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REPORT TO THE CONGRESS

Examination Of Financial Statements Pertaining To Insurance Operations Of The Federal Housing Administration Fiscal Year 1971

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Department of Housing and
Urban Development

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D C 20548

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

This is our report on the examination of financial statements pertaining to insurance operations of the Federal Housing Administration, Department of Housing and Urban Development, for the fiscal year ended June 30, 1971

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

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

Comptroller General
of the United States

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ABBREVIATIONS

AOF	Administrative Operations Fund
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

CHAPTER 1

INTRODUCTION

The Federal Housing Administration (FHA), created by the President on June 30, 1934, under authority of the National Housing Act (12 U.S.C. 1701 et seq.), is a noncorporate business-type agency made subject to the Government Corporation Control Act by the Housing Act of 1948. The principal purposes of FHA are to improve home-financing practices, to act as a stabilizing influence in the mortgage field, to encourage improvements in housing standards and conditions, to facilitate homeownership, to aid in the elimination of slums and blighted conditions, and to prevent the deterioration of residential properties.

FHA is headed by the Assistant Secretary for Housing Production and Mortgage Credit-FHA Commissioner, Department of Housing and Urban Development (HUD), who is appointed by the Secretary of HUD. At June 30, 1971, FHA had 8,551 permanent, full-time employees, of which 1,565 were in the central office and 6,986 were employed in FHA field offices throughout the United States and Puerto Rico.

For administrative purposes HUD has divided the United States into 10 regions in which are located the area and insuring offices that have the responsibility for writing all forms of FHA insurance required in their respective jurisdictions, except in New York State where the writing of insurance on multifamily property is centralized in one office.

FHA administers mortgage insurance programs under which lending institutions (mortgagees) are insured against loss in financing first mortgages on various types of housing and on loans which finance property alterations, repairs, and/or improvements.

Most of the insurance written by FHA covers mortgages on small homes (one to four families) and on multifamily housing properties. From inception in 1934 to June 30, 1971, FHA wrote about \$156 billion of insurance, of which about \$78 billion was in force at the latter date.

The mortgage insurance function gives rise to insurance claims by mortgagees who, because of mortgage defaults, have acquired the properties pledged to secure the FHA-insured mortgages. In the settlement of claims, title to the properties is conveyed to FHA. This action gives rise to another FHA function, the maintenance and sale of acquired properties. A summary of FHA's property activity for fiscal years 1971, 1970, and 1969 follows.

	Fiscal year					
	1971		1970		1969	
	Small homes	Multi-family properties	Small homes	Multi-family properties	Small homes	Multi-family properties
Number on hand at beginning of fiscal year	<u>24,811</u>	<u>571</u>	<u>23,318</u>	<u>588</u>	<u>26,515</u>	<u>590</u>
Sales	24,980	40	25,200	64	33,230	47
Acquisitions	<u>35,240</u>	<u>114</u>	<u>26,693</u>	<u>47</u>	<u>30,033</u>	<u>45</u>
Increase or reduction(-) in the number on hand	<u>10,260</u>	<u>74</u>	<u>1,493</u>	<u>-17</u>	<u>-3,197</u>	<u>-2</u>
Number on hand at end of fiscal year	<u>35,071</u>	<u>645</u>	<u>24,811</u>	<u>571</u>	<u>23,318</u>	<u>588</u>

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

CHAPTER 2

COMMENTS ON FINANCIAL STATEMENTS

RESERVES

Total reserves

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

The insurance funds are revolving funds which are used for carrying out the insurance operations of specific sections of the act. The funds are credited with fees, premiums, and investment income and are charged with debenture interest, administrative expenses, and insurance losses. Provision is made for estimated future losses on acquired properties, mortgage notes, and notes for property improvement loans. The accumulated differences between the income of the funds and expenses, losses, and provision for estimated future losses are considered to be the insurance reserves available to cover future insurance losses and administrative expenses. The financial position of each fund at June 30, 1971, is shown on the combined balance sheet. (Sch. 3.)

At June 30, 1971, the total insurance reserves amounted to \$1,698.9 million. An analysis of the respective insurance reserve balances and the sources of these balances follows.

	<u>Total insurance reserves</u>	<u>Small homes</u>	<u>Multifamily properties</u>	<u>Property improvement loans</u>
	----- (millions) -----			
MMIF	\$1,528.9	\$1,528.9	\$ -	\$ -
GIF	171.6	14.7	46.1	110.8
CMHIF	25.5	-	25.5	-
SRIF	<u>-27.1</u>	<u>-29.9</u>	<u>2.8</u>	<u>-</u>
	<u>\$1,698.9</u>	<u>\$1,513.7</u>	<u>\$74.4</u>	<u>\$110.8</u>

Reserve requirements

FHA estimated the reserves required to settle insurance claims that might be presented by insured mortgagees under the \$78 billion of insurance in force on June 30, 1971, on the basis of actuarial studies of the risks underwritten. An estimate of the reserve requirements is made annually.

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

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

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

FHA considers that its estimated reserves are to provide for future losses and related expenses which will be, in large part, contingent upon adverse economic conditions which are not readily predictable. Therefore, FHA has established its reserve requirements on what it considers to be the most conservative basis--that is, 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, 1971, FHA's estimated insurance funds' reserve requirements amounted to \$2,699.2 million. At the same date FHA's total insurance reserves, as shown on the combined balance sheets (schs. 1 and 3), amounted to \$1,698.9 million, which resulted in a total estimated reserve deficiency of \$1,000.3 million in the insurance reserves for meeting estimated reserve requirements.

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

<u>Fiscal year</u>	<u>Estimated reserve requirements</u>	<u>Insurance reserves</u>	<u>Estimated reserve deficiencies</u>
	----- (million) -----		
1967	\$1,750.0	\$1,176.6	\$ 573.4
1968	1,875.4	1,260.3	615.1
1969	2,041.2	1,394.3	646.9
1970	2,275.5	1,571.3	704.2
1971	2,699.2	1,698.9	1,000.3

FHA attributes the increases in the estimated reserve deficiencies to a combination of factors, such as (1) the increased estimated reserve requirements, because of new insurance written and the large proportion of mortgages having long maturities and high loan-value ratios (higher risk mortgages), and (2) actuarially estimated increases in insurance losses.

The adequacy of the insurance reserves of \$1,698.9 million will be contingent upon the amount of insurance claims that FHA may be required to pay to insured mortgagees because of defaults in mortgage payments by mortgagors. Conceivably, the insurance reserves could be totally expended and an actual reserve deficiency could develop if an unusually large number of mortgage defaults should occur. However, whether the actual reserve deficiency would reach the estimated reserve deficiency of \$1,000.3 million is not predictable. Therefore, we are not expressing an opinion as to the adequacy of the insurance reserves.

Comments on the insurance reserves of the four funds follow.

Mutual Mortgage Insurance Fund

MMIF was established under authority of section 202 of the National Housing Act. Under this fund only mortgages which finance the purchase of small homes are insured. At June 30, 1971, the total reserve of MMIF, as shown on the combined balance sheet (sch. 3), amounted to \$1,528.9 million and consisted of a statutory reserve of \$135.1 million and an insurance reserve of \$1,393.8 million. The MMIF reserve of \$1,528.9 million is included in the total reserves of \$1,698.9 million shown on the combined balance sheets. FHA records showed that no insurance claims by mortgagees were pending applicable to the MMIF reserve at June 30, 1971.

Section 205 of the act authorized the establishment of¹ a General Surplus Account and a Participating Reserve Account in MMIF and provided that both accounts were to be available to meet losses arising from MMIF insurance in force. Section 205 also authorized the Assistant Secretary-Commissioner to allocate the income or loss from operations in any semiannual period to either or both accounts and to distribute a share of the Participating Reserve Account to mortgagors after the mortgage loans insured by MMIF have been paid; however, the mortgagors do not have any vested rights in the account.

Section 205 of the act also required that the allocation of the income or loss and the distribution from the Participating Reserve Account be made in such manner and amount as to be in accord with sound actuarial and accounting practices.

An allocation of \$22.9 million was made to the Participating Reserve Account, effective as of December 31, 1970. The amount allocated was a quarter of the net income earned by MMIF during the period July through December 1970. The allocation of \$22.9 million was the first to be made to the Participating Reserve Account since December 31, 1961. Net earnings of MMIF from January 1, 1962, to December 31, 1970, were retained in the General Surplus Account to build up the balance to estimated reserve requirements.

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

At December 31, 1970, FHA estimated that the General Surplus Account exceeded the estimated reserve requirement by \$24.3 million. The financial position of the General Surplus Account at December 31, 1970, in relation to the estimated reserve requirement formed the basis for the allocation of the \$22.9 million to the Participating Reserve Account. Distributions to mortgagors from the Participating Reserve Account in fiscal year 1971 were \$3.8 million compared with \$3.7 million in fiscal year 1970.

