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REPORT TO THE CONGRESS

Examination Of Financial Statements Pertaining To Insurance Operations Of The Federal Housing Administration Fiscal Year 1972 B-114860

Department of Housing
and Urban Development

**BY THE COMPTROLLER GENERAL
OF THE UNITED STATES**

092625

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JUNE 22, 1973



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON DC 20548

B-114860

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

We have examined the financial statements pertaining to insurance operations of the Federal Housing Administration, Department of Housing and Urban Development, for the fiscal year ended June 30, 1972

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

We are sending this report today to the President of the Senate. In addition, we are sending copies to the Director, Office of Management and Budget, the Secretaries of the Treasury and Housing and Urban Development, and the Assistant Secretary for Housing Production and Mortgage Credit-Federal Housing Commissioner.

A handwritten signature in cursive script that reads "James P. Stacks".

Comptroller General
of the United States

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ABBREVIATIONS

CMHIF Cooperative Management Housing Insurance Fund
FHA Federal Housing Administration
GAO General Accounting Office
GIF General Insurance Fund
HUD Department of Housing and Urban Development
MMIF Mutual Mortgage Insurance Fund
SRIF Special Risk Insurance Fund

D I G E S T

WHY THE EXAMINATION WAS MADE

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

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

OPINION ON FINANCIAL STATEMENTS

The financial statements of FHA pertaining to insurance operations present fairly its financial position at June 30, 1972, and the results of its operations and source and application of its funds for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year and with applicable Federal laws.

OTHER MATTERS OF INTEREST

In fiscal year 1972 the four FHA insurance funds acquired 53,397

small homes and 167 multifamily properties in the settlement of mortgage insurance claims. During the fiscal year FHA sold 30,762 small homes and 38 multifamily properties.

Thus the FHA inventory of acquired properties increased by 22,764 properties, and total inventory at June 30, 1972, was 58,480 properties, 57,706 of which were small homes and 774 of which were multifamily properties. (See p 3)

At June 30, 1972, insurance reserves of the four funds available to settle mortgage insurance claims totaled \$1,630.3 million. The estimated reserve requirements actuarially determined by FHA on what it considered the most conservative basis--that is, the range of probability of future losses and related expenses that might be incurred in the event of a significant economic depression--amounted to \$3,091 million.

This resulted in a net estimated reserve deficiency of \$1,460.7 million. The \$1,460.7 million net estimated reserve deficiency comprised

--estimated reserve deficiencies of \$927.1 million for the General Insurance Fund and \$748.4 million

for the Special Risk Insurance Fund and

- estimated excess reserves of \$205.2 million for the Mutual Mortgage Insurance Fund and \$9.6 million for the Cooperative Management Housing Insurance Fund. (See pp 5 to 15)

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

- homes purchased by low-income families who are assisted with their mortgage payments by FHA,
- homes purchased by low- and moderate-income families who, because of the nature of their credit histories or irregular income patterns, could not qualify for mortgage insurance under other FHA insurance programs, and
- the repair, rehabilitation, construction, or purchase of property located in older, declining urban areas where eligibility requirements for mortgage insurance could not be satisfied under other FHA insurance programs.

The Special Risk Insurance Fund was not expected to be actuarially sound, and specific statutory

authority was made for appropriations to cover losses in excess of those which can be met by the fund's insurance reserve. However, such appropriations have not been made.

Losses exceeding \$117 million have been sustained by the Special Risk Insurance Fund. To obtain funds for the payment of mortgage insurance benefits, the Assistant Secretary-Commissioner, FHA, borrowed \$196 million from the U.S. Treasury during fiscal year 1972, which increased the amount borrowed for this fund to \$282 million.

RECOMMENDATIONS OR SUGGESTIONS

This report contains no recommendations or suggestions.

MATTERS FOR CONSIDERATION BY THE CONGRESS

This report is submitted to the Congress, as required by the Government Corporation Control Act, to show results of GAO's annual examination of FHA's financial statements pertaining to its insurance operations and other matters deemed necessary to inform the Congress of the operations and financial condition of FHA.

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.

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, 1972, FHA wrote about \$171 billion of insurance, of which about \$86 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 1970-72 follows.

	Fiscal year					
	1972		1971		1970	
	Small homes	Multi-family properties	Small homes	Multi-family properties	Small homes	Multi-family properties
Number on hand at beginning of fiscal year	<u>35,071</u>	<u>645</u>	<u>24,811</u>	<u>571</u>	<u>23,318</u>	<u>588</u>
Sales	30,762	38	24,980	40	25,200	64
Acquisitions	<u>53,397</u>	<u>167</u>	<u>35,240</u>	<u>114</u>	<u>26,693</u>	<u>47</u>
Increase or reduction(-) in number on hand	<u>22,635</u>	<u>129</u>	<u>10,260</u>	<u>74</u>	<u>1,493</u>	<u>-17</u>
Number on hand at end of fiscal year	<u>57,706</u>	<u>774</u>	<u>35,071</u>	<u>645</u>	<u>24,811</u>	<u>571</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, 1972, is shown on the combined balance sheet. (See sch. 3.)

At June 30, 1972, the total insurance reserves amounted to \$1,630.3 million. An analysis of the respective insurance reserve balances and the sources of these balances follows.

	<u>Total insurance reserves</u>	<u>Small homes</u>	<u>Multifamily properties</u>	<u>Property improvement loans</u>
	----- (millions) -----			
MMIF	\$1,659.2	\$1,659.2	\$ -	\$ -
GIF	63.3	-63.0	19.6	106.7
CMHIF	24.9	-	24.9	-
SRIF	<u>-117.1</u>	<u>-119.0</u>	<u>1.7</u>	<u>.2</u>
	<u>\$1,630.3</u>	<u>\$1,477.2</u>	<u>\$46.2</u>	<u>\$106.9</u>

Reserve requirements

FHA estimated the reserves required to settle insurance claims that might be presented by insured mortgagees under the \$86 billion of insurance in force on June 30, 1972, 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, 1972, FHA's estimated insurance funds' reserve requirements amounted to \$3,091 million. At the same date FHA's total insurance reserves, as shown on the combined balance sheets (see schs. 1 and 3), amounted to \$1,630.3 million, which resulted in a total estimated reserve deficiency of \$1,460.7 million in the insurance reserves for meeting estimated reserve requirements.

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

<u>Fiscal year</u>	<u>Estimated reserve requirements</u>	<u>Insurance reserves</u>	<u>Estimated reserve deficiencies</u>
	----- (millions) -----		
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
1972	3,091.0	1,630.3	1,460.7

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 \$1,630.3 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 \$1,460.7 million is not predictable.

Comments on the insurance reserves of the four funds follow.

Mutual Mortgage Insurance Fund

MMIF was established under authority of section 202 of the National Housing Act. Under this fund only mortgages which finance the purchase of small homes are insured. At June 30, 1972, the total reserve of MMIF, as shown on the combined balance sheet (see sch. 3), amounted to \$1,659.2 million and consisted of a statutory reserve of \$204.1 million and an insurance reserve of \$1,455.1 million. The MMIF reserve of \$1,659.2 million is included in the total reserves of \$1,630.3 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, 1972.

