Analysis of Financial Statements

This section covers:

Analysis of Financial Position

Off-Balance-Sheet Risk

Analysis of Operations

Summarized Financial Data
(Dollars in Millions)

	1997	1996
Total Assets at End of FY	$108,458	$121,310
Total Liabilities at End of FY	38,624	38,882
Net Position at End of FY	69,834	82,428
Revenue and Financing Sources	36,730	37,056
Expenses	35,902	37,005
Excess of Revenues over Expenses	828	51
Commitments	110,679	131,367

Analysis of Financial Position

The most significant change to HUD's financial position during FY 1997 was a decrease in its assets of $12.9 billion. This decrease consisted primarily of a $17.1 billion decrease in the fund balance with Treasury and a $2.9 billion decrease in mortgage notes and loans, offset by a $6.2 billion increase in investments. Liabilities have largely remained unchanged since the end of FY 1996. The $12.6 billion decrease in net position was due primarily to the payment of commitments from unexpended appropriations, offset by the excess of revenue over expenses.

Fund Balance with Treasury

The $17.1 billion decrease in HUD's fund balance with Treasury was due to a $14.1 billion decrease relating to the Department's Section 8 program and a $3 billion decrease relating to FHA. The Section 8 decrease related to payments of contractual commitments in excess of FY 1997 appropriations received. This excess amount, totaling $9.5 billion, was funded from the beginning fund balance. An additional $3.7 billion, which represented excess Section 8 project reserves determined not necessary to fund future commitments, was returned to the Treasury.

The decrease in FHA's fund balance was due to investing a portion of its available fund balance during the year in U.S. government securities.

Investments

The net increase in investments during FY 1997 was due primarily to an excess of purchases over maturities of U.S. Treasury securities by FHA. During the year $13.2 billion of securities matured, and $18.6 billion were purchased. FHA was able to fund these additional purchases from operating cash flow, cash on hand, and from the proceeds of the matured securities.

GNMA also increased their investments in U.S securities by approximately $600 million, funded from operating cash flow.

Mortgage Notes and Loans Receivable

The decrease in mortgage notes and loans receivable of $2.9 billion is primarily attributable to the 4 asset sales held in FHA's single family, multi-family, and healthcare programs during the year. During FY 1996, Congress mandated that FHA discontinue the single family assignment program and develop a loss mitigation program to reduce defaults and related costs, and these sales were a part of that program.

Net Position

During FY 1997, HUD's net position decreased by $12.6 billion. This decline was attributable primarily to a decrease in unexpended appropriations of $14.1 billion and an excess of revenue over expenses of $828 million. The decrease in unexpended appropriations occurred primarily in the Section 8 program, and was due to the payment of commitments from appropriations received in prior years (the fund balance with Treasury decreased by the same amount, and for the same reason). Included in this decrease was the return to Treasury of $3.7 billion, representing accumulated Section 8 reserves not needed to fund commitments. This reduction in unexpended appropriations was offset by an excess of revenue over expenses of $828 million, which is discussed in greater detail below.

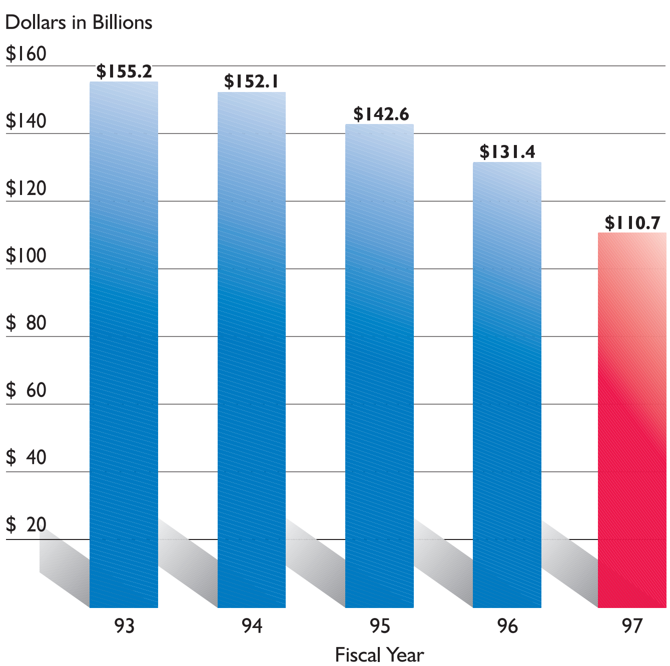
Off-Balance-Sheet Risk

Total off-balance-sheet risk consists of contractual commitments relating to the Department's grant, loan and subsidy programs, FHA's insurance of mortgages, and Ginnie Mae's guarantee of mortgage-backed securities.