From fiscal year 1960 until fiscal year 1971, the estimated reserve requirement for MMIF exceeded MMIF reserves. However, beginning in fiscal year 1967, the relationship between MMIF reserves and the estimated reserve requirement started to improve, and by the end of fiscal year 1971, MMIF reserves exceeded the estimated reserve requirement by \$76.1 million. The estimated excess reserve of \$76.1 million at June 30, 1971, is included in the \$1,000.3 million estimated reserve deficiency discussed in the preceding section of this report. The following tabulation shows the available reserves, the estimated reserve requirement, and the estimated reserve deficiency 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) -----					
1967	\$ 810.3	\$128.4	\$ 938.7	\$1,211.9	\$273.2
1968	918.6	124.1	1,042.7	1,297.1	254.4
1969	1,057.0	119.6	1,176.6	1,368.2	191.6
1970	1,224.2	116.0	1,340.2	1,414.1	73.9
1971	1,393.8	135.1	1,528.9	1,452.8	-76.1

General Insurance Fund

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

GIF insures mortgages and notes which finance the purchase, construction, and/or improvement of small homes, multifamily property, nonresidential property, and commercial or farm structures. The insurance reserve of GIF, totaling \$171.6 million (sch. 3), is included in the total reserves of \$1,698.9 million shown on the June 30, 1971, combined balance sheets.

FHA records showed that claims pending against the \$171.6 million GIF reserve, but not accepted by FHA at June 30, 1971, amounted to \$29.4 million. Therefore, the GIF reserve at June 30, 1971, was sufficient to meet insurance claims pending acceptance.

The estimated reserve requirement has exceeded the insurance reserve since inception of the fund in August 1965. The estimated reserve deficiency of \$657.4 million at June 30, 1971, is part of the total \$1,000.3 million estimated reserve deficiency discussed in a preceding section of this report. The following tabulation shows the estimated reserve requirement, the insurance reserve, and the estimated reserve deficiency at June 30 for each of the past 5 years.

<u>Fiscal</u> <u>year</u>	<u>Estimated</u> <u>reserve</u> <u>requirement</u>	<u>Insurance</u> <u>reserve</u>	<u>Estimated</u> <u>reserve</u> <u>deficiency</u>
	(millions)		
1967	\$515.5	\$223.3	\$292.2
1968	556.0	204.1	351.9
1969	631.3	195.5	435.8
1970	699.3	208.5	490.8
1971	829.0	171.6	657.4

During fiscal year 1971 the Assistant Secretary-Commissioner, FHA, borrowed \$127 million from the U.S. Treasury for GIF, which increased the amount borrowed to \$137 million. The borrowed funds had not been repaid at June 30, 1971.

The ultimate reserve deficiency that might develop could exceed the \$657.4 million estimate, if large-scale mortgage defaults occur--an event which would necessitate the outlay of large sums to settle the resultant claims for the unpaid balance of defaulted mortgages. In such settlements the properties that secured the defaulted mortgages are acquired by FHA. Acquisitions in fiscal year 1971, applicable to GIF, increased by 8,242 properties from the prior fiscal year, and acquisitions, as shown by FHA records, are continuing at a high rate in fiscal year 1972.

HUD told us that, on the basis of the insurance now in force, the likelihood of the reserve deficiency's exceeding the \$657.4 million is small.

Cooperative Management Housing Insurance Fund

CMHIF was established on August 10, 1965, under authority of section 213 of the National Housing Act. Under CMHIF mortgages are insured which financed 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. The insurance reserves of CMHIF, which total \$25.5 million, are included in the total reserves of \$1,698.9 million shown on the combined balance sheets. (Schs. 1 and 3.) FHA records showed that no insurance claims by mortgagees were pending applicable to the CMHIF reserve at June 30, 1971.

Section 213(1) of the act authorized the establishment of a General Surplus Account and a Participating Reserve Account¹ in CMHIF and authorized the Assistant Secretary-Commissioner to allocate the income or loss from operations in any semiannual period to either or both accounts. The act also authorizes the Assistant Secretary-Commissioner to distribute a share of the Participating Reserve Account to mortgagors after the mortgages insured by CMHIF have been paid; however, the mortgagors do not have any vested rights in the account.

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

Both the General Surplus Account and the Participating Reserve Account are available to meet losses arising from the CMHIF insurance in force. CMHIF realized income of \$3.9 million from operations in fiscal year 1971, and the entire amount was allocated to the Participating Reserve Account. In addition, \$2 million was transferred to the Participating Reserve Account from the General Surplus Account

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

because the balance in the latter account had accumulated to an amount that exceeded the estimated reserve requirement.

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

<u>Fiscal year</u>	<u>Participating Reserve Account</u>	<u>General Surplus Account</u>	<u>Total reserves</u>	<u>Estimated reserve requirement</u>	<u>Estimated reserve deficiency or excess (-)</u>
(millions)					
1967	\$ -	\$14.6	\$14.6	\$22.6	\$8.0
1968	-	13.5	13.5	22.3	8.8
1969	2.5	20.4	22.9	21.1	-1.8
1970	4.1	21.6	25.7	19.1	-6.6
1971	6.0	19.5	25.5	17.5	-8.0

Special Risk Insurance Fund

SRIF was established by FHA on August 1, 1968, under authority of section 238(b) of the National Housing Act, as amended. Under this fund mortgages are insured which finance (1) homes purchased by low-income families that are assisted with their mortgage payments by FHA, (2) homes purchased by low- and moderate-income families that, because of credit histories or irregular income patterns, could not qualify for mortgage insurance under other FHA insurance programs, and (3) the repair, rehabilitation, construction, or purchase of property located in older, declining urban areas in which conditions are such that eligibility requirements for mortgage insurance could not be satisfied under other FHA insurance programs.

Section 238(b) provides that SRIF be funded with a \$5 million advance from GIF and that the advance be repaid at such times and at such rates of interest as the Secretary of HUD deems appropriate. The Housing and Urban Development Act of 1969 (12 U S C. 1715z-3(b)) authorized the Secretary to fund SRIF with advances from GIF in amounts that the Secretary may determine necessary up to a total sum of \$20 million. At June 30, 1971, \$20 million had been advanced by GIF.

The Congress did not intend that SRIF be actuarially sound because appropriations to cover losses sustained by the fund were authorized by section 238(b) of the act; however, the Congress had not appropriated funds for this purpose. Substantial losses have been sustained by SRIF, and to obtain funds for the payment of mortgage insurance benefits, the Assistant Secretary-Commissioner, FHA, borrowed \$86 million from the U.S. Treasury during fiscal year 1971. The borrowed funds had not been repaid at June 30, 1971.

The following tabulation shows the estimated reserve requirement, the deficit in the insurance reserve, and the estimated reserve deficiency at June 30, 1971, and at the close of the 2 preceding fiscal years.

<u>Fiscal year</u>	<u>Estimated reserve requirement</u>	<u>Insurance reserve</u>	<u>Estimated reserve deficiency</u>
	----- (millions) -----		
1969	\$ 20.6	\$-0.7	\$ 21.3
1970	143.0	-3.1	146.1
1971	399.9	-27.1	427.0

At June 30, 1971, the \$86 million borrowed from the U.S. Treasury was available for payment of insurance claims.

The ultimate reserve deficiency that may develop could conceivably exceed the estimated \$427 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 the properties that secured the defaulted mortgages are acquired by FHA. Acquisitions in fiscal year 1971, applicable to SRIF, increased by 6,870 properties from the prior fiscal year and, according to FHA records, were continuing at a high rate in fiscal year 1972.

FHA records showed also that at June 30, 1971, claims amounting to \$4.3 million were pending against the SRIF insurance reserve but had not yet been accepted for payment by FHA.

SIGNIFICANT CHANGES IN
BALANCES FROM PRIOR YEAR

Assets

Accounts receivable

The total accounts receivable, as shown in the combined balance sheets (schs. 1 and 3), amounted to \$54.8 million at June 30, 1971, a decrease of \$13.8 million from the total accounts receivable of \$68.6 million at June 30, 1970. Reductions totaling \$29.1 million resulted from the sale of \$26.3 million of Secretary-held securities and properties and \$2.8 million from sundry other transactions. The reduction of \$29.1 million was offset by increases totaling \$15.3 million, of which \$10.3 million came from increased amounts due for fees and premiums and \$5 million from increases in the advance from GIF to SRIF.

Accrued assets

The total accrued assets, as shown in the combined balance sheets (schs. 1 and 3), amounted to \$180.8 million at June 30, 1971, an increase of \$24.1 million from the amount of \$156.7 million on June 30, 1970.

The increase of \$24.1 million comprised principally an increase of (1) \$15.3 million in accrued premiums which occurred as a result of FHA's having 351,432 more small-home mortgages insured on June 30, 1971, than it had at June 30, 1970, (2) \$4.8 million in accrued interest on U.S. Government securities attributable to the increase in securities from the prior fiscal year, and (3) \$4 million in accrued interest on mortgage notes receivable attributable to the increase of \$43.6 million in mortgage notes and contracts for deeds.