Section 205 of the act authorized the establishment of a General Surplus Account and a Participating Reserve Account¹ 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.

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

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

The net income of MMIF for the fiscal year ended June 30, 1972, amounted to \$136.3 million. Of this amount, \$78.7 million was allocated to the Participating Reserve Account and \$57.6 million to the General Surplus Account.

FHA estimated that at June 30, 1972, the balance in the General Surplus Account and in the Participating Reserve Account, when combined, would exceed the estimated reserve requirements by \$205.2 million. The estimated financial position of the General Surplus Account and the Participating Reserve Account in relation to the estimated reserve requirement formed the basis for the allocation of the \$78.7 million to the Participating Reserve Account. Distribution to mortgagors from the Participating Reserve Account in fiscal year 1972 were \$9.8 million compared with \$3.8 million in fiscal year 1971.

From fiscal year 1960 until fiscal year 1971, the estimated reserve requirement for MMIF exceeded MMIF reserves. However, beginning in fiscal year 1967, the relationship between MMIF reserves and the estimated reserve requirement started to improve; by the end of fiscal year 1972, MMIF reserves exceeded the estimated reserve requirement by \$205.2 million. The estimated excess reserve of \$205.2 million at June 30, 1972, is included in the \$1,460.7 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)					
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
1972	1,455 1	204 1	1,659 2	1,454 0	-205 2

General Insurance Fund

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

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 \$63.3 million (see sch. 3), is included in the total reserves of \$1,630.3 million shown on the June 30, 1972, combined balance sheets. At December 31, 1972, the insurance reserve amounted to \$3.2 million, a decrease of \$60.1 million since June 30, 1972.

FHA records showed that claims pending against the \$63.3 million GIF reserve but not accepted by FHA at June 30, 1972, amounted to \$73.3 million. Therefore, the GIF reserve at June 30, 1972, was not 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 \$927.1 million at June 30, 1972, is part of the total \$1,460.7 million estimated reserve deficiency discussed in a preceding section of this report. The following tabulation shows the estimated reserve requirement, the insurance reserve, and the estimated reserve deficiency at June 30 for each of the past 5 years.

<u>Fiscal year</u>	<u>Estimated reserve requirement</u>	<u>Insurance reserve</u>	<u>Estimated reserve deficiency</u>
	(millions)		
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
1972	990.4	63.3	927.1

During fiscal year 1972, the Assistant Secretary-Commissioner, FHA, borrowed \$246 million from the U.S. Treasury for GIF, which increased the amount borrowed to \$383 million. The borrowed funds had not been repaid at June 30, 1972.

The ultimate reserve deficiency that might develop could exceed the \$927.1 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. In fiscal year 1972, 13,171 properties and notes were acquired as compared with 8,346 in fiscal year 1971. According to FHA records, acquisitions in fiscal year 1973 are continuing at the prior year's pace.

Cooperative Management Housing Insurance Fund

CMHIF was established on August 10, 1965, under authority of section 213 of the National Housing Act. Under CMHIF mortgages are insured which finance the purchase, construction, and/or rehabilitation of multifamily cooperative housing property. Also insured are supplementary loans which finance improvements and/or repairs of multifamily cooperative housing property or which provide funds for necessary community facilities. The insurance reserves of CMHIF, which total \$24.9 million, are included in the total reserves of \$1,630.3 million shown on the combined balance sheets. (See schs. 1 and 3.) FHA records showed that no insurance claims by mortgagees were pending applicable to the CMHIF reserve at June 30, 1972.

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

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

paid and at such times prior to payment as he may determine; however, the mortgagors do not have any vested rights in the account.

The act requires that the allocation of the income or loss and the distribution from the Participating Reserve Account be made in such 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 \$5.4 million from operations in fiscal year 1972. Of this amount, \$4.5 million was allocated to the Participating Reserve Account and \$0.9 million to the General Surplus Account. In addition, \$3 million was transferred to the Participating Reserve Account from the General Surplus Account because the balance in the latter account had accumulated to an amount that exceeded the estimated reserve 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)					
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
1972	7.5	17.4	24.9	15.3	-9.6

Special Risk Insurance Fund

SRIF was established by FHA on August 1, 1968, under authority of section 238(b) of the National Housing Act, as amended. Under this fund, mortgages are insured which finance (1) homes purchased by low-income families that are assisted with their mortgage payments by FHA, (2) homes

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

Section 238(b) provides that SRIF be funded with a \$5 million advance from GIF and that the advance be repaid at such times and at such rates of interest as the Secretary of HUD deems appropriate. The Housing and Urban Development Act of 1969 (12 U.S.C. 1715z-3(b)) authorized the Secretary to fund SRIF with advances from GIF in amounts that the Secretary may determine necessary up to a total sum of \$20 million. At June 30, 1972, \$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 \$196 million from the U.S. Treasury during fiscal year 1972, which increased the amount borrowed to \$282 million. The borrowed funds had not been repaid at June 30, 1972.

The following tabulation shows the estimated reserve requirement, the deficit in the insurance reserve, and the estimated reserve deficiency at June 30, 1972, and at the close of the 3 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
1972	631.3	-117.1	748.4

The ultimate reserve deficiency that may develop could conceivably exceed the estimated \$748.4 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 1972, applicable to SRIF, amounted to 18,980 properties. In fiscal year 1971, 6,870 properties were acquired, and, according to FHA records, acquisitions were continuing at a high rate in fiscal year 1973.

FHA records showed also that at June 30, 1972, claims amounting to \$20.4 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 (see schs. 1 and 3), amounted to \$94.2 million at June 30, 1972, an increase of \$39.4 million from the total accounts receivable of \$54.8 million at June 30, 1971. Increases totaling \$44.6 million included \$10.1 million from insurance premiums, \$34.1 million from the sale of Secretary-held properties, and \$0.4 million from the sale of Secretary-held mortgages. The increase of \$44.6 million was offset by decreases totaling \$5.2 million, including \$4.6 million which had resulted from decreased insurance fees and a miscellaneous decrease of \$0.6 million.

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 \$1,292 million at June 30, 1972, an increase of \$114.5 million from the \$1,177.5 million in investments at June 30, 1971. The increase in investments is attributable to the increase of \$116.2 million in holdings by MMIF offset by decreases totaling \$1.7 million in the holdings of CMHIF and GIF.

Acquired property--at cost
plus net expenses to date

The amount of \$1,131.3 million for acquired property, as shown in the combined balance sheets (see schs. 1 and 3), was \$380 million more than the amount at the close of the prior year. A comparison of changes in the acquired property inventories during fiscal years 1972 and 1971 follows.