Contractual Commitments

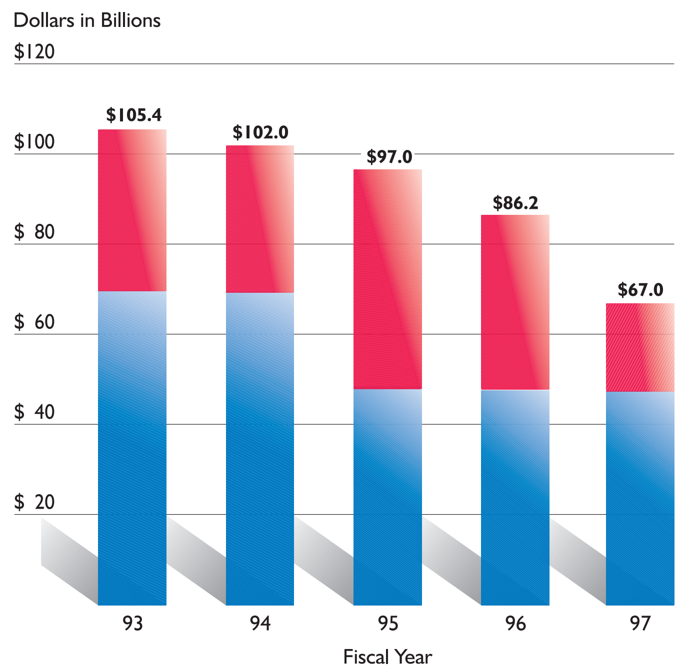
Contractual commitments of $111 billion at September 30, 1997, related to HUD's commitment to provide funds in future periods under existing contracts for its grant, loan and subsidy programs. Reservations of $8.3 billion related to specific projects for which funds will be provided upon execution of the related contract.

Commitments Under HUDs Grants, Subsidy, and Loan Programs



Total contractual commitments decreased by $20.7 billion during FY 1997. Most of this decrease, $19.2 billion, related to a decrease in Section 8 commitments funded from unexpended appropriations. This decrease consisted of the payment of $15.1 billion of commitments which "came due" during the year, and $7.7 billion in recaptured excess reserves. These recaptured reserves related to available budget authority for specific section 8 contracts which were determined to be in excess of future commitments under these contracts. The recapture of these amounts served to reduce the amount of contractual commitments. Of this recaptured amount, $3.7 billion was rescinded and returned to Treasury, and the balance was transferred to the Section 8 Reserve Preservation Account. These decreases in Section 8 commitments were offset by $1.8 billion in new contractual commitments.

Section 8 Commitments



	93	94	95	96	97
Unexpended Approp.	35.7	32.5	48.5	38.6	19.5
Permanent Indefinite Approp.	69.7	69.5	48.5	47.6	47.5

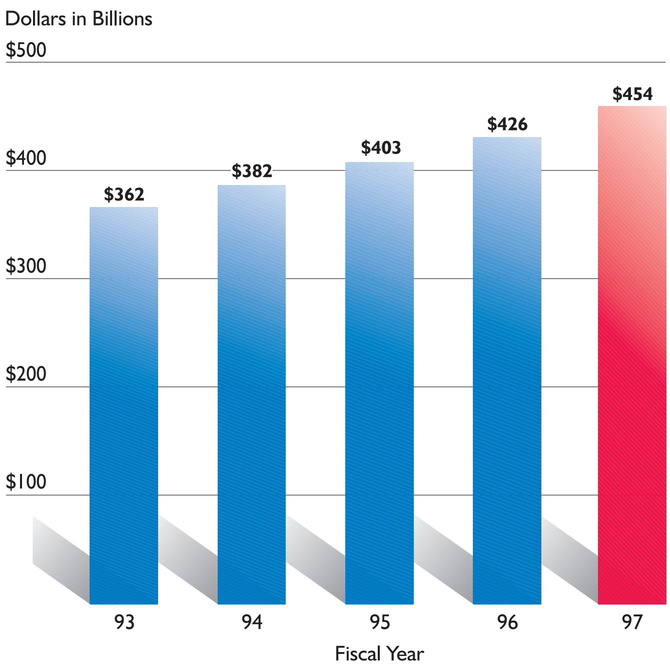
Funded From Permanent Indefinite Appropriations
Funded From Unexpended Appropriations