Investments in U.S. Government securities

The investments in U.S. Government securities at amortized cost, as shown in the combined balance sheets (schs. 1 and 3), amounted to \$1,177.5 million at June 30, 1971, an increase of \$129.8 million from the \$1,047.7 million in investments at June 30, 1970. The increase in investments is attributable mainly to the increase in holdings by MMIF,

which was authorized by section 206 of the National Housing Act to invest moneys not needed for current operations in U.S. Government securities.

Mortgage notes and contracts for deed--
unpaid balance

The mortgage notes and contracts for deed--unpaid balance--as shown in the combined balance sheets (schs. 1 and 3), totaled \$280.4 million, an increase of \$43.6 million from the \$236.8 million at June 30, 1970. The increase is accounted for principally by the acceptance of mortgage notes of \$50.5 million in the sale of multifamily properties and by collections on, and cancellations of, small-home and multifamily mortgage notes totaling \$6.9 million.

Acquired property--at cost
plus net expenses to date

The amount of \$751.3 million for acquired property, as shown in the combined balance sheets (schs. 1 and 3), was \$150.5 million more than the amount at the close of the prior year. A comparison of changes in the acquired property inventories during fiscal years 1971 and 1970 follows.

	<u>Fiscal year</u>	
	<u>1971</u>	<u>1970</u>
	(millions)	
Acquired property inventory at beginning of fiscal year	<u>\$600.8</u>	<u>\$578.4</u>
Acquisitions	607.7	459.4
Sales	<u>457.2</u>	<u>437.0</u>
Increase in inventory	<u>150.5</u>	<u>22.4</u>
Acquired property inventory at end of fiscal year	<u>\$751.3</u>	<u>\$600.8</u>

An analysis of the increases of \$148.3 million in acquisitions and \$20.2 million in sales from the prior fiscal year is shown by insurance funds in the schedule that follows.

	Increase or decrease(-) in <u>acquisitions</u>	Increase or decrease(-) in <u>sales</u>
	(millions)	
MMIF	\$ 36.2	\$-6.1
GIF	43.3	8.0
CMHIF	-3.7	-2.4
SRIF	<u>72.5</u>	<u>20.7</u>
	<u>\$148.3</u>	<u>\$20.2</u>

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

The amount of \$519.8 million for defaulted mortgage notes, as shown in the combined balance sheets (schs. 1 and 3), was \$111.9 million more than the amount at the close of the prior year. A comparison of the changes in the amount of mortgage notes on hand during fiscal years 1971 and 1970 follows.

	<u>Fiscal year</u>	
	<u>1971</u>	<u>1970</u>
	(millions)	
Defaulted mortgage notes--at cost plus net expenses--on hand at beginning of fiscal year	<u>\$407.9</u>	<u>\$451.6</u>
Acquisitions	153.2	10.5
Sales and conversions	<u>41.3</u>	<u>54.2</u>
Increase or decrease(-) of mortgage notes on hand	<u>111.9</u>	<u>-43.7</u>
Defaulted mortgage notes--at cost plus net expenses--on hand at end of fiscal year	<u>\$519.8</u>	<u>\$407.9</u>

An analysis of the increase of \$142.7 million in acquisitions and of the decrease of \$12.9 million in sales from the prior fiscal year is shown by insurance fund in the schedule that follows.

	Increase or decrease(-) in <u>acquisitions</u>	Increase or decrease(-) in <u>sales</u>
	(millions)	
MMIF	\$ -	\$ -.2
GIF	105.9	-11.1
CMHIF	.9	-4.2
SRIF	<u>35.9</u>	<u>2.6</u>
	<u>\$142.7</u>	<u>\$-12.9</u>

Allowances for estimated future losses

The valuation reserves--allowances for estimated future losses--provided by FHA at June 30, 1971, for mortgage notes and contracts for deed (\$17.9 million) and for acquired security or collateral (\$429.3 million) totaled \$447.2 million, an increase of \$98.5 million from the amount of \$348.7 million at June 30, 1970. (Schs. 1 and 3.)

The increase of \$98.5 million in the valuation reserves is part of the \$98.7 million shown in schedules 2 and 4 under the caption "Increase(-) or Decrease(+) in Valuation Allowances." The \$98.7 million consisted of the adjustments necessary to value the acquired properties and mortgage notes held by the four funds at June 30, 1971, at market prices and at amounts considered to be collectible. The valuation allowances were increased for all four funds--MMIF by \$14.3 million, GIF by \$54.6 million, CMHIF by \$0.8 million, and SRIF by \$29 million.

The valuation allowances were based on (1) actual losses experienced on the sale of small-home properties in fiscal year 1971, (2) losses anticipated to be incurred in the sales of multifamily properties on the basis of estimated sales

prices, and (3) predetermined loss rates on certain other property. At June 30, 1970, the valuation reserves were increased by \$12.1 million, as shown in the statement of income and expense. (Sch. 2.)

Liabilities

Accounts payable

The amount of \$118.9 million for accounts payable, as shown in the combined balance sheets (schs. 1 and 3), was \$52 million more than the amount at the close of the prior year.

The increase of \$52 million comprised an increase of (1) \$40.9 million (\$26.9 million to Government agencies and \$14 million to others) in the amounts due to mortgagees for securities acquired by FHA in the settlement of mortgage insurance claims and in sundry amounts due vendors, (2) \$5 million in the liability of SRIF to GIF, and (3) \$6.1 million in other payable accounts.

Debenture obligations-- debentures issued and outstanding

Debentures issued and outstanding at June 30, 1971, as shown in the combined balance sheets (schs. 1 and 3), amounted to \$486.5 million compared with \$516.8 million at June 30, 1970, a decrease of \$30.3 million.

During fiscal year 1971, debentures amounting to \$35.2 million were issued in payment of insurance claims presented by insured multifamily property mortgages because of defaults in mortgage payments by mortgagors, and debentures aggregating \$65.5 million were redeemed.

Borrowings from U.S. Treasury

On November 25, 1970, the Assistant Secretary-Commissioner, FHA, issued two notes to the Secretary of the Treasury. Under terms of the first note, advances up to an aggregate amount not to exceed \$200 million will be provided to the General Insurance Fund. Under terms of the second

note, advances up to an aggregate amount not to exceed \$100 million will be provided to the Special Risk Insurance Fund. Each advance is to mature in 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, 1971, the General Insurance Fund borrowings, including \$10 million in the prior fiscal year, totaled \$137 million and the Special Risk Insurance Fund borrowings totaled \$86 million.

Income

Total income

The total income of \$502.1 million for fiscal year 1971, as shown in the statements of income and expense (schs. 2 and 4), was the combined income of the four insurance funds and was \$75.4 million more than the combined income of \$426.7 million in the preceding fiscal year. Each of the four insurance funds had more income in fiscal year 1971 than in the prior fiscal year. The increases were MMIF, \$39.1 million; GIF, \$13.8 million; CMHIF, \$0.2 million; and SRIF, \$22.3 million.

MMIF's increased income of \$39.1 million resulted principally from increases in revenues from fees of \$10.1 million, insurance premiums of \$14 million, and interest on U.S. Government securities of \$14.8 million. The increase in fees and insurance premiums resulted from insuring 115,947 additional mortgages.

The \$13.8 million income increase of GIF is the net effect of increases of \$8.2 million in the revenue from fees and of \$7.8 million in insurance premiums, offset by a net decrease of \$2.2 million in revenue shown in the other GIF income accounts.

CMHIF's increase in income of \$0.2 million resulted principally from increases in interest on investments in U.S. Government securities, in fees and premiums, and in profit on the sale of securities.

SRIF's increased income of \$22.3 million resulted principally from increases in (1) revenue from fees and insurance premiums of \$4.2 million and \$18 million, respectively, and (2) interest of \$0.1 million earned on mortgage notes. The increase in fees and insurance premiums resulted from insuring 162,276 additional mortgages.

Expense

Loss on acquired security

The loss sustained on acquired security in fiscal year 1971, as shown in the statements of income and expense (schs. 2 and 4), amounted to \$86.6 million, an increase of \$12.7 million from the loss of \$73.9 million sustained in the prior fiscal year.

Of the \$12.7 million increase in the loss on acquired security, \$9.7 million was attributable to small-home sales. In fiscal year 1971 24,980 small homes were sold, a decrease of 220 from the 25,200 sold in the prior fiscal year. Also, the average loss on the sale of a home in fiscal year 1971 was \$3,844, an increase of \$420 from the average loss of \$3,424 in the prior fiscal year. The remaining \$3 million was attributable to less total profit on multifamily property sales. In fiscal year 1971 40 multifamily projects were sold, compared with 64 sold in fiscal year 1970. Although the average profit on a sale in fiscal year 1971 increased to \$235,305 from the average profit of \$193,143 in the prior fiscal year, the total profit was less because of fewer sales.

Fee appraisal expense

The fee appraisal expense of \$5.4 million, as shown in the statements of income and expense (schs. 2 and 4), is \$2.8 million more than the \$2.6 million in the prior fiscal year and resulted from the increased use by FHA of private appraisers in fiscal year 1971. These appraisers provide their services on a fee basis, and the number of appraisals furnished by the private appraisers increased from 105,601 in fiscal year 1970 to 191,785 in fiscal year 1971.

