortgagee to another and (2) a cumbersome manual accounting system requiring the handling of as many as 500,000 to 600,000 computer punch cards monthly, resulting in substantial numbers of errors.

HUD has developed a new computer procedure, currently being tested, which eliminates the need to manually handle computer punch cards. Further, on a longer range basis, HUD is developing a new overall computer system for the mortgage insurance operations which includes a new design for handling premium billing and collections.

Insurance in force records dropped from HUD's computer files

Pertinent automatic data processing records applicable to over five million small home mortgages insured by FHA are included on HUD's computer master tape files. These master files are used to record important information concerning each insured mortgage and to automatically compute premiums due from mortgagees. Our review showed that, during the monthly updating procedure to adjust the master file for new or deleted cases, the data for numerous insured cases was inadvertently dropped from the files. FHA did not realize the data was dropped because established internal control procedures to detect such dropped data was not being followed.

Our examination of FHA's fiscal year 1975 financial records showed that during the updating procedure, data for 281 cases involving over $3 million in insurance in force had been dropped from the master files during the year. FHA was aware of only 10 dropped cases. FHA officials responsible for updating the master file told us that procedures to verify that all cases were processed during computer file updating were not followed, and therefore, the dropped cases were not detected. FHA reentered all the dropped cases in the master file except 21 for which the insurance was terminated before reentry into the computer system and 1 case which FHA could not locate.

We had previously identified the problem of dropped data during our fiscal year 1973 review. At that time data for 430 cases with an insured amount of over $5.4 million had been dropped. FHA could not locate 31 of these cases and was unable to reenter the data concerning those cases in its computer files. Premiums due the Government on the 31 cases would be lost, unless the mortgagees servicing the insured mortgage voluntarily notified FHA that a premium billing was due or the mortgagor defaulted and a claim for insurance benefits was submitted to FHA.

The Director of Mortgage Insurance Accounting told us that FHA had now further strengthened its procedures to assure that in the future dropped cases would be detected.

FHA unable to reconcile cash balance with the balance of the U.S. Treasury

FHA's cash balance with the U.S. Treasury as shown in the accounting records was $123.9 million at June 30, 1975. As of the end of March 1976, FHA was still unable to reconcile a cash difference of about $26,000 applicable to the June 30, 1975, cash balances. The cash balance shown in FHA's financial statements (see schs. 1 and 3) is $26,000 lower than the balance shown in the Treasury records.

The last time FHA successfully reconciled its cash balance with Treasury's records was in 1970. At June 30, 1973, the unreconciled difference was about $61,000, and at June 30, 1974, the difference totaled about $20,000. HUD officials stated that a new computer system should provide information necessary for timely cash reconciliations.

Review of financial accounts by HUD's Inspector General

Over the past several years, we have pointed out in our annual reports to the Congress on our examination of FHA's financial statements that the Inspector General has done a very limited amount of internal audit work on the FHA insurance operations accounting records.

In a December 1974 report to the Secretary, we identifed several financial accounting deficiencies in FHA's insurance operations and recommended that the Office of the Inspector General be required to annually examine FHA insurance records and participate with appropriate HUD officials in devising procedures to help correct the accounting problems.

Officials of the Inspector General's Office informed us that for fiscal year 1976, 2 or 3 man-years would be devoted to the audit of the financial accounts of FHA. Specifically, HUD auditors plan to concentrate on deficiencies that we identified and to assist FHA in eliminating those problems.

RECENT GAO REPORTS ON FHA FINANCIAL DEFICIENCIES

In November 1975 and May 1976, we issued two reports on weaknesses in HUD's financial procedures which pertained to

FHA. The first report issued to the Congress concerned weaknesses in HUD's procedures and practices for administering its property tax payment system for properties acquired under FHA programs. The weaknesses resulted in erroneous, duplicate, and delinquent tax payments as well as in the failure to pay taxes owed. (FGMSD-76-24, Nov. 26, 1975) The tax payment system was the subject of congressional hearings in September 1975.

The second report issued to the Secretary, HUD, was an interim report on our review of HUD's accounting system for billing and collecting FHA mortgage insurance premiums from mortgagees. It concerned the need to take prompt action to collect millions of dollars of delinquent mortgage insurance premiums and to improve the accounting system for mortgage insurance premiums and related billing and collection procedures. (FGMSD-76-54, May 5, 1976)

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, 1975. 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.

As discussed on page 22, the accounts receivable from the sale of Secretary-held properties of about $150.2 million and the trust and deposit liabilities for earnest money held by FHA on pending sales of these properties of about $142.7 million were materially overstated at June 30, 1975. We estimate that about $143 million of the account receivables were collected by FHA by June 30, 1975, and about $141 million of the liabilities pertained to settled sales by June 30, 1975, and were, therefore, no longer liabilities. These overstated amounts should have been excluded from FHA's balance sheet at June 30, 1975. FHA's statement of income and expense was not affected by these overstatements.