To contain the costs of future Section 8 contract renewals, the Department began converting all expiring contracts to 1-year terms during FY 1996. By changing to 1-year contract terms, HUD effectively reduced the annual budget authority neededfrom Congress to fund the subsidies while still maintaining the same number of contracts outstanding. Consequently, commitments under the Section 8 program to be funded from unexpended appropriations should continue to decline as commitments under the expiring multiyear contracts are disbursed and replaced by contractual commitments with significantly shorter terms.

FHA Insurance in Force

FHA's total insurance-in-force increased from $426 billion at the end of FY 1996 to $453.6 billion at the end of FY 1997. Most of this $27.6 billion increase was due to a $25.2 billion increase in single family insurance-in-force, which went from $370.3 billion in FY 1996 to $395.5 billion in FY 1997. A significant portion of the increase in FHA insurance-in-force was attributable to first-time homebuyers, since 76 percent of the FHA insured mortgages endorsed during the year were for these homebuyers.

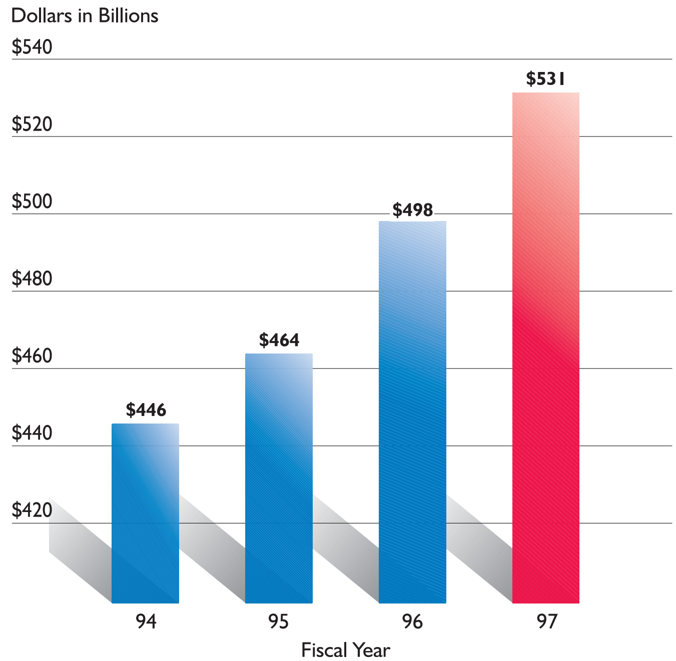
FHA Insurance In Force
as of September 30th



Ginnie Mae Guarantees

Ginnie Mae's financial instruments with off-balance-sheet risk include guarantees of mortgage-backed securities (MBS) and commitments to guarantee MBS. The total amount of Ginnie Mae-guaranteed securities outstanding at the end of FY 1997 was $531 billion, a $34 billion (7 percent) increase from the prior year. This increase, in both dollar amount and percentage, remained essentially the same for the second consecutive year.

GINNIE-MAE
Mortgage-Backed Securities
Outstanding at FY End



Outstanding MBS commitments as of the end of FY 1997 and FY 1996 were $31 billion and $33 billion, respectively. The FY 1997 ending balance represents a decline of $2 billion (7 percent) from the balance at the end of FY 1996.

A significant portion of Ginnie Mae's MBS is secured by pools of FHA-insured mortgages; therefore, a relatively large portion of the off-balance-sheet risk pertaining to Ginnie Mae also pertains to FHA. Accordingly, the FHA mortgage insurance underlying the MBS serves to reduce Ginnie Mae's potential exposure to losses incurred on the MBS through FHA's insurance reimbursements to Ginnie Mae.