Under FHA accounting procedures the expenditure of \$5.4 million was recorded as an expense; however, the owners of the appraised properties reimbursed FHA for the appraisal fees. The reimbursements were recorded as fee income and are included in the \$71.6 million shown in the income section of the income and expense statements.

Fee inspection expense

The fee inspection expense of \$1.5 million, as shown in the statements of income and expense (schs. 2 and 4), for fiscal year 1971 is \$1.4 million more than the \$0.1 million in the prior year and resulted from the increased use of private inspectors by FHA to inspect properties of owners applying for mortgage insurance. Inspections by private inspectors who furnish their services on a fee basis increased from 21,019 in fiscal year 1970 to 173,752 in fiscal year 1971.

Under FHA accounting procedures the inspection fees of \$1.5 million were recorded as a fee inspection expense; however, the owners of the inspected properties reimbursed FHA for the fees paid the inspectors. The reimbursements were recorded as fee income and are included in the \$71.6 million shown in the income section of the income and expense statements.

EXPENDITURE APPLICABLE TO FISCAL YEAR 1971
RECORDED AND PAID IN FISCAL YEAR 1972

HUD pays the salaries and expenses of the various HUD organizational units (including FHA) from its Administration Operations Fund (AOF). In January 1972 FHA paid \$5.2 million to AOF for salaries and expenses applicable to insurance operations covering the fiscal year ended June 30, 1971, and reduced the appropriate insurance reserves by the amount of the payment.

If the \$5.2 million had been recorded in fiscal year 1971, the net income for the fiscal year ended June 30, 1971, would have amounted to \$133 million instead of \$138.2 million, as shown on schedules 2 and 4, and the former amount would have been distributed to the appropriate insurance reserves. (Schs. 2 and 4.)

Because the overall financial position of FHA at June 30, 1971, is not materially affected by the \$5.2 million, we are not qualifying our opinion on the financial statements

CHAPTER 3

SCOPE OF EXAMINATION

We have examined FHA's financial statements pertaining to its insurance operations for the fiscal year ended June 30, 1971. Our examination was made in accordance with generally accepted auditing standards and included such tests of the accounting records and such auditing procedures as we considered necessary in the circumstances.

The HUD internal auditors did not audit FHA's balance sheet or income and expense accounts pertaining to fiscal year 1971 activities.

CHAPTER 4

OPINION ON FINANCIAL STATEMENTS

The financial statements, schedules 1 through 5, are the statements of FHA pertaining to its insurance operations. Schedule 5 is based on the combined statement of source and application of funds submitted by 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, 1971, 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, 1971 AND 1970

ASSETS

	1971	1970
CASH AND FUND BALANCES		
Cash on hand and in transit	\$ -23,326,910 07	\$ -1,695,334 6
Fund balances with U S Treasury	<u>147,939,522 95</u>	<u>89,156,709 6</u>
Total cash	<u>124,612,602 88</u>	<u>87,461,375 0</u>
ACCOUNTS RECEIVABLE		
Fees	6,803,680 00	4,590,592 00
Premiums		
Government agencies	533,739 86	63,414 35
Other	17,169,941 46	11,560,084 05
Sale of Secretary-held properties		
Government agencies	40,000 00	40,000 00
Other	7,763,593 46	7,499,719 92
Sale of Secretary-held mortgages		
Other	38,500 00	26,304,395 14
Other		
Government agencies	323,315 21	1,089,864 48
Other	645,455 25	2,430,987 86
Advance to Special Risk Insurance Fund from General Insurance Fund	<u>20,000,000 00</u>	<u>15,000,000 00</u>
Total accounts receivable	<u>54,818,015 14</u>	<u>68,579,057 80</u>
ACCRUED ASSETS		
Premiums	143,735,065 69	127,982,408 37
Interest on U S Government securities	19,419,288 03	14,608,356 95
Interest on mortgage notes receivable	<u>18,150,336 82</u>	<u>14,089,683 65</u>
Total accrued assets	<u>180,804,690 54</u>	<u>156,680,448 97</u>
INVESTMENTS		
U S Government securities at amortized cost (Market value \$1,161,053,887 70 at June 30, 1971, and \$1,015,041,440 42 at June 30, 1970)(note 1)	1,177,496,602 72	1,047,721,765 35
Stock in rental and cooperative housing corporations 199,241 shares at June 30, 1971, and 209,222 shares at June 30, 1970--at cost	<u>224,920 00</u>	<u>235,820 00</u>
Total investments	<u>1,177,721,522 72</u>	<u>1,047,957,585 35</u>
MORTGAGE NOTES AND CONTRACTS FOR DEED- UNPAID BALANCE		
Less allowance for estimated future losses	280,431,715 94	236,808,263 27
	<u>17,901,407 00</u>	<u>15,930,719 00</u>
Net mortgage notes and contracts for deed	<u>262,530,308 94</u>	<u>220,877,544 27</u>
ACQUIRED SECURITY OR COLLATERAL		
Acquired property--at cost plus net expenses to date	751,292,214 67	600,868,324 82
Defaulted mortgage notes- at cost plus net expenses to date	519,815,465 71	407,909,289 67
Defaulted Title I Notes -at unpaid principal balance	<u>46,759,240 21</u>	<u>44,014,405 27</u>
Total cost of acquired property and notes	1,317,866,920 59	1,052,792,019 76
Less principal recoveries on defaulted mortgage notes	48,869,330 23	42,643,749 60
Less undisbursed mortgage proceeds	<u>111,438 49</u>	<u>-</u>
Unrecovered cost	1,268,886,151 87	1,010,148,270 16
Less allowance for estimated future losses	<u>429,326 677 00</u>	<u>332,797,316 00</u>
Net acquired property and notes	<u>839,559,474 87</u>	<u>677,350,954 16</u>
Other notes receivable	267,658 11	260,467 92
Less allowance for estimated future losses	<u>245,358 00</u>	<u>258,792 00</u>
Net other notes receivable	<u>22,300 11</u>	<u>1,675 92</u>
Net acquired security or collateral	<u>839,581,774 98</u>	<u>677,352,630 08</u>
FURNITURE AND EQUIPMENT		
Less allowance for depreciation	-	10,020,174 04
	<u>-</u>	<u>5,550,404 06</u>
Net furniture and equipment (note 8)	<u>-</u>	<u>4,469,769 98</u>
OTHER ASSETS--HELD FOR THE ACCOUNT OF MORTGAGORS		
	<u>3,785,230 91</u>	<u>3,096,965 24</u>
Total assets (note 2)	<u>\$ 2,643,454,146 21</u>	<u>\$ 2,266,475,376 70</u>

The notes on page 38 are an integral part of this statement

BEST DOCUMENT AVAILABLE

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LIABILITIES

	<u>1971</u>	<u>1970</u>
ACCOUNTS PAYABLE		
Salaries and expenses		
Government agencies	\$ 16,159,800 72	\$ 5,372,241 02
Other	1 488 724 54	6,858,593 39
Acquired security and miscellaneous		
Government agencies	36 593 212 26	9,617,365 34
Other	41 030 602 63	26,931,220 82
MMI Fund participations payable	3 630 296 00	3,062,996 40
Advance from General Insurance Fund to Special Risk Insurance Fund	<u>20,000,000 00</u>	<u>15,000,000 00</u>
Total accounts payable	<u>118,902,636 15</u>	<u>66,842,416 97</u>
ACCRUED LIABILITIES		
Interest on debentures		
Government agencies	1 120 734 24	1,147,364 98
Other	<u>9,560,195 22</u>	<u>8,839,274 40</u>
Total accrued liabilities	<u>10,680,929 46</u>	<u>9,986,639 38</u>
TRUST AND DEPOSIT LIABILITIES		
Employees payroll deductions		
U S savings bonds	86 303 24	83,572 63
State taxes	57 079 80	283,139 74
Deposits held for mortgagors and lessees (note 7)	16 688 977 94	14,619,924 95
Earnest money on pending sales	3 901 814 43	3,824,352 58
General fund receipts in process of deposit		
Excess proceeds of sale		
Government agencies	264 439 91	250,843 09
Other	<u>2,342,331 57</u>	<u>2 417 322 87</u>
Total trust and deposit liabilities	<u>23,340,946 89</u>	<u>21,479,155 86</u>
DEFERRED CREDITS		
Unearned premium income	52 842 825 46	50,065,933 20
Unearned fee income	630 411 58	563,370 56
Unapplied credits	<u>727,498 76</u>	<u>1,224,389 74</u>
Total deferred credits	<u>54,200,735 80</u>	<u>51,853,693 50</u>
DEBENTURE OBLIGATIONS		
Debentures issued and outstanding		
Government agencies	69 579 800 00	70,385,750 00
Other	<u>416,937 900 00</u>	<u>446,466,900 00</u>
Total issued and outstanding	<u>486,517,700 00</u>	<u>516,852,650 00</u>
Debentures authorized for issue		
Government agencies		
Other	<u>1,043,100 00</u>	<u>910,100 00</u>
Total authorized for issue	<u>1,043,100 00</u>	<u>910,100 00</u>
Debenture claims in process		
Government agencies	369 150 00	20,300 00
Other	<u>10,794,400 00</u>	<u>2,446,250 00</u>
Total in process	<u>11,163,550 00</u>	<u>2,466,550 00</u>
Total debenture obligations	<u>498,724,350 00</u>	<u>520,229,300 00</u>
OTHER LIABILITIES		
Reserve for foreclosure costs -defaulted mortgage notes	4 735 380 83	4,285,164 19
Employees accrued annual leave	<u>10,958,871 20</u>	<u>10,507,467 29</u>
Total other liabilities	<u>15,694,252 03</u>	<u>14,792,631 48</u>
Total liabilities	<u>721,543,850 33</u>	<u>685,183,837 19</u>
RESERVES AND BORROWINGS FROM U S TREASURY		
RESERVES		
Statutory Reserve--for participation payments and future losses (note 5)	141 245 800 76	120,105,799 77
Insurance Reserve--available for future losses and expenses (note 5)	<u>1,557,664,495 12</u>	<u>1,451,185,739 74</u>
Total reserves	<u>1,698,910,295 88</u>	<u>1,571,291,539 51</u>
BORROWINGS FROM U S TREASURY (note 4)		
Total reserves and borrowings from U S Treasury	<u>1,921,910,295 88</u>	<u>1,581,291,539 51</u>
Total liabilities, reserves and borrowings from U S Treasury (notes 3, 4, 5, 6, and 7)	<u>\$2,643,454,146 21</u>	<u>\$2,266,475,376 70</u>