In our opinion, except for the overstatements of the assets and liabilities discussed above, the accompanying financial statements (schs. 1 through 5) present fairly the financial position of FHA at June 30, 1975, 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.

FINANCIAL STATEMENTS

SCHEDULE 1

FEDERAL HOUSING ADMINISTRATION

COMBINED COMPARATIVE BALANCE SHEET

AS OF JUNE 30, 1975 AND 1974

ASSETS

	1975	1974	Increase or Decrease (-)
CASH AND FUND BALANCES	$ 123,942,820	$ 118,406,988	$ 5,535,832
ACCOUNTS RECEIVABLE:			
Premiums	46,808,500	56,109,602	-9,301,102
Less: Allowance for estimated future losses	5,837,500	5,400,000	437,500
Net premiums	40,971,000	50,709,602	-9,738,602
Fees	3,751,199	3,596,018	155,181
Sale of Secretary-held properties	150,162,923	100,585,454	49,577,469
Sale of Secretary-held mortgages	663,900	955,150	-291,250
Other	1,699,201	1,474,333	224,868
Advance to Special Risk Insurance Fund from General Insurance Fund	20,000,000	20,000,000	-
Total accounts receivable	217,248,223	177,320,557	39,927,[illegible]
ACCRUED ASSETS:			
Premiums	152,148,209	152,304,437	-156,228
Interest on U. S. Government securities	34,160,858	28,950,921	5,209,[illegible]
Interest on mortgage notes receivable	63,316,173	44,351,131	18,[illegible]
Total accrued assets	249,625,240	225,606,489	24,[illegible]
INVESTMENTS:			
U. S. Government securities at amortized cost (Market Value $1,534,927,207 at June 30, 1975 and $1,308,519,524 at June 30, 1974) (note 1)	1,590,140,792	1,393,685,455	196,455,[illegible]
Stock in rental and cooperative housing corporations: 139,045 shares at June 30, 1975 and 146,890 shares at June 30, 1974--at cost	158,600	167,300	-8,[illegible]
Total investments	1,590,299,392	1,393,852,755	196,[illegible]
MORTGAGE NOTES AND CONTRACTS FOR DEED--UNPAID BALANCE	366,071,933	310,854,010	55,217,[illegible]
Less Allowance for estimated future losses	21,579,637	19,128,456	2,451,[illegible]
Net mortgage notes and contracts for deed	344,492,296	291,725,554	52,766,[illegible]
ACQUIRED SECURITY OR COLLATERAL:			
Acquired property--at cost plus net expenses to date	1,678,502,913	1,772,882,943	-94,380,[illegible]
Defaulted mortgage notes--at cost plus net expenses to date	1,958,767,084	1,383,994,909	574,772,275
Defaulted Title I notes--at unpaid principal balance	63,401,908	48,873,135	14,528,773
Total cost of acquired property and notes	3,700,671,905	3,205,750,987	494,920,918
Less principal recoveries on defaulted mortgage notes	58,511,647	56,253,915	2,257,[illegible]
Less undisbursed mortgage proceeds	2,719,434	1,925,432	794,002
Unrecovered cost	3,639,440,824	3,147,571,640	491,869,184
Less allowance for estimated future losses	1,671,463,055	1,427,132,800	244,330,255
Net acquired property and notes	1,967,977,769	1,720,438,840	247,538,929
Other notes receivable	1,291,722	264,405	1,027,317
Less Allowance for estimated future losses	346,494	243,937	102,557
Net other notes receivable	945,228	20,468	924,760
Net acquired security or collateral	1,968,922,997	1,720,459,308	248,463,689
OTHER ASSETS--HELD FOR THE ACCOUNT OF MORTGAGORS	2,700,703	2,366,852	333,851
UNAPPLIED CHARGES	476,591	599,126	-122,535
Total assets (notes 2)	$4,497,708,262	$3,930,337,629	$567,370,633

The notes on page 40 are an integral part of this statement.