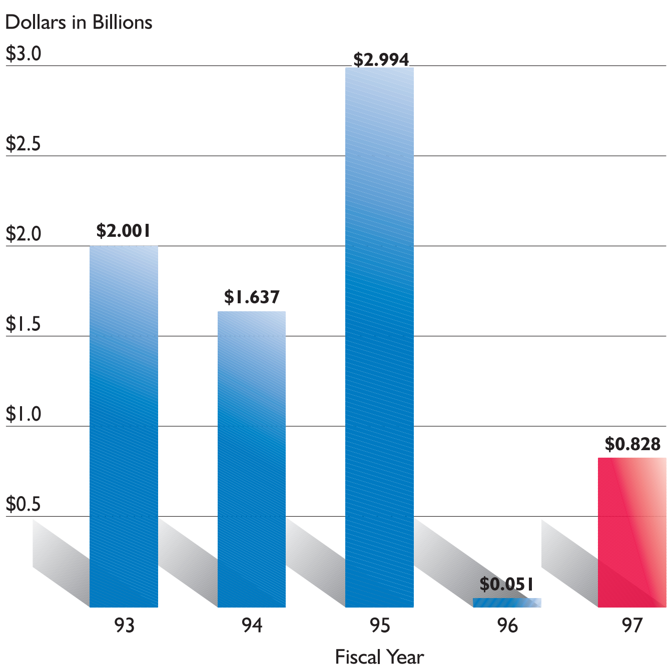
Analysis of Operations

The financial aspects of HUD's credit activities, which are carried out by FHA and Ginnie Mae, are concerned primarily with managing the risks on their mortgage guarantees (in the case of FHA) and mortgage-backed securities (in the case of Ginnie Mae). Financial operations of these entities can be affected by large unanticipated losses from defaults by borrowers and issuers, and by an inability to sell the underlying collateral for an amount sufficient to recover all costs incurred. In the case of FHA, there remains the additional emphasis on ensuring that the economic value of the MMI fund will equal or exceed the federally mandated 2.0 percent capital ratio requirement by the year 2000. An independent actuarial analysis of the economic net worth and soundness of FHA's MMI Fund shows the Fund's capital ratio advanced to 2.81 percent at the end of FY 1997, compared with 2.54 percent at the end of FY 1996. The study shows that FHA's projected capital ratio for the year 2000 is 3.21 percent, far exceeding the 2.0 percent Congressionally mandated ratio for the year 2000.

Excess of Revenues Over Expenses

During FY 1997, HUD's consolidated revenues exceeded the related expenses by $828 million.

Excess of Revenue Over Expenses



Ginnie Mae's net income was responsible for $601 million of this increase with the Department's Section 202/811 program adding another $259 million. FHA had a net loss for the year of $17 million, and HUD's other programs generated an excess of expenses over revenue of $15 million.

Ginnie Mae's net income of $601 million was $85 million higher (16.5 percent) than the net income of the prior fiscal year. This increase was attributable to its mortgage-backed securities income and interest income which totaled $672 million, or almost $63 million higher than the previous year, and a $23 million decrease in its provision for losses on mortgage-backed securities compared to the FY 1996 amount.

An excess of revenue over expenses relating to the Department's Section 202/811 program totaled $259 million for the year. Prior to FY 1992 this program provided long term loans to non-profit organizations sponsoring rental housing for the elderly and disabled (this program was subsequently converted to a grant program). As of the end of FY 1997, $8.2 billion of these loans were outstanding. The excess of revenue over expenses relating to this program was due to the interest income relating to these loans.

While FHA showed a net loss for the year of $17 million, this was a significant improvement over the prior year loss of $618 million. This improvement was attributable to an increase in FHA's revenue of $469 million and a decrease in its expenses of $132 million.

The revenue increase is due to the growth of FHA's insurance-in-force which generated an increase in its annual and earned up-front premiums, and also to an increase in interest and other income of $125 million.

While FHA's expenses decreased by 3.5 percent over the FY 1996 expenses, there were some significant changes within expense categories. The provisions for losses on properties held for sale and on mortgage notes and loans increased from the prior year amounts by $1.4 billion. However, these increases were offset by a significant reduction in the change in FHA's loss reserves. The FY 1997 reserve increased by $163 million, whereas the FY 1996 reserve increased by $1.9 billion. The large FY 1996 increase was attributable primarily to an increase in expected losses on projects receiving Section 8 subsidy payments, reduced by an increase in expected recoveries upon the ultimate resolution of default claims.