	<u>Fiscal year</u>	
	<u>1972</u>	<u>1971</u>
	(millions)	
Acquired property inventory at beginning of fiscal year	\$ <u>751.3</u>	\$ <u>600.8</u>
Acquisitions	968.7	607.7
Sales	<u>588.7</u>	<u>457.2</u>
Increase in inventory	<u>380.0</u>	<u>150.5</u>
Acquired property inventory at end of fiscal year	\$ <u>1,131.3</u>	\$ <u>751.3</u>

An analysis of the increases of \$361 million in acquisitions and \$131.5 million in sales from the prior fiscal year is shown by insurance funds in the schedule that follows.

	<u>Increases in acquisitions</u>	<u>Increases in sales</u>
	(millions)	
MMIF	\$ 92.2	\$ 47.8
GIF	88.7	8.2
CMHIF	.2	-
SRIF	<u>179.9</u>	<u>75.5</u>
	\$ <u>361.0</u>	\$ <u>131.5</u>

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

The amount of \$732.7 million for defaulted mortgage notes, as shown in the combined balance sheets (see schs. 1 and 3), was \$212.9 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 1972 and 1971 follows.

	<u>Fiscal year</u>	
	<u>1972</u>	<u>1971</u>
	(millions)	
Defaulted mortgage notes--at cost plus net expenses--on hand at beginning of fiscal year	<u>\$519.8</u>	<u>\$407.9</u>
Acquisitions	265.3	153.2
Sales and conversions	<u>52.4</u>	<u>41.3</u>
Increase of mortgage notes on hand	<u>212.9</u>	<u>111.9</u>
Defaulted mortgage notes--at cost plus net expenses--on hand at end of fiscal year	<u>\$732.7</u>	<u>\$519.8</u>

An analysis of the increase of \$112.1 million in acquisitions and \$11.1 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	\$ -0.3	\$ 0.1
GIF	56.0	-8.0
CMHIF	-.5	-
SRIF	<u>56.9</u>	<u>19.0</u>
	<u>\$112.1</u>	<u>\$11.1</u>

Allowances for estimated future losses

The valuation reserves--allowances for estimated future losses--provided by FHA at June 30, 1972, for mortgage notes and contracts for deed (\$18.3 million) and for acquired security or collateral (\$666.1 million) totaled \$684.4 million, an increase of \$237 million from the amount of \$447.4 million at June 30, 1971. (See schs. 1 and 3.)

The increase of \$237 million in the valuation reserves is shown in schedules 2 and 4 under the caption "Increase(-) or decrease(+) in valuation allowances." The \$237 million consisted of the adjustments necessary to value the acquired properties and mortgage notes held by the four funds at June 30, 1972, at market prices and at amounts considered to be collectible. The valuation allowances were increased for MMIF by \$51 million, GIF by \$102.7 million, and SRIF by \$83.9 million and were decreased by \$0.6 million for CMHIF.

The valuation allowances were based on (1) actual losses experienced on the sale of small-home properties in fiscal year 1972, (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, 1971, the valuation reserves were increased by \$98.7 million, as shown in the statement of income and expense. (See sch. 2.)

Unapplied charges

Unapplied charges amounted to \$11.2 million at June 30, 1972 (see schs. 1 and 3), and consisted of amounts recorded in the unapplied charges account for expenditures incurred by MMIF, GIF, SRIF, and the Salaries and Expenses Fund in connection with onhand properties. Transfer of the unapplied charges to the records in which the cost of the respective properties is accumulated was pending at June 30, 1972.

Liabilities

Accounts payable

The amount of \$304.4 million for accounts payable, as shown in the combined balance sheets (see schs. 1 and 3), was \$185.5 million more than the amount at the close of the prior year.

The increase of \$185.5 million comprised an increase of (1) \$197.1 million (\$26.7 million to Government agencies and \$170.4 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 and (2) \$5.9 million in the liability of MMIF participations payable. The increases were offset by a decrease of

\$17.5 million in the amounts payable for salaries and expenses.

Debenture obligations--
debentures issued and outstanding

Debentures issued and outstanding at June 30, 1972, as shown in the combined balance sheets (see schs. 1 and 3), amounted to \$453.8 million, compared with \$486.5 million at June 30, 1971, a decrease of \$32.7 million.

During fiscal year 1972, debentures amounting to \$21.4 million were issued in payment of insurance claims presented by insured mortgagees because of defaults in mortgage payments by mortgagors and debentures aggregating \$54.1 million were redeemed.

Borrowings from U.S. Treasury

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

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

At June 30, 1972, GIF borrowings totaled \$383 million and SRIF borrowings totaled \$282 million--increases of \$246 million and \$196 million respectively, from June 30, 1971. (See sch. 4.)

Income

Total income

The total income of \$563.7 million for fiscal year 1972, as shown in the statements of income and expense (see schs. 2 and 4), was the combined income of the four insurance funds and was \$61.6 million more than the combined income of \$502.1 million in the preceding fiscal year. Each fund except CMHIF had more income in fiscal year 1972 than in the preceding fiscal year. MMIF increased by \$22 million, GIF, \$13.9 million, and SRIF, \$25.8 million. The income of CMHIF decreased by \$0.1 million.

MMIF's increase of \$22 million resulted principally from increases in revenue from insurance premiums of \$16.7 million and interest on U.S. Government securities of \$10.3 million. The increase in income was offset by decreases of \$4.7 million in fees and \$0.3 million in income on settled properties.

The decrease in fees occurred because 20,453 fewer mortgages were insured by MMIF in fiscal year 1972 than in the prior fiscal year. Although fewer mortgages were insured, the revenue from insurance premiums increased because the average principal amount of mortgages insured in fiscal year 1972 increased by \$1,050 from the average principal amount insured in fiscal year 1971.

The \$13.9 million income increase of GIF is the net effect of an increase of \$13.7 million in the revenue from insurance premiums augmented by a net addition of \$0.2 million in revenue shown in the other GIF income accounts.

CMHIF's decrease in income of \$0.1 million resulted principally from decreases in (1) interest on investments in U.S. Government securities, (2) fees and premiums, and (3) profit on the sale of securities.

SRIF's increased income of \$25.8 million resulted principally from increases in (1) revenue from fees and insurance premiums of \$1.3 million and \$22.2 million, respectively, and (2) interest of \$2.3 million earned on mortgage notes.

Although fewer mortgages were insured by SRIF in fiscal year 1972 than in the prior fiscal year, the average principal mortgage balance insured for both small homes and multi-family housing properties increased by about \$956 and \$126,961, respectively. Consequently, fees and insurance premiums which are based on the mortgage principal balance increased.

Expense

Loss on acquired security

The loss sustained on acquired security in fiscal year 1972, as shown in the statements of income and expense (see schs. 2 and 4), amounted to \$157.3 million, an increase of \$70.7 million from the loss of \$86.6 million sustained in the prior fiscal year.

Of the \$70.7 million increase in the loss on acquired security, \$63.2 million was attributable to small-home sales. In fiscal year 1972, 30,762 small homes were sold, an increase of 5,782 from the 24,980 sold in the prior fiscal year. Also the average loss on the sale of a home in fiscal year 1972 was \$5,178, an increase of \$1,334 from the average loss of \$3,844 in the prior fiscal year. The remaining \$7.5 million was attributable to less total profit on multi-family property sales. In fiscal year 1972, 38 multifamily projects were sold, compared with 40 sold in fiscal year 1971. The average profit on a sale in fiscal year 1972 decreased to \$51,688 from the average profit of \$235,305 in the prior fiscal year.