SCHEDULE 1

L I A B I L I T I E S

	1975	1974	Increase or Decrease (-)
ACCOUNTS PAYABLE:			
Acquired security and miscellaneous	$ 138,693,532	$ 160,637,319	$ -21,943,787
MMI Fund participations payable	43,438,259	32,813,958	10,624,301
Advances from General Insurance Fund to Special Risk Insurance Fund	20,000,000	20,000,000	-
Total accounts payable	202,131,791	213,451,277	-11,319,486
ACCRUED LIABILITIES:			
Interest on debentures	14,138,674	11,155,112	2,983,562
TRUST AND DEPOSIT LIABILITIES:			
Deposits held for mortgagors and lessees (note 7)	26,793,562	22,694,093	4,099,469
Earnest money on pending sales	142,707,158	85,089,563	57,617,595
Excess proceeds of sale	4,858,909	4,334,875	524,034
Total trust and deposit liabilities	174,359,629	112,118,531	62,241,098
DEFERRED CREDITS:			
Unearned premium income	51,927,191	54,387,620	-2,460,429
Unearned fee income	901,822	414,693	487,129
Unapplied credits	7,439,684	5,312,983	2,126,701
Total deferred credits	60,268,697	60,115,296	153,401
DEBENTURE OBLIGATIONS:			
Debentures issued and outstanding	486,935,150	408,053,400	78,881,750
Debentures authorized for issue	11,338,850	624,500	10,714,350
Debenture claims in process	38,203,550	40,639,670	-2,436,120
Total debenture obligations	536,477,550	449,317,570	87,159,980
OTHER LIABILITIES:			
Reserve for foreclosure costs--defaulted mortgage notes	15,688,958	10,062,677	5,626,281
Total liabilities	1,003,065,299	856,220,463	146,844,836

R E S E R V E S   A N D   B O R R O W I N G S   F R O M   U. S.   T R E A S U R Y

RESERVES:			
Statutory Reserve--for participation payments and future losses and expenses (note 5)	432,007,206	362,509,138	69,498,068
Insurance Reserve--available for future losses and expenses (note 5)	-614,632,243	249,608,028	-864,240,271
Total reserves	-182,625,037	-612,117,166	-794,742,203
BORROWINGS FROM U. S. TREASURY (note 4	3,677,268,000	2,462,000,000	1,215,268,000
Total reserves and borrowings from U. S. Treasury	3,494,642,963	3,074,117,166	420,525,797
Total liabilities, reserves and borrowings from U. S. Treasury (notes 3, 4, 5, 6, and 7)	$4,497,708,262	$3,930,337,629	$ 567,370,633

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[redacted]

FEDERAL HOUSING ADMINISTRATION
COMBINED COMPARATIVE STATEMENT OF INCOME AND EXPENSE
AND CHANGES IN INSURANCE RESERVES AND BORROWINGS
FOR THE FISCAL YEARS ENDED JUNE 30, 1975 AND 1974

INCOME AND EXPENSE	1975	1974	Increase or Decrease (-)
INCOME:			
Fees	$ 24,637,403	$ 21,342,343	$ 3,295,060
Premiums	413,087,823	421,115,822	-8,027,999
Interest on U. S. Government securities and dividends	104,794,568	91,750,591	13,043,977
Interest income	139,194	2,417,719	-2,278,525
Miscellaneous income	83,966	36,734	47,232
Total income	542,742,954	536,663,209	6,079,745
EXPENSE:			
Salaries and expenses	201,798,496	190,013,352	11,785,144
Interest on borrowings from U. S. Treasury	202,972,622	126,873,322	76,099,300
Interest on debenture obligations	30,150,803	21,685,680	8,465,123
Loss on acquired security	600,907,019	422,771,390	178,135,629
Loss on defaulted Title I notes	6,258,520	10,429,755	-4,171,235
Discount on sale of Secretary-held mortgages	689,344	179,203	510,141
Fee expenses	3,984,937	1,475,097	2,509,840
Repairs of structural defects	1,007,070	1,365,995	-358,925
Income or expense (-) on settled properties	1,427,474	35,934	1,391,540
Miscellaneous expense	-282,625	416,986	-699,611
Total expense	1,048,913,660	775,246,714	273,666,946
Net income before adjustment of valuation allowances	-506,170,706	-238,583,505	-267,587,201
INCREASE (-) OR DECREASE (+) IN VALUATION ALLOWANCES:			
Allowance for estimated future losses on:			
Purchase money mortgages	-2,451,181	-1,238,588	-1,212,593
Acquired properties	-9,102,252	-170,293,548	+161,191,296
Defaulted mortgage notes	-225,403,232	-153,518,010	-71,885,222
Defaulted Title I notes	-9,824,771	-5,944,071	-3,880,700
Other notes receivable	-102,557	+154	-102,711
Insurance premiums receivable	-437,500	-2,900,000	+2,462,500
Net adjustment of valuation allowances	-247,321,493	-333,894,063	+86,572,570
Net income or loss (-)	$ -753,492,199	$ -572,477,568	$ -181,014,631
ANALYSIS OF INSURANCE RESERVES AND BORROWINGS			
DISTRIBUTION OF NET INCOME			
Statutory Reserve (participating reserve account):			
Balance at beginning of period	$ 362,509,138	$ 274,787,207	$ 87,721,931
Net income allocated for the period 2/	112,736,027	108,135,038	4,600,989
Transfer from general surplus account	1,736,902	19,661,546	-17,924,644
Total participating reserve	476,982,067	402,583,791	74,398,276
Participations declared	-44,964,367	-40,068,219	-4,896,148
Participations available	432,017,700	362,515,572	69,502,128
Changes in participations held in escrow	-10,494	-6,434	-4,060
Balance at end of period	$ 432,007,206	$ 362,509,138	$ 69,498,068
Insurance Reserve:			
Balance at beginning of period	$ 249,608,028	$ 945,890,399	$ -696,282,371
Adjustments during the period 1/	3,724,857	3,991,781	-266,924
Net income or loss (-) for the period 2/	-866,228,226	-680,612,606	-185,615,620
Transfer to participating reserve account	-1,736,902	-19,661,546	17,924,644
Balance at end of period	$ -614,632,243	$ 249,608,028	$ -864,240,271
Total reserves	$ -182,625,037	$ 612,117,166	$ -794,742,203
BORROWINGS FROM U. S. TREASURY:			
Balance at beginning of period	$2,462,000,000	$1,641,000,000	$ 821,000,000
Borrowings during the period	1,215,268,000	821,000,000	394,268,000
Balance at end of period	$3,677,268,000	$2,462,000,000	$1,215,268,000
Total reserves and borrowings at end of period	$3,494,642,963	$3,074,117,166	$ 420,525,797