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, 1971 AND 1970

<u>INCOME AND EXPENSE</u>	<u>1971</u>	<u>1970</u>
<u>INCOME</u>		
Fees	\$ 71 610 280 61	\$ 49 060 790 45
Insurance premium	364 123 767 75	324,052 685 66
Interest on U S Government securities	64 627 971 59	49 808 075 94
Profit or loss (-) on sale of investments	27 534 34	18 991 66
Dividends received on stock held in rental and cooperative housing corporations	1 360 00	1 467 63
Interest capitalized on acquired properties and assigned notes	682 024 71	487 908 47
Other interest		
Interest and other income on defaulted Title I notes	880 189 87	887 365 69
Income or expense () on settled properties	182 493 86	358 048 15
Premium on sale of Secretary held mortgages		1 960 706 75
Miscellaneous income	38,926 86	94,871 37
Total income	<u>502,174,549 59</u>	<u>426,692,928 45</u>
<u>EXPENSE</u>		
Salaries and expenses ^{1/}	138 636 307 12	120 477 322 74
Interest on funds advanced by U S Treasury		
Interest on borrowings from U S Treasury	4 882 673 70	450 000 00
Interest on debenture obligations	21 414 259 44	21 779 689 77
Other interest		
Loss on acquired security	86 628 911 77	73 941 012 23
Loss on repossessed equipment		
Loss on defaulted Title I notes	5 995 178 53	10,823 446 01
Discount on sale of Secretary held mortgages	461 718 79	1 908 145 51
Fee appraisal expense	5 427 280 00	2 640 675 00
Fee inspection expense	1 591 655 50	186 658 50
Fee mortgage credit expense	915 00	
Miscellaneous expense	252,600 86	138,601 95
Total expense	<u>265,291,500 71</u>	<u>232,345,551 71</u>
Net income before adjustment of valuation allowances	<u>236,883,048 88</u>	<u>194,347,376 74</u>
<u>INCREASE () OR DECREASE (+) IN VALUATION ALLOWANCES</u>		
Allowance for estimated future losses on purchase money mortgages	2 164 951 00	+672 911 00
Allowance for estimated future losses on acquired properties	51 093 512 00	17 869 339 00
Allowance for estimated future losses on defaulted mortgage notes	42 495 822 00	+3 773 927 00
Allowance for estimated future losses on defaulted Title I notes	2 940 027 00	+1 524 934 00
Allowance for estimated future losses on other notes receivable	+13,434 00	258,792 00
Net adjustment of valuation allowances	<u>98,680,878 00</u>	<u>12,156,359 00</u>
Net income or loss ()	<u>\$ 138,202 170 88</u>	<u>\$ 182,191,017 74</u>
ANALYSIS OF INSURANCE RESERVES AND BORROWINGS		
<u>DISTRIBUTION OF NET INCOME</u>		
<u>Statutory reserve (participating reserve account)</u>		
Balance at beginning of period	120,105,799 77	122,137,025 65
Net income allocated for the period ^{3/}	26,908,551 76	3,476,767 67
Adjustments during the period ^{4/}		-247,576 81
Transfer from general surplus account	2,000,000 00	
Total participating reserve	149 014 351 53	125,366 216 51
Participations declared	7,793,170 14	5,265,362 08
Participations available	141 221 181 39	120 100 854 43
Participations held in escrow	24,619 37	4,945 34
Balance at end of period	<u>\$ 141,245,800 76</u>	<u>\$ 120,105,799 77</u>
<u>Insurance Reserve</u>		
Balance at beginning of period		1 272 223 387 86
Adjustments during the period ^{2/}	1 451 185 739 74	248 101 81
Net income for the period ^{2/}	2 814 863 74	178 714 250 07
Transfer to participating reserve account	111 293 619 12	
Balance at end of period	2 000 000 00	
Total reserves	<u>1,557,664,495 12</u>	<u>1,451,185,739 74</u>
	<u>\$1,648,910,295 88</u>	<u>\$1,571,291,539 51</u>
<u>BORROWINGS FROM U S TREASURY</u>		
Balance at beginning of period	10 000 000 00	10 000,000 00
Borrowings during the period	213 000 000 00	-
Repayments during the period		
Balance at end of period	<u>\$ 223,000,000 00</u>	<u>\$ 10,000,000 00</u>
Total reserves and borrowings at end of period	<u>\$1,921,910,295 88</u>	<u>\$1,581,291,539 51</u>

1/Does not include unfilled orders totaling \$607 355 82

2/Comprised of the following adjustments relative to prior years

(a) Salaries and expenses	3 009 526 74
(b) Fee appraisal expense	400 00
(c) Allowance for estimated future losses on purchase money mortgages	194,263 00
	<u>2,814,863 74</u>