Interest on borrowings from U.S. Treasury

The \$23.7 million interest on borrowings from the U.S. Treasury shown in the statements of income and expense (see schs. 2 and 4) is \$18.8 million more than the \$4.9 million in the prior fiscal year. The \$18.8 million increase resulted from increased borrowings by GIF and SRIF in fiscal year 1972. The GIF increase amounted to \$246 million, which brought the total borrowed at June 30, 1972, to \$383 million. The SRIF increase amounted to \$196 million, which brought its total to \$282 million.

CHAPTER 3

SCOPE OF EXAMINATION

We have examined FHA's financial statements pertaining to its insurance operations for the fiscal year ended June 30, 1972. 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.

HUD's Office of Washington Operations and Special Projects, Office of Inspector General, performed two reviews during fiscal year 1972 relating to the activities of two operating units of FHA. However, the scope of these reviews did not include sufficient work on FHA balance sheets or income and expense accounts for fiscal year 1972 activities to enable us to reduce our examination of these accounts.

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, 1972, and the results of its operations and source and application of its funds for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year and with applicable Federal laws.

FINANCIAL STATEMENTS

FEDERAL HOUSING ADMINISTRATION
 COMBINED COMPARATIVE BALANCE SHEET
 AS OF JUNE 30 1972 AND 1971
 A S S E T S

	<u>1972</u>	<u>1971</u>	Increase or Decrease ()
CASH AND FUND BALANCES	\$ 137,989,356	\$ 124,612,603	\$ 13,376,753
ACCOUNTS RECEIVABLE			
Fees	4,173 831	8 803 680	-4 629 849
Premiums	27 761 352	17,703 671	10 057 681
Sale of Secretary-held properties	41 446 506	7,303,593	34 142 913
Sale of Secretary-held mortgages	468 660	38 500	430,160
Other	353,426	968,571	615 145
Advances to Special Risk Insurance Fund from General Insurance Fund	<u>20,000,000</u>	<u>20,000,000</u>	<u> </u>
Total accounts receivable	<u>94,203,775</u>	<u>54,818,015</u>	<u>39,385,760</u>
ACCRUED ASSETS			
Premiums	156,398 541	143 235,066	13,163 475
Interest on U S Government securities	23,186 080	19 419,288 ^P	3 766 792
Interest on mortgage notes receivable	<u>25,872,597</u>	<u>18,150,337</u>	<u>7,722,260</u>
Total accrued assets	<u>205,457,218</u>	<u>180,804,691</u>	<u>24,652,527</u>
INVESTMENTS			
U S Government securities at amortized cost (Market value \$1,312,122,664 at June 30, 1972 and \$1,161,053,888 at June 30, 1971)(note 1)	1,292,021,597	1 177 496,603	114,524 974
Stock in rental and cooperative housing corporations 181,63 shares at June 30, 1972, and 199,241 shares at June 30, 1971 at cost	<u>205,900</u>	<u>224,920</u>	<u>19,020</u>
Total investments	<u>1,292,227,497</u>	<u>1,177,721,523</u>	<u>114,505,974</u>
MORTGAGE NOTES AND CONTRACTS FOR DEED UNPAID BALANCE	289,130,785	280 431,716	8,699 069
Less allowance for estimated future losses	<u>18,309,946</u>	<u>17,901,407</u>	<u>408,539</u>
Net mortgage notes and contracts for deed	<u>270,820,839</u>	<u>262,530,309</u>	<u>8,290,530</u>
ACQUIRED SECURITY OR COLLATERAL			
Acquired property- at cost plus net expenses to date	1,131,260,263	751,292,215	379,968,048
Defaulted mortgage notes--at cost plus net expenses to date	732,603,662	519 815,466	212,788,196
Defaulted Title I notes- at unpaid principal balance	<u>46,845,192</u>	<u>46,759,247</u>	<u>85,952</u>
Total cost of acquired property and notes	1 910,709,117	1 317 866 921	592 732 196
Less principal recoveries on defaulted mortgage notes	53,735,844	48 869,330	4,866,514
Less undisbursed mortgage proceeds	<u>253,304</u>	<u>111,439</u>	<u>141,865</u>
Unrecovered cost	1,856,809,969	1,268 886 152	587 923,817
Less allowance for estimated future losses	<u>665,854,532</u>	<u>429,326,677</u>	<u>236,527,855</u>
Net acquired property and notes	<u>1,190,955,437</u>	<u>839,559,475</u>	<u>351,395,962</u>
Other notes receivable	266,419	267 658	1,239
Less allowance for estimated future losses	<u>245,110</u>	<u>245,358</u>	<u>248</u>
Net other notes receivable	<u>21,309</u>	<u>22,300</u>	<u>-991</u>
Net acquired security or collateral	<u>1,190,976,746</u>	<u>839,581,775</u>	<u>351,394,971</u>
OTHER ASSETS -HELD FOR THE ACCOUNT OF MORTGAGORS	<u>2,792,911</u>	<u>3,385,231</u>	<u>592,320</u>
UNAPPLIED CHARGES	<u>11,194,881</u>	<u> </u>	<u>11,194,881</u>
Total assets (note 2)	<u>\$3,205,663,223</u>	<u>\$2,643,454,147</u>	<u>\$562,209,076</u>