1/ Comprised of the following adjustments relative to prior years:

	1975	1974	Increase or Decrease (-)
(a) Salaries and expenses	$ 3,919,000	$ 3,843,000	$ 76,000
(b) Allowance for estimated future losses on purchase money mortgages	-	148,781	-148,781
(c) Fee income	-437,159	-	-437,159
(d) Loss on defaulted Title I notes	243,016	-	243,016
	$ 3,724,857	$ 3,991,781	$ -266,924

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

SCHEDULE 3

FEDERAL HOUSING ADMINISTRATION

COMBINED BALANCE SHEET

ANALYSIS BY FUND

AS OF JUNE 30, 1975

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:	$ 123,942,820	$ 30,896,447	$ 80,293,708	$ 1,320,633	$ 9,981,599	$1,[illegible]
ACCOUNTS RECEIVABLE:						
Premiums	46,808,500	24,765,728	12,911,376	282,928	8,848,468	-
Less: Allowance for estimated future losses	5,837,500	5,337,500	500,000	-	-	-
Net premiums	40,971,000	19,428,228	12,411,376	282,928	8,848,468	-
Fees	3,751,199	3,463,179	252,565	-	35,455	-
Sale of Secretary-held properties	150,162,923	41,742,252	41,544,931	27,365	66,848,375	-
Sale of Secretary-held mortgages	663,900	123,750	34,600	-	505,550	-
Other	1,699,201	280,104	986,699	-	372,420	59,978
Advances to Special Risk Insurance Fund from General Insurance Fund	20,000,000	-	20,000,000	-	-	-
Total accounts receivable	217,248,223	65,037,513	75,230,171	310,293	76,610,268	[illegible]
ACCRUED ASSETS:						
Premiums	152,148,209	112,472,800	21,130,842	-	18,544,567	-
Interest on U. S. Government securities	34,160,858	33,620,042	-	540,816	-	-
Interest on mortgage notes receivable	63,316,173	661,024	50,618,038	883,642	11,153,469	-
Total accrued assets	249,625,240	146,753,866	71,748,880	1,424,458	29,698,036	-
INVESTMENTS:						
U. S. Government securities at amortized cost (Market Value $1,534,927,267) (Note 1)	1,590,140,792	1,564,855,458	-	25,285,334	-	-
Stock in rental and cooperative housing corporations, 139,045	158,600	-	137,000	21,600	-	-
Total investments	1,590,299,392	1,564,855,458	[illegible]	25,306,934	-	-
MORTGAGE NOTES AND CONTRACTS FOR DEED--UNPAID BALANCE	366,071,933	22,539,438	327,412,302	4,897,992	11,222,201	-
Less allowance for estimated future losses	21,579,637	589,359	20,307,374	244,900	438,004	-
Net mortgage notes and contracts for deed	344,492,296	21,950,079	307,104,928	4,653,092	10,784,197	-
ACQUIRED SECURITY OR COLLATERAL:						
Acquired property--at cost plus net expenses to date	1,678,502,913	334,698,378	671,933,303	1,732,483	670,138,749	-
Defaulted mortgage notes--at cost plus net expenses to date	1,958,767,084	12,158,361	1,466,637,334	14,305,596	465,665,793	-
Defaulted Title I notes--at unpaid principal balance	63,401,908	-	63,401,908	-	-	-
Total cost of acquired property and notes	3,700,671,905	346,856,739	2,201,972,545	16,038,079	1,135,804,542	-
Less principal recoveries on defaulted mortgage notes	58,511,647	1,754,448	56,119,133	504,774	133,292	-
Less undisbursed mortgage proceeds	2,719,434	-	2,719,434	-	-	-
Unrecovered cost	3,639,440,824	345,102,291	2,143,133,978	15,533,305	1,135,671,250	-
Less allowance for estimated future losses	1,671,463,055	177,094,218	978,762,370	4,791,452	510,815,015	-
Net acquired property and notes	1,967,977,769	168,008,073	1,164,371,608	10,741,853	624,856,235	-
Other notes receivable	1,291,722	268,965	49,064	-	973,693	-
Less allowance for estimated future losses	346,494	244,219	4,906	-	97,369	-
Net other notes receivable	945,228	24,746	44,158	-	876,324	-
Net acquired security or collateral	1,968,922,997	168,032,819	1,164,415,766	10,741,853	625,732,559	-
OTHER ASSETS--HELD FOR THE ACCOUNT OF MORTGAGORS	2,700,703	-	2,679,637	21,066	-	-
UNAPPLIED CHARGES	476,591	62,047	11,996	-	397,976	[illegible]
Total assets (note 2)	$4,497,708,262	$1,997,588,229	$1,701,622,086	$43,778,329	$ 753,204,635	$1,514,983