3/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

4/Salaries and expenses

FEDERAL HOUSING ADMINISTRATION

COMBINED BALANCE SHEET

ANALYSIS BY FUND

AS OF JUNE 30, 1971

ASSETS	Combined	Mutual Mortgage Insurance Fund	General Insurance Fund	Cooperative Management Housing Insurance Fund	Special Risk Insurance Fund	Salaries and Expenses Fund
CASH AND FUND BALANCES						
Cash on hand and in transit	\$ 23 326 910 07	\$ 4 260 50	\$ 98 528 96	\$ 83 633 75	\$ 14,425,324 54	\$ 23 346 065 78
Fund balances with U S Treasury	<u>147,939,512 95</u>	<u>53,946,919 20</u>	<u>36,161,628 28</u>	<u>1,075,101 24</u>	<u>14,425,324 54</u>	<u>42,330,539 69</u>
Total cash	<u>124,612,602 88</u>	<u>53,951,179 70</u>	<u>36,260,157 24</u>	<u>991,467 49</u>	<u>14,425,324 54</u>	<u>18,984,473 91</u>
ACCOUNTS RECEIVABLE						
Fees	8 803 680 00	7 730 405 00	969 855 00		103 420 00	
Premiums						
Government agencies	533 739 86		532 806 67		933 19	
Other	<u>17 169 931 46</u>	<u>10 631 635 21</u>	<u>4 546 086 28</u>	<u>316 913 05</u>	<u>1 675 296 92</u>	
Sale of Secretary held properties						
Government agencies	40 000 00		40 000 00			
Other	<u>7 263 593 46</u>	<u>4 418 767 92</u>	<u>1,949,577 82</u>		<u>895 297 72</u>	
Sale of Secretary held mortgages						
Other	38 500 00	17 700 00	20 800 00			
Other						
Government agencies	323,315 21	64 453 08	51 921 01			206 941 12
Other	645 255 25	433 090 49	161 969 05		16 800 00	33 395 71
Advances to SRI Fund by GI Fund	<u>20,000,000 00</u>		<u>20,000,000 00</u>			
Total accounts receivable	<u>54,818 015 24</u>	<u>23,296,051 70</u>	<u>28,272,965 83</u>	<u>316,913 05</u>	<u>2,691,747 83</u>	<u>240,336 83</u>
ACCRUED ASSETS						
Premiums	143 235 065 69	116 947 980 70	16 546 277 42		9 740 807 57	
Interest on U S Government securities	19 419 288 03	19 138 414 97		280 873 06		
Interest on mortgage notes receivable	<u>18,150,336 82</u>	<u>465,400 19</u>	<u>16,950,342 89</u>	<u>113,203 42</u>	<u>621,390 32</u>	
Total accrued assets	<u>180,804,690 54</u>	<u>136,551,795 86</u>	<u>33,496 620 31</u>	<u>394 076 48</u>	<u>10,362,197 89</u>	
INVESTMENTS						
U S Government securities at amortized cost (Market Value \$ 1 161 053 887 70) (note 1)	1 177 496 602 72	1 146 076 635 25		31 419 967 47		
Stock in rental and cooperative housing cor- porations, 199 241 shares at cost	<u>224,920 00</u>		<u>203,120 00</u>	<u>21 800 00</u>		
Total investments	<u>1,177,721,522 72</u>	<u>1,146,076,635 25</u>	<u>203,120 00</u>	<u>31,441,767 47</u>		
MORTGAGE NOTES AND CONTRACTS FOR DEED UNPAID						
BALANCE	280 431 715 94	19 410 154 83	258 733 223 03	2 288 338 08		
Less Allowance for estimated future losses	<u>17,901,407 00</u>	<u>517,602 00</u>	<u>17,269,388 00</u>	<u>114,417 00</u>		
Net mortgage notes and contracts for deed	<u>262,530,308 94</u>	<u>18,892,552 83</u>	<u>241,463,835 03</u>	<u>2,173,921 08</u>		
ACQUIRED SECURITY OR COLLATERAL						
Acquired property- at cost plus net ex- penses to date	751 292 214 67	271 738 083 78	399 318 731 93	4 187 610 96	76 047 788 00	
Defaulted mortgage notes -at cost plus net expenses to date	519 815 465 71	10 551 829 14	463 840 111 97	8 845 608 54	36 577 916 06	
Defaulted Title I notes at unpaid principal balance	<u>46,759,240 21</u>		<u>46,759,240 21</u>			
Total cost of acquired property and notes	1 317 866 920 59	282 289 912 92	909 918 084 11	13 033 219 50	112 625 704 06	
Less principal recoveries on defaulted mortgage notes	48 869 330 23	987 444 74	47 786 260 20	90 487 21	5 138 08	
Less undisbursed mortgage proceeds	<u>111,438 49</u>		<u>111,438 49</u>			
Unrecovered cost	1 268 886 151 87	281 302 468 18	862 020 385 42	12 942 732 29	112 620 565 98	
Less allowance for estimated future losses	<u>429,326,677 00</u>	<u>70,785,079 00</u>	<u>321,420,838 00</u>	<u>3,699,216 00</u>	<u>33,421,544 00</u>	
Net acquired property and notes	<u>839,559,474 87</u>	<u>210,517,389 18</u>	<u>540,599,547 42</u>	<u>9,243,516 29</u>	<u>79,199,021 98</u>	
Other notes receivable	267 658 11	246 425 00	21 233 11			
Less allowance for estimated future losses	<u>245,358 00</u>	<u>243,235 00</u>	<u>2,123 00</u>			
Net other notes receivable	<u>22,300 11</u>	<u>3,190 00</u>	<u>19,110 11</u>			
Net acquired security or collateral	<u>839,581,774 98</u>	<u>210,520,579 18</u>	<u>540,618,657 53</u>	<u>9,243,516 29</u>	<u>79,199,021 98</u>	
FURNITURE AND EQUIPMENT						
Less allowance for depreciation						
Net furniture and equipment (note 8)						
OTHER ASSETS -HELD FOR THE ACCOUNT OF MORTGAGORS						
	3,385,230 91		3,364,905 92	20,324 99		
Total assets (note 2)	<u>\$2 643 454,146,21</u>	<u>\$1,589,288,794 52</u>	<u>\$883,680,261 86</u>	<u>\$44,581,986 85</u>	<u>\$106,678,292 24</u>	<u>\$ 19,224 810,74</u>

The notes on page 38 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						
Salaries and expenses						
Government agencies	\$ 16 159 800 72	\$	\$	\$	\$	\$ 16 159 800 72
Other	1 488 724 54					1 488 724 54
Acquired security and miscellaneous						
Government agencies	36 593 212 26	11 844 672 61	12 718 806 22	64 64	12 029 668 79	
Other	41 030 602 63	22 716 637 73	11 546 892 34	2 568 03	6 764 504 53	
Fiduciary participations payable	3 630 296 00	3 630 296 00				
Advances from GI Fund to SRI Fund	20 000 000 00				20 000 000 00	
Inter fund (receivables (-))		1,564,930 37	252,843 51	3,613 60	551,869 25	1,262,291 03
Total accounts payable	<u>118,902,636 15</u>	<u>36,626,675 97</u>	<u>24,012,855 05</u>	<u>6,246 27</u>	<u>39,346,042 57</u>	<u>18,910,816 29</u>
ACCRUED LIABILITIES						
Interest on debentures						
Government agencies	1 120 734 24		1 107 275 05	13 459 19		
Other	9,560,195 22	190,187 89	9,070,706 39	299,300 94		
Total accrued liabilities	<u>10,680,929 46</u>	<u>190,187 89</u>	<u>10,177,981 44</u>	<u>312,760 13</u>		
TRUST AND DEPOSIT LIABILITIES						
Employees payroll deductions						
U S Savings Bonds	86 303 24					86 303 24
State taxes	57 079 80					57 079 80
Deposits held for mortgagors and lessees (note 7)	16 688 977 94	247 667 60	16 280 317 98	132 800 45	28 191 91	
Earnest money on pending sales	3 901 814 43	2 508 664 77	1 020 089 78		373 059 88	
Excess proceeds of sale						
Government agencies	264 439 91		226 662 76	37 777 15		
Other	2,342,331 57	1,002 53	2,341,329 04			
Total trust and deposit liabilities	<u>23,340,946 89</u>	<u>2,757,334 90</u>	<u>19,868,399 56</u>	<u>170,577 60</u>	<u>401,251 79</u>	<u>143,383 04</u>
DEFERRED CREDITS						
Unearned premium income	52 842 825 46	3 693 715 97	39 454 155 69	2 113 427 91	7 581 525 89	
Unearned fee income	630 411 58		408 511 39		221 899 99	
Unapplied credits	727,498 76	797,812 42	1,471,043 57	13,519 94	129,863 74	170,611 41
Total deferred credits	<u>54,200,735 80</u>	<u>2,895,903 55</u>	<u>41,333,710 85</u>	<u>2,126,947 85</u>	<u>7,673,562 14</u>	<u>170,611 41</u>
DEBENTURE OBLIGATIONS						
Debentures issued and outstanding						
Government agencies	69 579 800 00		68 069 350 00	1 510 450 00		
Other	416,937,900 00	10,410,350 00	391,795,250 00	14,732,300 00		
Total issued and outstanding	<u>486,517,700 00</u>	<u>10,410,350 00</u>	<u>459,864,600 00</u>	<u>16,242,750 00</u>		
Debentures authorized for issue						
Government agencies						
Other	1,043,100 00		1,043,100 00			
Total authorized for issue	<u>1,043,100 00</u>		<u>1,043,100 00</u>			
Debenture claims in process						
Government agencies	369 150 00		281 750 00	87 400 00		
Other	10,794,400 00		10,794,400 00			
Total in process	<u>11,163,550 00</u>		<u>11,076,150 00</u>	<u>87,400 00</u>		
Total debenture obligations	<u>498,724,350 00</u>	<u>10,410,350 00</u>	<u>471,983,850 00</u>	<u>16,330,150 00</u>		
OTHER LIABILITIES						
Reserve for foreclosure costs -defaulted mortgage notes	4 735 380 83		4 498 062 28	99 163 15	138 155 40	
Employees accrued annual leave	10 958,871 20	7,461,459 14	3,226,068 13	7,526 16	263,817 77	
Total other liabilities	<u>15,694,252 03</u>	<u>7,461,459 14</u>	<u>7,724,130 41</u>	<u>106,689 31</u>	<u>401,973 17</u>	
Total liabilities	<u>721,543,850 33</u>	<u>60,341,911 45</u>	<u>575,100,927 31</u>	<u>19,053,371 16</u>	<u>47,822,829 67</u>	<u>19,224,810 74</u>
RESERVES AND BORROWINGS FROM U S TREASURY						
Statutory Reserve for participation payments and future losses (note 5)	141 245 800 76	135 164 786 08		6 081 014 68		
Insurance Reserve available for future losses and expenses (note 5)	1,557,664,495 12	1,393,782,096 99	171,579,334 55	19,447,601 01	27,144,537 43	
Total reserves	<u>1,698,910,295 88</u>	<u>1,528,946,883 07</u>	<u>171,579,334 55</u>	<u>25,528,615 69</u>	<u>27,144,537 43</u>	
Borrowings from U S Treasury (note 4)	223,000,000 00		137 000,000 00		86,000,000 00	
Total reserves and borrowings from U S Treasury	<u>1,921,910,295 88</u>	<u>1,528,946,883 07</u>	<u>308,579,334 55</u>	<u>25,528,615 69</u>	<u>58,855,462 57</u>	
Total liabilities reserves and borrowings from U S Treasury (notes 3, 4, 5, 6, and 7)	<u>\$2,643,454,146 21</u>	<u>\$1,589,288,794 52</u>	<u>\$883,680,261 86</u>	<u>\$44,581,986 85</u>	<u>\$106,678,292 24</u>	<u>\$ 19,224,810 74</u>