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

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SCHEDULE I

LIABILITIES

	1972	1971	Increase or Decrease ()
ACCOUNTS PAYABLE			
Salaries and expenses	\$ 187,268	\$ 17,648,525	\$-17,461,257
Acquired security and miscellaneous	274,689,429	77,623,815	197,065,614
MHI Fund participations payable	9,573,238	3,630,296	5,942,942
Advances from General Insurance Fund to Special Risk Insurance Fund	20,000,000	20,000,000	
Total accounts payable	<u>304,449,935</u>	<u>118,902,636</u>	<u>185,547,299</u>
ACCRUED LIABILITIES:			
Interest on debentures	<u>9,661,719</u>	<u>10,680,930</u>	<u>1,019,211</u>
TRUST AND DEPOSIT LIABILITIES			
Employees payroll deductions			
U S savings bonds		86,303	86,303
State taxes		57,080	-57,080
Deposits held for mortgagors and lessees (note 7)	16,742,016	16,688,978	53,038
Earnest money on pending sales	40,278,333	3,901,815	36,376,518
Excess proceeds of sale	<u>3,207,640</u>	<u>2,606,771</u>	<u>600,869</u>
Total trust and deposit liabilities	<u>60,227,989</u>	<u>23,340,947</u>	<u>36,887,042</u>
DEFERRED CREDITS			
Unearned premium income	59,641,793	52,842,825	6,798,968
Unearned fee income	926,701	630,412	296,289
Unapplied credits	<u>2,951,497</u>	<u>721,499</u>	<u>2,229,998</u>
Total deferred credits	<u>63,519,991</u>	<u>54,200,736</u>	<u>9,319,255</u>
DEBENTURE OBLIGATIONS			
Debentures issued and outstanding	453,770,200	486,517,700	32,747,500
Debentures authorized for issue	4,225,450	1,043,100	3,182,350
Debentures claims in process	<u>8,708,150</u>	<u>11,163,550</u>	<u>2,455,400</u>
Total debenture obligations	<u>466,703,800</u>	<u>498,724,350</u>	<u>32,020,550</u>
OTHER LIABILITIES			
Reserve for foreclosure costs--defaulted mortgage notes	5,726,785	4,731,381	995,404
Employees' accrued annual leave (note 8)	<u>-</u>	<u>10,958,871</u>	<u>10,958,871</u>
Total other liabilities	<u>5,726,785</u>	<u>15,690,252</u>	<u>9,963,467</u>
Total liabilities	<u>910,290,219</u>	<u>721,543,851</u>	<u>188,746,368</u>
RESERVES AND BORROWINGS FROM U S TREASURY			
RESERVES			
Statutory Reserve--for participation payments and future losses and expenses (note 5)	211,656,417	141,245,801	70,410,616
Insurance Reserve- available for future losses and expenses (note 5)	<u>1,418,716,587</u>	<u>1,557,664,495</u>	<u>138,947,908</u>
Total reserves	<u>1,630,373,004</u>	<u>1,698,910,296</u>	<u>68,537,292</u>
BORROWINGS FROM U S TREASURY (Note 4)			
	<u>665,000,000</u>	<u>223,000,000</u>	<u>442,000,000</u>
Total reserves and borrowings from U S Treasury	<u>2,295,373,004</u>	<u>1,921,910,296</u>	<u>373,462,708</u>
Total liabilities, reserves and borrowings from U S Treasury (notes 3, 4, 5, 6, and 7)	<u>\$3,205,663,223</u>	<u>\$2,643,454,147</u>	<u>\$562,209,076</u>

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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, 1972 AND 1971

INCOME AND EXPENSE	1972	1971	Increase or Decrease ()
INCOME:			
Fees	\$ 68,390,741	\$ 71,610,281	\$ 3,259,540
Premiums	416,792,579	364,123,768	52,668,811
Interest on U S Government securities and dividends	74,888,238	64,629,332	10,258,906
Profit on sale of investments	-	27,534	-27,534
Interest income	4,052,705	1,562,215	2,490,490
Income or expense (-) on settled properties	370,552	182,494	-553,046
Miscellaneous income	26,805	38,926	12,121
Total income	<u>563,740,516</u>	<u>502,170,550</u>	<u>61,565,966</u>
EXPENSE:			
Salaries and expenses ^{1/}	165,401,346	138,636,307	26,765,039
Interest on borrowings from U S Treasury	23,694,807	4,882,674	18,812,133
Interest on debenture obligations	19,239,682	21,414,259	2,174,577
Loss on acquired security	157,320,342	86,628,912	70,691,400
Loss on defaulted Title I notes	7,892,396	5,995,179	1,897,217
Discount on sale of Secretary-held mortgages	534,488	461,719	72,769
Fee expenses	6,873,020	7,019,850	146,830
Repairs of structural defects	2,680,220	-	2,680,220
Miscellaneous expense	418,063	252,601	165,462
Total expense	<u>384,054,334</u>	<u>265,291,501</u>	<u>118,762,833</u>
Net income before adjustment of valuation allowances	<u>179,686,182</u>	<u>236,883,049</u>	<u>57,196,867</u>
INCREASE (-) OR DECREASE (+) IN VALUATION ALLOWANCES			
Allowance for estimated future losses on			
Purchase money mortgages	-466,796	2,164,951	1,698,155
Acquired properties	163,117,354	51,093,512	112,023,842
Defaulted mortgage notes	-73,223,656	42,495,822	30,727,834
Defaulted Title I notes	-186,845	-2,940,027	2,753,182
Other notes receivable	-	+248	13,186
Net adjustment of valuation allowances	<u>-236,994,403</u>	<u>-98,680,878</u>	<u>-138,313,525</u>
Net income or loss (-)	<u>\$ -57,308,221</u>	<u>\$ 138,202,171</u>	<u>\$ 195,510,392</u>
ANALYSIS OF INSURANCE RESERVES AND BORROWINGS			
DISTRIBUTION OF NET INCOME			
Statutory Reserve (participating reserve account)			
Balance at beginning of period			
Net income allocated for the period ^{2/}	\$ 141,245,801	\$ 120,105,800	\$ 21,140,001
Transfer from general surplus account	83,295,804	26,908,552	56,347,252
Total participating reserve	<u>3,000,000</u>	<u>2,000,000</u>	<u>1,000,000</u>
Participations declared	227,501,605	149,014,352	78,487,253
Participations available	15,824,779	-7,793,170	-8,031,609
Participations held in escrow	211,676,826	141,221,182	70,455,644
Balance at end of period	<u>20,409</u>	<u>24,619</u>	<u>-4,210</u>
	<u>\$ 211,656,417</u>	<u>\$ 141,245,801</u>	<u>\$ 70,410,616</u>
Insurance Reserve			
Balance at beginning of period			
Adjustments during the period ^{2/}	\$1,557,664,495	\$1,451,185,740	\$ 106,478,755
Net income or loss (-) for the period ^{3/}	4,616,117	-2,814,864	7,430,981
Transfer to participating reserve account	-140,564,025	111,293,619	-251,857,644
Balance at end of period	<u>3,000,000</u>	<u>-2,000,000</u>	<u>1,000,000</u>
Total reserves	<u>\$1,418,716,587</u>	<u>\$1,557,664,495</u>	<u>\$ 138,947,908</u>
	<u>\$1,630,373,004</u>	<u>\$1,698,910,296</u>	<u>\$ 68,537,292</u>
BORROWINGS FROM U S TREASURY			
Balance at beginning of period	\$ 223,000,000	\$ 10,000,000	\$ 213,000,000
Borrowings during the period	442,000,000	213,000,000	229,000,000
Balance at end of period	<u>\$ 665,000,000</u>	<u>\$ 223,000,000</u>	<u>\$ 442,000,000</u>
Total reserves and borrowings at end of period	<u>\$2,295,373,004</u>	<u>\$1,921,910,296</u>	<u>\$ 373,462,708</u>
^{1/} Does not include unfilled orders totaling \$130,735			
^{2/} Comprised of the following adjustments relative to prior years			
(a) Salaries and expenses	\$ -6,405,358		
(b) Fee appraisal expense	3,815		
(c) Fee inspection expense	532		
(d) Annual leave expense	10,958,871		
(e) Allowance for estimated future losses on purchase money mortgages	58,257		
	<u>\$ 4,616,117</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 Sections 205 and 213 of the National Housing Act			

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FEDERAL HOUSING ADMINISTRATION