The notes on page 40 are an integral part of this statement.

SCHEDULE 3

LIABILITIES	Combined	Mutual Mortgage Insurance Fund	General Insurance Fund	Cooperative Management Housing Insurance Fund	Special Risk Insurance Fund	Salaries and Expenses Fund
ACCOUNTS PAYABLE:						
Acquired security and miscellaneous	$ 138,093,532	$ 24,026,993	$ 70,190,319	$ 1,583	$ 44,474,637	$ -
MMI Fund participations payable	43,438,259	43,438,259	-	-	-	-
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	202,131,791	66,572,497	70,261,749	7,160	65,234,877	55,508
ACCRUED LIABILITIES:						
Interest on debentures	14,138,674	109,964	13,508,870	519,840	-	-
TRUST AND DEPOSIT LIABILITIES:						
Deposits held for mortgagors and lessees (note 7)	26,793,562	292,762	20,920,128	484,818	5,095,854	-
Earnest money on pending sales	142,707,158	48,666,197	37,490,783	-	56,550,178	-
Excess proceeds of sale	4,858,909	-	4,815,532	43,377	-	-
Total trust and deposit liabilities	174,359,629	48,958,959	63,226,443	528,195	61,646,032	-
DEFERRED CREDITS:						
Unearned premium income	51,927,191	1,384,085	31,894,186	1,898,501	16,750,419	-
Unearned fee income	901,822	-	597,581	-	304,241	-
Unapplied credits	7,439,684	588,730	4,338,859	130,768	921,852	[illegible]
Total deferred credits	60,268,697	1,972,815	36,830,626	2,029,269	17,976,512	[illegible]
DEBENTURE OBLIGATIONS:						
Debentures issued and outstanding	486,935,150	6,042,950	461,394,550	19,497,650	-	-
Debentures authorized for issue	11,338,850	-	10,945,500	393,350	-	-
Debenture claims in process	38,203,550	-	38,203,550	-	-	-
Total debenture obligations	536,477,550	6,042,950	510,543,600	19,891,000	-	-
OTHER LIABILITIES:						
Reserve for foreclosure costs--defaulted mortgage notes	15,688,958	-	11,310,653	186,906	4,191,399	-
Total liabilities	1,003,065,299	123,657,185	705,681,941	23,162,370	149,048,820	1,51[illegible]
RESERVES AND BORROWINGS FROM U.S. TREASURY						
RESERVES:						
Statutory Reserve--for participation payments and future losses and expenses (note 5)	432,007,206	428,070,349	-	3,936,857	-	-
Insurance Reserve--available for future losses and expenses (note 5)	-614,632,243	1,445,860,695	-1,041,327,855	16,679,102	-1,035,844,185	-
Total reserves	-182,625,037	1,873,931,044	-1,041,327,855	20,615,959	-1,035,844,185	-
BORROWINGS FROM U. S. TREASURY (note 4)	3,677,268,000	-	2,037,268,000	-	1,640,000,000	-
Total reserves and borrowings from U. S. Treasury	3,494,642,963	1,873,931,044	995,940,145	20,615,959	604,155,815	-
Total liabilities, reserves and borrowings from U. S. Treasury (notes 3, 4, 5, 6, and 7)	$4,497,708,262	$1,997,588,229	$1,701,622,086	$43,778,329	$ 753,204,635	$1,514,983

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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, 1975