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, 1971

INCOME AND EXPENSE	Combined	Mutual Mortgage Insurance Fund	General Insurance Fund	Cooperative Management Housing Insurance Fund	Special Risk Insurance Fund
INCOME					
Fees	\$71 610 280 61	\$35 979 899 50	\$21 834 154 86	\$79 034 05	\$13 717 192 20
Insurance premiums	364 123 767 75	256 841 741 02	78 733 321 37	4 032 104 82	24 516 600 54
Interest on U S Government securities	64 627 971 59	63 164 849 61		1 463 121 98	
Profit or loss (-) on sale of investments	27 534 34			27 534 34	
Dividends received on stock held in rental and cooperative housing corporations	1 360 00		1 360 00		
Interest on mortgage notes	682 024 71	430 460 36	132 806 81		118 757 54
Interest and other income on defaulted Title I notes	880 189 87		880 189 87		
Income or expense () on settled properties	182 493 86	179 593 91	40 869 83		37 969 88
Premium on sale of Secretary held mortgages					
Miscellaneous income	38,926 86	4,585 62	34,297 46	43 78	
Total income	502,174,549 59	356,601,130 02	101 657,000 00	5,601,838 97	38,314,580 40
EXPENSE					
Salaries and expenses (note a)	138 636 307 12	78 083 184 39	37 623 692 86	266 089 98	22 663 339 89
Interest on borrowings from U S Treasury	4 882 673 70		2 972 817 83		1 909 855 87
Interest on debenture obligations	21 414 259 44	434 787 18	20 284 223 11	695 249 15	
Loss on acquired security	86 628 911 77	67 734 969 86	15 814 179 16	146 065 45	6 225 828 20
Loss on defaulted Title I notes	5 995 178 53		5 995 178 53		
Discount on sale of Secretary held mortgages	461 718 79	327 558 00	120 509 54		13 651 25
Fee appraisal expense	5 427 280 00	4 611 450 00	721 340 00		94 490 00
Fee inspection expense	1 591 655 50	1 120 580 50	172 535 00		298 540 00
Fee mortgage credit expense	915 00	915 00			
Miscellaneous expense	252,600 86	80,349 32	49 111 15	10 35	123,130 04
Total expense	265,291,500 71	149,393,704 25	83 753,587 18	815,284 03	31,328,835 25
Net income or loss () before adjustment of valuation allowances	236,883,048 88	207,207,335 77	17,903,413 02	4,786,554 94	6,985,745 15
INCREASE () OR DECREASE (+) IN VALUATION ALLOWANCES					
Allowance for estimated future losses on purchase money mortgages	2 164 951 00	18 843 00	2 146 808 00	+700 00	
Allowance for estimated future losses on acquired properties	51 093 512 00	13 723 231 00	18 388 708 00	848 946 00	18 132 627 00
Allowance for estimated future losses on defaulted mortgage notes	42 495 822 00	520 888 00	31 145 081 00	28 927 00	10 800 926 00
Allowance for estimated future losses on defaulted Title I notes	2 940 027 00		2 940 027 00		
Allowance for estimated future losses on other notes receivable	+13,434 00	+2,879 00	+10,555 00		
Net adjustment of valuation allowances	98,680,878 00	17,260,083 00	54,610,069 00	877,173 00	28,933,553 00
Net income (or loss)	\$138 202 170 88	\$192 947 252 77	\$36 706 655 98	\$3 909 381 94	\$21 947 807 85
ANALYSIS OF INSURANCE RESERVES AND BORROWINGS					
DISTRIBUTION OF NET INCOME					
Statutory Reserve (Participating Reserve Account)					
Balance at beginning of period	120 105 799 77	115 958 787 68		4 147 012 09	
Net income (or loss) allocated for the period ^{c/}	26 908 551 76	22 999 169 82		3 909 381 94	
Transfer from general surplus account	2 000 000 00			2 000 000 00	
Total participating reserve	149 014 351 53	138 957 957 50		10,056,394 03	
Participations declared	7,793,170 14	3,793,171 42		3,999,998 72	
Participations available	141,221,181 39	135,164,786 08		6,056,395 31	
Participation held in escrow	24,619 37			24,619 37	
Balance at end of period	\$141,245,800 76	\$135,164,786 08		\$6,081,014 68	
Insurance Reserve					
Balance at beginning of period	1 451 185 739 74	1 224 219 559 55	208 468 311 58	21 576 089 76	3 078 221 15
Adjustments during the period (note b)	2 814 863 74	385 545 51	182 321 05	128 488 75	2 118 508 43
Net income (or loss) for the period (note c)	111 293 619 12	169 948 082 95	36 706 655 98		21 947 807 85
Transfer to participating reserve account	2 000 000 00			2,000,000 00	
Balance at end of period	\$1,557 664,495 12	\$1,393,782,096 99	\$171,579,334 55	\$19,447,601 01	\$27,144,537 43
Total reserves	\$1,698,910,295 88	\$1,528,946,883 07	\$171,579,334 55	\$25,528,615 69	\$27,144,537 43
BORROWINGS FROM U S TREASURY					
Balance at beginning of period	10 000 000 00		10 000 000 00	-	86 000 000 00
Borrowings during the period	213 000 000 00		127 000 000 00		
Repayments during the period					
Balance at end of period	\$223,000,000 00		\$137,000,000 00		\$86,000,000 00
Total reserves and borrowings at end of period	\$1,921,910,295 88	\$1,528,946,883 07	\$308,579,334 55	\$25,528,615 69	\$58,855,462 57
^a Does not include unfilled orders totaling \$607 355 82					
^b Comprised of the following adjustments applicable to prior years					
1 Salaries and expenses	3 009 526 74	401 761 31	382 153 36	126 988 66	2 098 623 41
2 Annual leave expenses		15 815 80	5 569 31	1 500 09	19 885 02
3 Fee appraisal expenses	400 00	400 00			
4 Allowance for estimated future losses on purchase money mortgages	194,263 00		194,263 00		
	-\$2,814,863 74	-\$385,545 51	\$182,321 05	\$128,488 75	\$2,118,508 43

^cThe net income was distributed to the statutory and/or the insurance reserve by the Assistant Secretary Commissioner, HUD FHA under authority of sections 205 and 213 of the National Housing Act

FEDERAL HOUSING ADMINISTRATION

COMBINED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 1971

SOURCE OF FUNDS	Combined	Mutual Mortgage Insurance Fund	General Insurance Fund	Cooperative Management Housing Insurance Fund	Special Risk Insurance Fund	Salaries and Expenses Fund
Funds provided by operations						
Income						
Fees	\$71,610,280 61	\$35,979,899 50	\$21,834,154 86	\$79,034 05	\$13,717,192 20	
Insurance premiums	364,123,767 75	256,841,741 02	78,733,321 37	4,032,104 82	24,516,600 54	
Interest on U S Government securities	64,627,971 59	63,164,849 61		1,463,121 98	-	
Profit or loss (-) on sale of investments	27,534 34	-		27,534 34	-	
Dividends received on stock held in rental and cooperative housing corporations	1,360 00	-	1,360 00			
Interest on mortgage notes	682,024 71	430,460 36	132,806 81		118,757 54	
Interest and other income on defaulted Title I notes	880 189 87	-	880 189 87			
Income or expense() on settled properties	182,493 86	179,593 91	40,869,83		37,969 88	
Miscellaneous income	38,926 86	4,585 62	34,297 46	43 78	-	
Total income	<u>502,174,549 59</u>	<u>356,601,130 02</u>	<u>101,657,000 20</u>	<u>5,601,838 97</u>	<u>38,314,580 40</u>	
Realization of assets						
Proceeds from sale of properties	301,726,144 24	212,175,155 07	72,961,376 98	-	16,589,612 19	
Recoveries on assigned notes	6,569,608 78	431,522 79	6,087,507 61	45,946 58	4,631 80	
Recoveries on defaulted Title I notes	5,723,023 24	-	5,723,023 24			
Proceeds from sale of purchase money mortgages	16,890,029 17	11,893,075 00	4,473,404 17		523,550 00	
Collections of principal on purchase money mortgages	8,406,656 81	604,945 42	7,787,857 95	14,003 44	-150 00	
Redemption or transfer of stock in rental and cooperative housing corporations	11,000 00	-	11,000 00			
Proceeds and/or trade-in allowance on furniture and equipment sold	1,265,080 53					1,265,080 53
Total realization of assets	<u>340,591,542 77</u>	<u>225,104,698 28</u>	<u>97,044,169 95</u>	<u>59,950 02</u>	<u>17,117,643 99</u>	<u>1,265,080 53</u>
Total funds provided by operations	<u>\$842,766,092 36</u>	<u>\$581,705,828 30</u>	<u>\$198,701,170 15</u>	<u>\$5,661,788 99</u>	<u>\$55,432,224 39</u>	<u>\$1,265,080 53</u>
Funds provided by financing						
Debentures issued	35,243,600 00	-	34,338,650 00	904,950 00		
U S securities redeemed, sold and/or transferred (par)	280,742,250 00	265,472 750 00	1,269,500 00	14,000,000 00		
Principal collections on Defense Family Housing securities	304,093 87		304,093 87			
Borrowings from U S Treasury	213,000,000 00		127,000,000 00		86,000,000 00	
Total funds provided by financing	<u>529,289,943 87</u>	<u>265,472,750 00</u>	<u>162,912,243 87</u>	<u>14,904,950 00</u>	<u>86,000,000 00</u>	
Total source of funds	<u>\$1,372,056,036 23</u>	<u>\$847,178,578 30</u>	<u>\$361,613,414 02</u>	<u>\$20,566,738 99</u>	<u>\$141,432,224 39</u>	<u>\$1,265,080 53</u>