COMBINED BALANCE SHEET

ANALYSIS BY FUND

AS OF JUNE 30 1972

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	\$ 137,989,356	\$ 71,009,839	\$ 39,770,405	\$ 1,073,958	\$ 25,795,700	\$ 43,260
ACCOUNTS RECEIVABLE						
Fees	4 173 831	3,683 971	406 060		22 880	
Premiums	27 761 352	16 018 620	7 323 315	342 702	4 077 715	
Sale of Secretary held properties	41 446 506	19,798 340	9 305 582		11 652 344	
Sale of Secretary held mortgages	468 660	327 510	17 950		27 200	
Other	353 426	53 495	165 399		2 672	17 460
Advances to Special Risk Insurance Fund from General Insurance Fund	20,000,000	-	20,000,000			
Total accounts receivable	94,203,775	39,881,936	37,995,226	342,702	15,874,531	104,660
ACCRUED ASSETS						
Premiums	156 398,241	120 934 695	19 726 704		15 727 112	
Interest on U S Government securities	23 186 080	22 723,656		462 424		
Interest on mortgage notes receivable	25,872,597	513,362	20,497,220	132,026	4,740,111	
Total accrued assets	205,457,218	144,171,713	40,223,924	594,450	20,467,223	
INVESTMENTS						
U S Government securities at amortized cost (Market Value \$1 312,122 664)(note 1)	1,292 021 597	1,262 308 289		29 713 308		
Stock in rental and cooperative housing corporations 181,633 shares at cost	205,900		184,100	21,800		
Total Investment	1,292,227,497	1,262,308,289	184,100	22,735,108		
MORTGAGE NOTES AND CONTRACTS FOR DEED UNPAID BALANCE	289,130,785	18,353 655	268 002,772	2 274 352		
Less allowance for estimated future losses	18,309,946	490,472	17,703,756	113,772		
Net mortgage notes and contracts for deed	270,820,839	17,863,183	250,299,016	2,160,580		
ACQUIRED SECURITY OR COLLATERAL:						
Acquired property at cost plus net expenses to date	1,131,260,263	370,955 401	511 509 617	4 652 129	241 143 116	
Defaulted mortgage notes at cost plus net expenses to date	732,693,662	11,767,670	602 241 540	2 672 984	102 409 562	
Defaulted Title I notes at unpaid principal balance	46,845,192		46,845,192			
Total cost of acquired property and notes	1 910,799,117	382 725,071	1 161,196,349	13 325 713	353 552 694	
Less principal recoveries on defaulted mortgage notes	53,735 844	1,207 120	52,370,456	141 873	16 395	
Less undisbursed mortgage proceeds	253,304		253,304			
Unrecovered cost	1 856,800 969	381 17 951	1 108 72 489	13 183 140	353 536 289	
Less allowance for estimated future losses	665,864,532	121,776,999	423,709,407	3,058,923	117,309,242	
Net acquired property and notes	1,190,935,437	259,740,952	684,963,182	10,124,257	222,227,046	
Other notes receivable	266,419	246,280	20 139			
Less allowance for estimated future losses	245,110	243,096	2,014			
Net other notes receivable	21,309	3,184	17,125			
Net acquired security or collateral	1,190,976,746	259,744,136	684,881,307	10,124,257	222,227,046	
OTHER ASSETS - HELD FOR THE ACCOUNT OF MORTGAGORS	2,792,911		2,772,586	20,325		
UNAPPLIED CHARGES	11,104,881	6,716,449	2,456,639		1,990,183	1,610
Total assets (note 2)	\$3,205,663,223	\$1,801,695,645	\$1,059,001,203	\$44,051,440	\$300,364,616	\$550,312

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

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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	\$ 187,268	\$ -	\$ -	\$ -	\$ -	\$187,268
Acquired security and miscellaneous	274,689,429	101,830,616	81,542,698	23,745	91,292,370	-
MMI Fund participations payable	9,573,238	-	-	-	-	-
Advances from GI Fund to SRI Fund	20,000,000	-	-	-	20,000,000	-
Inter fund (receivables ())	-	887,884	73,809	5,678	752,589	55,508
Total accounts payable	<u>304,449,935</u>	<u>110,515,970</u>	<u>81,616,507</u>	<u>29,423</u>	<u>112,045,259</u>	<u>242,776</u>
ACCRUED LIABILITIES						
Interest on debentures	9,661,719	161,840	9,172,473	327,404	-	-
TRUST AND DEPOSIT LIABILITIES:						
Deposits held for mortgagors and lessees (note 7)	16,742,016	268,360	15,970,597	212,067	290,992	-
Earnest money on pending sales	40,278,333	19,409,655	10,276,439	41,850	10,592,259	-
Excess proceeds of sale	3,207,640	1,003	3,164,787	-	-	-
Total trust and deposit liabilities	<u>60,227,989</u>	<u>19,679,018</u>	<u>29,411,803</u>	<u>253,917</u>	<u>10,883,251</u>	<u>-</u>
DEFERRED CREDITS						
Unearned premium income	59,641,793	2,939,444	43,051,195	2,098,330	11,552,824	-
Unearned fee income	926,701	-	418,361	-	508,340	-
Unapplied credits	2,921,497	226,110	2,318,108	21,783	77,953	307,543
Total deferred credits	<u>63,529,991</u>	<u>3,165,554</u>	<u>45,787,664</u>	<u>2,120,113</u>	<u>12,139,117</u>	<u>307,543</u>
DEBENTURE OBLIGATIONS						
Debentures issued and outstanding	453,770,200	8,914,200	428,733,150	16,122,850	-	-
Debentures authorized for issue	4,225,450	-	4,225,450	-	-	-
Debenture claims in process	8,708,150	-	8,597,250	110,900	-	-
Total debenture obligations	<u>466,703,800</u>	<u>8,914,200</u>	<u>441,555,850</u>	<u>16,233,750</u>	<u>-</u>	<u>-</u>
OTHER LIABILITIES						
Reserve for foreclosure costs defaulted mortgage notes	5,726,785	-	5,187,822	103,617	435,346	-
Total liabilities	<u>910,290,219</u>	<u>142,436,582</u>	<u>612,732,121</u>	<u>19,068,224</u>	<u>135,502,973</u>	<u>50,319</u>
RESERVES AND BORROWINGS FROM U S TREASURY						
RESERVES						
Statutory Reserve for participation payments and future losses and expenses (note 5)	211,656,417	204,089,395	-	7,567,022	-	-
Insurance Reserve available for future losses and expenses (note 5)	1,418,716,587	1,455,169,668	63,269,082	17,416,194	117,118,357	-
Total reserves	<u>1,630,373,004</u>	<u>1,659,259,063</u>	<u>63,269,082</u>	<u>24,983,216</u>	<u>117,138,357</u>	<u>-</u>
BORROWINGS FROM U S TREASURY (note 4)	<u>665,000,000</u>	<u>-</u>	<u>383,000,000</u>	<u>-</u>	<u>282,000,000</u>	<u>-</u>
Total reserves and borrowings from U S Treasury	<u>2,295,373,004</u>	<u>1,659,259,063</u>	<u>446,269,082</u>	<u>24,983,216</u>	<u>164,861,643</u>	<u>-</u>
Total liabilities reserves and borrowings from U S Treasury (notes 3 & 5, 6, and 7)	<u>\$3,205,663,223</u>	<u>\$1,801,695,645</u>	<u>\$1,059,001,203</u>	<u>\$44,051,440</u>	<u>\$300,364,616</u>	<u>\$550,319</u>