INCOME AND EXPENSE	Combined	Mutual Mortgage Insurance Fund	General Insurance Fund	Cooperative Management Housing Insurance Fund	Special Risk Insurance Fund
INCOME:					
Fees	$ 24,637,403	$ 16,297,120	$ 5,276,786	$ 3,268	$ 3,060,229
Premiums	413,087,823	236,686,030	103,392,199	3,889,499	69,120,095
Interest on U. S. Government securities and dividends	104,794,568	103,103,052	1,739	1,689,777	-
Interest income	139,194	515,838	1,000,802	-	-1,377,446
Miscellaneous income	83,966	4,287	68,569	-	11,110
Total income	542,742,954	356,606,327	109,740,095	5,582,544	70,813,988
EXPENSE:					
Salaries and expenses	201,798,496	90,244,632	55,171,088	275,146	56,107,630
Interest on borrowings from U. S. Treasury	202,972,622	-	107,468,095	-	95,504,527
Interest on debenture obligations	30,150,803	237,467	28,812,530	1,100,806	-
Loss on acquired security	600,907,019	175,252,860	223,360,568	1,965,304	200,328,287
Loss on defaulted Title I notes	6,258,520	-	6,258,520	-	-
Discount on sale of Secretary-held mortgages	689,344	153,227	65,959	-	470,158
Fee expenses	3,984,937	3,534,295	371,741	-	78,901
Repairs of structural defects	1,007,070	276,513	-	-	730,557
Expense on settled properties	1,427,474	160,786	584,255	-	682,433
Miscellaneous expense	-282,625	68,371	136,557	-	-487,553
Total expense	1,048,913,660	269,928,151	422,229,713	3,341,256	353,414,940
Net income or loss (-) before adjustment of valuation allowances	-506,170,706	86,678,176	-312,489,218	2,241,288	-282,600,952
INCREASE (-) OR DECREASE (+) IN VALUATION ALLOWANCES:					
Allowance for estimated future losses on:					
Purchase money mortgages	-2,451,181	-149,888	-1,776,873	-132,182	-392,238
Acquired properties	-9,102,252	+23,309,892	+8,115,111	+1,220,725	-41,747,980
Defaulted mortgage notes	-225,403,232	-492,934	-174,200,417	+654	-50,710,535
Defaulted Title I notes	-9,824,771	-	-9,824,771	-	-
Other notes receivable	-102,557	-2,206	-2,984	-	-97,369
Insurance premiums receivable	-437,500	+62,500	-500,000	-	-
Net adjustment of valuation allowances	-247,321,493	+22,727,366	-178,189,934	+1,089,197	[illegible]
Net income or loss (-)	$ -753,492,199	$ 109,405,542	$ -490,679,152	$ 3,330,485	$ -375,549,074

ANALYSIS OF INSURANCE RESERVES AND BORROWINGS

	Combined	Mutual Mortgage Insurance Fund	General Insurance Fund	Cooperative Management Housing Insurance Fund	Special Risk Insurance Fund
DISTRIBUTION OF NET INCOME:					
Statutory Reserve (participating reserve account):					
Balance at beginning of period	$ 362,509,138	$ 359,898,151	$ -	$ 2,610,987	$ -
Net income or loss (-) allocated for the period 2/	112,736,027	109,405,542	-	3,330,485	-
Transfer from general surplus account	1,736,902	1,731,023	-	5,879	-
Total participating reserve	476,982,067	471,034,716	-	5,947,351	-
Participations declared	-44,964,367	-42,964,367	-	-2,000,000	-
Participations available	432,017,700	428,070,349	-	3,947,351	-
Changes in participations held in escrow	-10,494	-	-	-10,494	-
Balance at end of period	$ 432,007,206	$ 428,070,349	$ -	$ 3,936,857	$ -
Insurance Reserve:					
Balance at beginning of period	$ 249,608,028	$1,446,252,595	$ -551,953,776	$16,679,102	$ -661,369,893
Adjustments during the period 1/	3,724,857	1,339,123	1,305,073	5,879	1,074,782
Net income or loss (-) for the period 2/	-866,228,226	-	-490,679,152	-	-375,549,074
Transfer to participating reserve account	-1,736,902	-1,731,023	-	-5,879	-
Balance at end of period	$ -614,632,243	$1,445,860,695	$-1,041,327,855	$16,679,102	$-1,035,844,185
Total reserves or deficit (-)	$ -182,625,037	$1,873,931,044	$-1,041,327,855	$20,615,959	$-1,035,844,185
BORROWINGS FROM U. S. TREASURY					
Balance at beginning of period	$2,462,000,000	$ -	$ 1,307,000,000	$ -	$ 1,155,000,000
Borrowings during the period	1,215,268,000	-	730,268,000	-	485,000,000
Balance at end of period	$3,677,268,000	$ -	$ 2,037,268,000	$ -	$ 1,640,000,000
Total reserves and borrowings at end of period	$3,494,642,963	$1,873,931,044	$ 995,940,145	$20,615,959	$ 604,155,815

1/ Comprised of the following adjustments relative to prior years:

	Combined	Mutual Mortgage Insurance Fund	General Insurance Fund	Cooperative Management Housing Insurance Fund	Special Risk Insurance Fund
1. Salaries and expenses	$ 3,919,000	$ 1,731,022	$ 1,097,712	$ 5,879	$ 1,084,387
2. Fees	-437,160	-391,893	-35,656	-	-9,605
3. Allowance for estimated future losses on defaulted Title I notes	243,017	-	243,017	-	-
	$ 3,724,857	$ 1,339,123	$ 1,305,073	$ 5,879	$ 1,074,782

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.