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

*Includes the following charges for which cash is not expended

Depreciation on furniture and equipment	\$462,387 87
Loss on disposal of furniture and equipment	23,235 59
	<u>485,623 46</u>

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SCHEDULE 5

	<u>Combined</u>	<u>Mutual Mortgage Insurance Fund</u>	<u>General Insurance Fund</u>	<u>Cooperative Management Housing Insurance Fund</u>	<u>Special Risk Insurance Fund</u>	<u>Salaries and Expenses Fund</u>
CATION OF FUNDS						
unds applied to operations						
Expenses						
Salaries and expenses	\$ 138 150 683 66	\$	\$	\$	\$	\$ 138 150 683 66
Charges to insurance funds for salaries and ex- penses		78 083 184 39	37 623 692 86	266 089 98	22 663 339 89	138 636 307 12*
Interest on borrowings from U S Treasury	4 882 673 70		2 972 817 83		1 909 855 87	-
Interest on debenture ob- ligations	21 414 259 44	434 787 18	20 284 223 11	695 249 15		
Discount on sale of Secretary-held mortgages	461 718 79	327 558 00	120 509 54		13 651 25	
Fee appraisal expense	5 427 280 00	4 611 450 00	721 340 00		94 490 00	
Fee inspection expense	1,591 655 50	1 120 580 50	172 535 00		298 540 00	
Fee mortgage credit expense	915 00	915 00				
Miscellaneous expense	252,600 86	80,349 32	49,111 15	10 35	123,130 04	-
Total expenses	<u>172,181,786 95</u>	<u>84 658,824 39</u>	<u>61,944,229 49</u>	<u>961,349 48</u>	<u>25,103,007 05</u>	<u>485,623 46</u>
Acquisition of assets						
Real property acquired including net capi- talized expenses	566 989 600 51	344 592 390 21	137 896 986 63	105 264 53	84 394 959 14	
Assigned notes acquired including net capital- ized expenses	152 982 676 11	2 208 726 94	112 934 061 14	356 560 72	37 483 327 31	
Defaulted Title I notes acquired	14 463 036 71		14 463 036 71			-
Acquisition of furniture and equipment	290 460 75					290 460 75
Purchase of stock in rental and cooperative housing corporations	100 00		100 00			-
Total acquisition of assets	<u>734 725 874 08</u>	<u>346 801 117 15</u>	<u>265,294,184 48</u>	<u>461,825 25</u>	<u>121,878,286 45</u>	<u>290,460 75</u>
Mutual participations	<u>7,768 550 77</u>	<u>3 793 171 42</u>		<u>3,975 379 35</u>		
Increase or decrease (-) in working capital applicable to operations	<u>76 682,708 01</u>	<u>2,169,007 67</u>	<u>36,824,998 22</u>	<u>16,094 36</u>	<u>17,095,301 55</u>	<u>24,947,510 27</u>
Adjustments of prior year s expenses	<u>400 00</u>	<u>385,545 51</u>	<u>376,584 05</u>	<u>128,488 75</u>	<u>2,118,508 43</u>	<u>3,009,526 74</u>
Total funds applied to operations	<u>837 993 103 79</u>	<u>437,807,666 14</u>	<u>290,789,999 80</u>	<u>5,543,137 19</u>	<u>132,004,500 38</u>	<u>28,152,199 72</u>
unds applied to financing						
Debentures redeemed	65 578 550 00	4 349 000 00	60 926 700 00	302 850 00		
U S securities acquired (par)	409 478 250 00	391 983 000 00	2 543 250 00	14 952 000 00		
Increase or decrease(-) in working capital applicable to financing	<u>59,006,132 44</u>	<u>13,038,912 16</u>	<u>7,353,464 22</u>	<u>231,248 20</u>	<u>9,427,724 01</u>	<u>29,417,280 25</u>
Total funds applied to financing	<u>534,062,932 44</u>	<u>409,370,912 16</u>	<u>70,823,414 22</u>	<u>15,023,601 80</u>	<u>9,427,724 01</u>	<u>29,417,280 25</u>
Total application of funds	<u>\$1,372,056,036 23</u>	<u>\$847,178,578 30</u>	<u>\$361,613,414 02</u>	<u>\$20,566,738 99</u>	<u>\$141,432,224 39</u>	<u>\$1,265,080 53</u>

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NOTES TO COMBINED BALANCE SHEETS

JUNE 30, 1971 AND 1970

- 1 Investments include debentures of FHA Insurance Funds in the amount of \$66,626,900 00 and GNMA participation certificates in the amount of \$133,427,945 02 at June 30, 1971 and \$69,794,650 00 of FHA debentures at June 30, 1970, 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 \$33,692,598 39 at June 30, 1971 and \$21,359,400 18 at June 30, 1970
 - b Accrued interest receivable--collection doubtful--on defaulted Title I notes at June 30, 1971 and 1970

	<u>1971</u>	<u>1970</u>
On notes with principal balances	\$9,941,190 02	\$9,569,371 92
Principal balance paid-interest due	<u>906,198 64</u>	<u>1,163,612 17</u>
Total	<u>\$10,847,388 66</u>	<u>\$10,732,984 09</u>

- 3 The following items are not recorded in the liabilities
 - a Unfilled orders in the amount of \$688,516 27 (\$81,160 45 furniture and equipment and \$607,355 82 operating expenses) at June 30, 1971, \$1,512,823 98 (\$315,683 62 furniture and equipment and \$1,197,140 36 operating expenses) at June 30, 1970
 - b Unfilled orders and incompletd portion of contracts for property repairs in the amount of \$13,142,723 23 at June 30, 1971, and \$9,936,504 91 for incompletd portion of contracts for property repairs at June 30, 1970
 - c Contingent liability with respect to pending lawsuits in the amount of \$249,532 75 at June 30, 1971, and \$290,860 94 at June 30, 1970
 - d Pending claims on properties and notes tendered by mortgagees but not accepted by FHA in the amount of \$33,692,598 39 at June 30, 1971, and \$21,359,400 18 at June 30, 1970
 - e Certificates of claim relating to properties and notes tendered by mortgagees but not accepted by FHA in the amount of \$505,377 98 at June 30, 1971 and \$193,571 15 at June 30, 1970
 - f Certificates of claim relating to acquired security on hand of \$14,299,441 59 at June 30, 1971, and \$14,937,084 96 at June 30, 1970
- 4 The amount shown as "Borrowings from U S Treasury" represents \$137,000,000 advanced to the General Insurance Fund and \$86,000,000 advanced to the Special Risk Insurance Fund on authorized notes to U S Treasury of \$200,000,000 and \$100,000,000, respectively
- 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, 1971 and 1970 was

	<u>1971</u>	<u>1970</u>
Mortgage Insurance Programs	\$76,831,198,764	\$67,202,162,115
Modernization and Improvement Programs (Title I, section 2)	<u>383,185,914</u>	<u>392,128,685</u>
Total	<u>\$77,214,384,678</u>	<u>\$67,594,290,800</u>

- 7 The liabilities shown for the Deposits held for mortgagors and lessees" is net of escrow advances by FHA in the amount of \$813,577 21 at June 30, 1971, and \$415,591 41 at June 30, 1970
- 8 At June 30, 1971 the FHA transferred to the Departmental Administrative Operations Fund net furniture and equipment in the amount of \$3,016,051 74 (Cost \$8,901,150 61, less accumulated depreciation of \$5,885,098 87)

FHA in special circumstances would be indemnified against loss on certain insured mortgages and assigned mortgage notes up to \$901,579 77 at June 30, 1971 and \$952,674 35 at June 30, 1970

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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: George W. Romney	Jan. 1969	Present
ASSISTANT SECRETARY-COMMISSIONER: Eugene A. Gullede	Oct. 1969	Present
ASSISTANT COMMISSIONER FOR ADMINISTRATION: Horace B. Bazan	Jan. 1956	Present
ASSISTANT COMMISSIONER- COMPTROLLER. Albert E. Hampton	Feb. 1971	Present
Woodward Kingman (acting)	Apr. 1970	Jan. 1971

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