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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, 1972

INCOME AND EXPENSE	Combined	Mutual Mortgage Insurance Fund	General Insurance Fund	Cooperative Management Housing Insurance Fund	Special Risk Insurance Fund
INCOME:					
Fees	\$ 68,350,741	\$ 31,253,970	\$ 21,795,511	\$ 27,487	\$ 1,073,713
Premiums	416,792,579	273,548,574	92,462,888	4,030,809	46,754,303
Interest on U S Government securities and dividends	74,888,238	73,481,485	1,530	1,405,223	
Interest income	4,052,705	445,659	1,189,547		2,417,499
Income or expense () on settled properties	370,552	111,657	114,584		144,311
Miscellaneous income	26,805	4,376	21,153	83	1,193
Total income	563,740,516	378,682,407	115,556,045	5,463,602	64,092,462
EXPENSE:					
Salaries and expenses ^{1/}	165,401,346	92,949,040	43,712,851	230,755	78,548,700
Interest on borrowings from U S Treasury	23,694,807		13,553,647		10,141,160
Interest on debenture obligations	19,239,682	347,243	18,292,431	600,008	
Loss on acquired security	157,320,312	92,104,444	38,976,939	132,537	26,371,466
Loss on defaulted Title I notes	7,892,396		7,892,396		
Discount on sale of Secretary held mortgages	534,488	286,021	211,054		37,413
Fee expenses	6,873,020	5,554,402	861,363		457,255
Repairs of structural defects	2,680,220	16,059	950		2,663,211
Miscellaneous expense	428,003	35,658	3,283		385,688
Total expense	384,054,334	191,292,867	123,498,348	698,226	68,544,893
Net income or loss () before adjustment of valuation allowances	179,686,182	187,389,540	7,942,303	4,765,376	4,466,431
INCREASE () OR DECREASE (+) IN VALUATION ALLOWANCES					
Allowance for estimated future losses on purchase money mortgages	466,796	27,130	494,625	699	
Acquired properties	163,117,354	49,650,202	53,165,839	667,318	60,369,631
Defaulted mortgage notes	73,223,656	1,341,718	48,935,885	26,985	22,919,068
Defaulted Title I notes	186,845		186,845		
Other notes receivable	248	+139	+109		
Net adjustment of valuation allowances	236,994,403	50,964,651	102,783,085	+641,032	83,827,699
Net income or loss ()	\$ -97,368,221	\$ 136,364,889	\$ 110,725,388	\$ 5,406,408	\$ 88,354,130
ANALYSIS OF INSURANCE RESERVES AND BORROWINGS					
DISTRIBUTION OF NET INCOME					
Statutory Reserve (participating reserve account)					
Balance at beginning of period	\$ 141,245,801	\$ 135,164,786	\$	\$ 6,081,015	\$
Net income (or loss -) allocated for the period ^{2/}	83,255,804	78,749,396		4,506,408	
Transfer from general surplus account	3,000,000			3,000,000	
Total participating reserve	227,501,605	213,914,182		13,587,423	
Participations declared	15,824,779	9,824,787		5,999,922	
Participations available	211,676,826	204,089,395		7,587,431	
Participations held in escrow	20,409			20,409	
Balance at end of period	\$ 211,656,417	\$ 204,089,395	\$	\$ 7,567,022	\$
Insurance Reserve					
Balance at beginning of period	\$1,557,664,495	\$1,393,782,097	\$1,171,579,335	\$19,447,601	\$ 27,144,538
Adjustments during the period ^{3/}	4,616,117	3,772,078	2,415,135	68,593	1,639,689
Net income (or loss -) for the period ^{3/}	140,564,025	57,615,493	110,725,388	900,000	88,354,130
Transfer to participating reserve account	3,000,000			3,000,000	
Balance at end of period	\$1,418,716,587	\$1,455,169,668	\$ 63,269,082	\$17,416,194	\$ 117,138,357
Total reserves or deficit ()	\$1,630,373,004	\$1,659,259,063	\$ 63,269,082	\$24,983,216	\$ 117,138,357
BORROWINGS FROM U S TREASURY					
Balance at beginning of period	\$ 223,000,000	\$	\$ 137,000,000	\$	\$ 86,000,000
Borrowings during the period	442,000,000		246,000,000		196,000,000
Balance at end of period	\$ 665,000,000	\$	\$ 383,000,000	\$	\$ 282,000,000
Total reserves and borrowings at end of period	\$2,295,373,004	\$1,659,259,063	\$ 446,269,082	\$24,983,216	\$ 164,861,643
^{1/} Does not include unfilled orders totaling \$130,735					
^{2/} Comprised of the following adjustments relative to prior years					
1 Salaries and expenses	\$ 6,405,358	\$ -3,693,728	\$ 869,190	\$ 61,067	\$ 1,903,507
2 Fee appraisal expense	3,815	3,815			
3 Fee inspection expense	532	532			
4 Annual leave expense	10,998,871	7,461,459	3,226,068	7,526	263,818
5 Allowance for estimated future losses on purchase money mortgages	58,257	-	58,257		
	\$ 4,616,117	\$ 3,772,078	\$ 2,415,135	\$ 68,593	\$ 1,639,689

^{3/}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

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FEDERAL HOUSING ADMINISTRATION

COMBINED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

(STATEMENT OF CHANGES IN FINANCIAL POSITION)

FOR THE FISCAL YEAR ENDED JUNE 30 1972

	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	\$ 68 350,741	\$ 31 253 970	\$ 21 995 511	\$ 27 487	\$ 25 073 773	\$
Insurance premiums	416 792 578	273 548 573	92 462 888	4 030 810	46 750 307	
Interest on U S Government securities	74 886 708	73 481 485		1 405 223		
Dividends received on stock held in rental and cooperative housing corporations	1 529		1 529			
Interest on mortgage notes	3 086 707	445 659	223 549		2 417 499	-
Interest and other income on defaulted Title I notes	965 998		965 998			-
Income or expense () on settled properties	370 552	111 657	114 584		144 311	
Miscellaneous income	26,806	4,376	21,154	82	1,194	
Total income	563,740,515	378,622,406	115,556,045	5,463,602	64,098,462	
Realization of assets						
Proceeds from sale of properties	404 671 788	240 973 368	31 636,854		72,061 566	
Recoveries on assigned notes	8,484 530	605,432	7,802 821	51 385	24,872	
Recoveries on defaulted Title I notes	6 032,225		6,032 225			
Proceeds from sale of purchase money mortgages	7 185 025	4,507 390	2,137,175		540 460	
Collections of principal on purchase money mortgages	10,075,195	1,381,148	8 803 166	13 981	123 100	
Redemption or transfer of stock in rental and cooperative housing corporations	19 600		19,600			
Write off of prior year's obligation	10,958,871					10,958,871
Total realization of assets	447,427,214	247,467,338	116,431,841	65,366	72,503,798	10,958,871
Total funds provided by operations	\$1,011,167,729	\$626,089,744	\$231,987,886	\$ 5,529,968	\$136,602,260	\$10,958,871
Funds provided by financing						
Debentures issued	\$ 21 380,000	\$	\$ 20 966 100	\$ 413 900	\$	\$
U S securities redeemed sold and/or transferred (par)	220 940 500	170,509 500	1 677 000	48 754 000		
Principal collections on Defense Family Housing securities	314 572		314 572			
Borrowings from U S Treasury	442,000,000		246,000,000		196,000,000	
Total funds provided by financing	\$ 684,635,072	\$170,509,500	\$268,957,672	\$49,167,900	\$196,000,000	\$
Total source of funds	\$1,695,802,801	\$796,599,244	\$500,945,558	\$54,696,868	\$332,602,260	\$10,958,871