SCHEDULE 5

FEDERAL HOUSING ADMINISTRATION

COMBINED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

(STATEMENT OF CHANGES IN FINANCIAL POSITION)

FOR THE FISCAL YEAR ENDED JUNE 30, 1975

	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	$ 24,637,403	$ 16,297,120	$ 5,276,786	$ 3,268	$ 3,060,229	$ -
Premiums	412,650,321	236,748,530	102,892,199	3,889,499	69,120,095	-
Interest on U. S. Government securities	104,792,829	103,103,052	-	1,689,777	-	-
Dividends received on stock held in rental and cooperative housing corporations	1,739	-	1,739	-	-	-
Interest on mortgage notes	-673,018	515,838	188,590	-	-1,377,446	-
Interest and other income on defaulted Title I notes	812,212	-	812,212	-	-	-
Miscellaneous income	83,966	4,287	68,569	-	11,110	-
Total income	542,305,454	356,668,827	109,240,095	5,582,544	70,813,988	-
Realization of assets:						
Proceeds from sale of properties	720,351,214	226,894,151	184,910,700	365,000	308,181,363	-
Recoveries on assigned notes	8,282,876	813,650	7,059,768	116,969	292,489	-
Recoveries on defaulted Title I notes	4,530,531	-	4,530,531	-	-	-
Proceeds from sale of purchase money mortgages	10,465,145	2,391,889	979,886	-	7,093,370	-
Collections of principal on purchase money mortgages	5,390,123	1,262,559	4,089,815	16,367	21,362	-
Redemption or transfer of stock in rental and cooperative housing corporations	8,700	-	8,700	-	-	-
Total realization of assets	749,028,589	231,362,249	201,579,420	498,336	315,588,584	-
Prior fiscal years adjustments	3,481,840	1,339,123	1,062,056	5,879	1,074,782	-
Total funds provided by operations	$1,294,815,883	$589,370,199	$ 311,881,571	$ 6,086,759	$387,477,354	$ -
Funds provided by financing:						
Debentures issued	$ 135,833,400	$ -	$ 130,684,650	$ 5,148,750	$ -	$ -
U. S. securities redeemed, sold and/or transferred (par)	358,329,500	348,831,500	739,000	8,759,000	-	-
Principal collections on Defense Family Housing securities	12,885	-	12,885	-	-	-
Borrowings from U. S. Treasury	1,215,268,000	-	730,268,000	-	485,000,000	-
Total funds provided by financing	$1,709,443,785	$348,831,500	$ 861,704,535	$13,907,750	$485,000,000	$ -
Total source of funds	$3,004,259,668	$938,201,699	$1,173,586,106	$19,994,509	$872,477,354	$ -

SCHEDULE 5

	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	$ 201,798,496	$ 90,244,632	$ 55,171,088	$ 275,146	$ 56,107,630	$ -
Interest on borrowings from U. S. Treasury	202,972,622	-	107,468,095	-	95,504,527	-
Interest on debenture obligations	30,150,803	237,467	28,812,530	1,100,806	-	-
Repairs of structural defects	1,007,070	276,513	-	-	730,557	-
Discount on sale of Secretary-held mortgages	689,344	153,227	65,959	-	470,158	-
Fee expenses	3,984,937	3,534,295	371,741	-	78,901	-
Expense on settled properties	[illegible],427,474	160,786	584,255	-	682,433	-
Miscellaneous expenses	-282,625	68,371	136,557	-	-487,553	-
Total expenses	441,748,121	94,675,291	192,610,225	1,375,952	153,086,653	-
Acquisition of assets:						
Real property acquired including net capitalized expenses	1,056,091,750	318,876,996	283,483,729	-79,085	453,810,110	-
Assigned notes acquired including net capitalized expenses	817,285,955	528,912	578,779,878	-353,488	238,330,653	-
Defaulted Title I notes acquired	25,074,809	-	25,074,809	-	-	-
Total acquisition of assets	1,898,452,514	319,405,908	887,338,416	-432,573	692,140,763	-
Mutual participations	44,974,860	42,964,367	-	2,010,493	-	-
Increase or decrease (-) in working capital applicable to operations	-1,910,381	-11,955,544	-21,433,798	4,681,060	24,429,252	2,368,649
Total funds applied to operations	$ 2,383,265,114	$445,090,022	$1,058,514,843	$ 7,634,932	$ 869,656,668	$ 2,368,649
Funds applied to financing:						
Debentures redeemed	$ 56,951,650	$ 658,550	$ 55,505,400	$ [illegible]	$ -	$ -
U. S. securities acquired (par)	557,933,500	545,935,000	1,139,500	10,859,000	-	-
Increase or decrease (-) in working capital applicable to financing	6,109,404	-53,481,873	58,426,363	712,877	2,820,686	-2,368,649
Total funds applied to financing	$ 620,994,554	$493,111,677	$ 115,071,263	$12,359,577	$ 2,820,686	$-2,368,649
Total application of funds	$ 3,004,259,668	$938,201,699	$1,173,586,106	$19,994,509	$ 872,477,354	$ -

NOTES TO COMBINED BALANCE SHEETS

JUNE 30, 1975 AND 1974

1. Investments include GNMA participation certificates in the amount of $134,383,630.26 at June 30, 1975 and $134,133,402.36 at June 30, 1974 plus debentures at FHA Insurance Funds in the amount of $51,9[illegible],100.00 at June 30, 1975 and $52,016,100.00 at June 30, 1974 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 $[illegible],304,112.[illegible] at June 30, 1975 and $261,[illegible],359.7[illegible] at June 30, 1974

   (b) Estimated accrued interest receivable--collection doubtful--on defaulted Title I notes at June 30, 1975 and 1974.

	1975	1974
On notes with principal balances	$[illegible],[illegible]9,135.8[illegible]	$11,153,481.71
On notes with principal balances paid - interest due	[illegible],211,90[illegible].17	1,705,039.98
Total	$[illegible]	$12,858,521.59

[illegible] The following items are not recorded in the liabilities:

   (a) Unfilled orders and incompleted portion of contracts for property repairs in the amount of $[illegible] at June 30, 1975 and $[illegible],929.[illegible] for incompleted portion of contracts for property repairs at June 30, 1974.

   (b) Contingent liability with respect to pending lawsuits in the amount of $1,9[illegible],[illegible] at June 30, 1975 and $1,[illegible],630.1[illegible] at June 30, 1974.

   (c) Pending claims on properties and notes tendered by mortgagees but not accepted by FHA in the amount of $[illegible],304,112.[illegible] at June 30, 1975 and $261,[illegible]9,359.7[illegible] at June 30, 1974.

   (d) Certificates of claim relating to properties and notes tendered by mortgagees but not accepted by FHA in the amount of $2,[illegible]71,[illegible] at June 30, 1975 and $1,[illegible] at June 30, 1974.

   (e) Certificates of claim relating to acquired security on hand of $[illegible],[illegible]7,274.[illegible] at June 30, 1975 and $25,[illegible] at June 30, 1974.

[illegible] The amount shown as "Borrowings from U. S. Treasury" includes $2,037,268,000 advanced to the General Insurance Fund and $1,[illegible] advanced to the Special Risk Insurance Fund.

[illegible] [illegible] Reserves [illegible] of the Government upon the liquidation of all claims and [illegible] contractual obligations.

[illegible] The maximum liability for outstanding FHA insurance contracts in force at June 30, 1975 and 1974 was:

	1975	1974
Mortgage Insurance Programs	$8[illegible]	$84,853,546,528.00
Modernization and Improvement Programs (Title I, Section [illegible])	[illegible],135,71[illegible]	458,613,822.00
Total	$8[illegible]	$85,312,150,350.00

[illegible] The liabilities shown for the "Deposits held for mortgagors and lessees" is net of escrow advances by FHA in the amount of $[illegible] at June 30, 1975 and $2,[illegible]6,[illegible]93.15 at June 30, 1974.

The FHA [illegible] special circumstances [illegible] indemnifies against loss on certain insured mortgages and assigned mortgage notes up to $[illegible] at June 30, 1975 and $60[illegible],[illegible]03.32 at June 30, 1974.

APPENDIX

 APPENDIX I

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:		
Carla A. Hills	March 1975	June 1975
James T. Lynn	Feb. 1973	Feb. 1975
ASSISTANT SECRETARY FOR HOUSING PRODUCTION AND MORTGAGE CREDIT-FHA COMMISSIONER:		
David deWilde (acting)	Dec. 1974	June 1975
Sheldon B. Lubar	July 1973	Nov. 1974
ASSISTANT SECRETARY FOR ADMINISTRATION:		
Thomas G. Cody	May 1974	June 1975
DIRECTOR, OFFICE OF FINANCE AND ACCOUNTING:		
Thomas J. O'Connor	May 1974	June 1975
DIRECTOR, MORTGAGE INSURANCE ACCOUNTING:		
Benjamin C. Tyner	Jan. 1973	June 1975