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

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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	\$ 170,606,446	\$	\$	\$	\$	\$170,606,446
Salaries and expenses						
Charges to insurance funds for salaries and expenses		92,949,040	43,712,821	230,755	28,508,700	165,401,346
Interest on borrowings from U S Treasury	23,694,807		13,553,647		10,141,160	
Interest on debenture obligations	19,239,682	347,243	18,292,431	600,009		
Repairs of structural defects	2,680,219	16,058	950		2,663,211	
Discount on sale of Secretary held mortgages	534,488	286,021	211,054		3,413	
Fee expenses	6,873,020	5,954,401	861,364		457,255	
Miscellaneous expenses	418,064	35,659	3,283		385,688	
Total expenses	224,046,726	99,188,422	76,629,014	830,763	42,197,427	5,205,100
Acquisition of assets						
Real property acquired including net capitalized expenses	919,396,084	436,831,797	236,934,166	331,961	245,290,140	
Assigned notes acquired including net capitalized expenses	264,473,141	1,898,969	168,555,695	177,179	94,195,656	
Defaulted Title I notes acquired	14,010,573		14,010,573			
Adjustment of prior year's recovery	1,200,258					1,200,258
Purchase of stock in rental and cooperative housing corporations	580		580			
Total acquisition of assets	1,199,080,636	438,730,766	419,501,014	154,802	339,493,796	1,200,258
Mutual participations	15,845,188	9,824,787		6,020,461		
Increase or decrease () in working capital applicable to operations	137,707,027	48,197,894	49,740,480	402,3	62,095,134	21,923,643
Adjustment of prior year's expenses	4,347	3,772,078	2,356,879	69,593	1,639,690	4,253,513
Total funds applied to operations	\$1,301,261,176	\$495,774,003	\$444,032,660	\$ 7,940,211	\$321,231,779	\$ 22,882,514
Funds applied to financing						
Debentures redeemed	454,127,500	\$ 1,496,150	\$ 52,097,550	\$ 533,800	\$	\$
U S securities acquired (per)	330,220,000	282,270,000	1,126,000	46,824,000		
Increase or decrease () in working capital applicable to financing	10,194,125	17,059,091	3,689,339	1,143	11,370,481	21,923,643
Total funds applied to financing	\$ 304,541,625	\$300,825,241	\$ 56,912,889	\$47,356,65	\$ 11,370,481	\$ 21,923,643
Total application of funds	\$1,695,802,801	\$796,599,244	\$500,945,558	\$4,696,862	\$332,602,260	\$ 10,958,871

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NOTES TO COMBINED BALANCE SHEETS

JUNE 30, 1972 and 1971

1 Investments include GNMA participation certificates in the amount of \$133,647,230.34 at June 30, 1972 and \$133,427,945.02 at June 30, 1971 plus debentures of FHA Insurance Funds in the amount of \$60,387,400.00 at June 30, 1972 and \$66,626,900.00 at June 30, 1971 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 \$93,746,757.84 at June 30, 1972 and \$33,692,598.39 at June 30, 1971.

(b) Accrued interest receivable--collection doubtful--on defaulted Title I notes at June 30, 1972 and 1971

	<u>1972</u>	<u>1971</u>
On notes with principal balances	\$10,689,762.72	\$9,941,190.02
On notes with principal balances paid - interest due	<u>1,634,279.99</u>	<u>906,198.64</u>
Total	<u>\$12,324,042.71</u>	<u>\$10,847,388.66</u>

3 The following items are not recorded in the liabilities

(a) Unfilled orders in the amount of \$211,814.63 (\$81,079.20 furniture and equipment and \$130,735.43 operating expenses) at June 30, 1972, \$688,516.27 (\$81,160.45 furniture and equipment and \$607,355.82 operating expenses) at June 30, 1971.

(b) Unfilled orders and incompleated portion of contracts for property repairs in the amount of \$20,443,515.21 at June 30, 1972 and \$13,142,723.23 for incompleated portion of contracts for property repairs at June 30, 1971

(c) Contingent liability with respect to pending lawsuits in the amount of \$621,923.00 at June 30, 1972 and \$249,532.75 at June 30, 1971

(d) Pending claims on properties and notes tendered by mortgagees but not accepted by FHA in the amount of \$93,746,757.84 at June 30, 1972 and \$33,692,598.39 at June 30, 1971

(e) Certificates of claim relating to properties and notes tendered by mortgagees but not accepted by FHA in the amount of \$575,788.45 at June 30, 1972 and \$505,377.98 at June 30, 1971.

(f) Certificates of claim relating to acquired security on hand of \$16,601,040.52 at June 30, 1972 and \$14,299,441.59 at June 30, 1971.

4 The amount shown as "Borrowings from U. S. Treasury" includes \$383,000,000 advanced to the General Insurance Fund and \$282,000,000 advanced to the Special Risk Insurance Fund

5 Residual of Reserves is equity of the Government upon the liquidation of all claims and settlement of contractual obligations

6. The maximum liability for outstanding FHA insurance contracts in force at June 30, 1972 and 1971 was

	<u>1972</u>	<u>1971</u>
Mortgage Insurance Programs	\$84,622,544,854	\$76,831,198,764
Modernization and Improvement Programs (Title I, section 2)	<u>394,878,127</u>	<u>383,185,914</u>
Total	<u>\$ 85,017,422,981</u>	<u>\$77,214,384,678</u>

7. The liabilities shown for the "Deposits held for mortgagors and lessees" is net of escrow advances by FHA in the amount of \$1,905,172.56 at June 30, 1972 and \$813,577.21 at June 30, 1971.
8. The employees' accrued annual leave account, amounting to \$10,958,871.20 at June 30, 1972, was transferred to the Administrative Operations Fund of the Department of Housing and Urban Development.

The FHA in special circumstances is indemnified against loss on certain insured mortgages and assigned mortgage notes up to \$842,403.53 at June 30, 1972 and \$901,579.77 at June 30, 1971.

APPENDIX

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

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

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