Analysis of Financial Position and Net Results of Operations

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This section covers:

Analysis of Financial Position

Analysis of Net Results of Operations

Analysis of Off-Balance-Sheet Risk

Summarized Financial Data (Dollars in Millions)

	1999	1998
Total Assets at Fiscal End	$107,870	$111,463
Total Liabilities at Fiscal End	$32,937	$35,157
Net Position at Fiscal End	$74,933	$76,306
Net Results of Operations	$5,961	$73
FHA Insurance-In-Force	$508,215	$475,236
Ginnie Mae MBS Guarantees	$569,600	$542,200
Non-FHA/Ginnie Mae Commitments	$96,913	$102,810

Analysis of Financial Position

The most significant change to HUD's financial position during fiscal 1999 was a decrease in its assets of $3.6 billion and a decrease in its liabilities of $2.2 billion. The decrease in assets was due primarily to a decrease in fund balance with Treasury, while the reduction in liabilities was attributable to a decrease in the liability for loan guarantees. These changes are discussed in greater detail below.

Assets

The $5.1 billion decrease in HUD's fund balance with Treasury related primarily to the Section 8 program. The Department has a significant amount of Section 8 commitments (amounts due under long-term contracts). The decrease in fund balance related to payments of contractual commitments in excess of fiscal 1999 appropriations received. This decrease was partially offset by an increase in investments. Investments increased due to additional amounts invested by FHA during the year in U.S. Government securities.

Liabilities

The decrease in liabilities during the year was due to a decrease in the liabilities for loan guarantees (LLG). LLG consists of two components: the LLG for post-1991 loan guarantees (which decreased during the year by $4.5 billion), and the loan loss reserve relating to pre-1992 loan guarantees (which increased during the year by $849 million).

The decrease in the post-1991 LLG was due to the reduction in single family LLG. This large reduction resulted primarily in the MMI fund as a result of policy changes and the revision of the LLG calculation, which was based on current credit data and economic conditions for fiscal 1999. The policy changes related to giving FHA's management and marketing contractors the responsibility for management and sale of Secretary-held properties included in the Department's inventory. In addition, legislation passed in 1998 allows FHA to accept note assignments.

The pre-1992 loan guarantee component of the LLG increased by $849 million. This increase was primarily attributed to expected future costs associated with the Department's Mark-to-Market program and its objective to reduce costs of over-subsidized Section 8 multifamily housing properties insured by FHA.

Net Position

HUD's net position decreased by $1.4 billion, consisting of a $7.4 billion decrease in unexpended appropriations and a $6 billion increase in cumulative results of operations. Unexpended appropriations decreased by $5.1 billion for the same reason that fund balance with Treasury decreased, and is explained above. Unexpended appropriations also decreased by $1.4 billion which represents the payment of appropriated funds in the FHA program account to the financing account for the fiscal 1997 upward re-estimate of subsidy costs relating to the MMI fund.

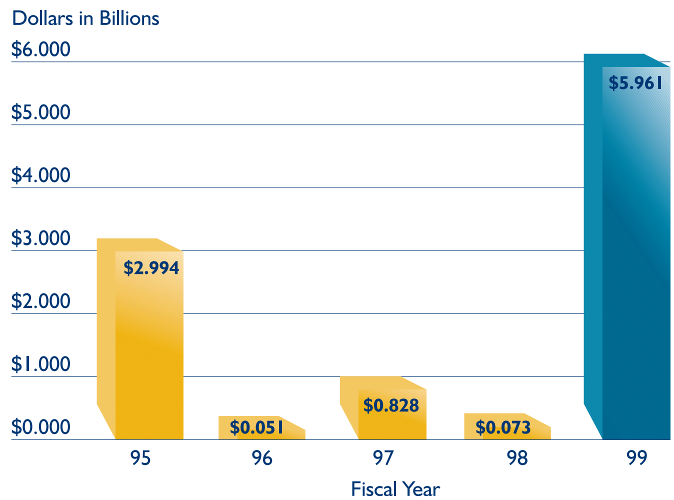
The $6 billion increase in cumulative results of operations is primarily due to the $5.6 billion net results of operations for fiscal 1999 generated by FHA and Ginnie Mae, and is discussed below.

Analysis of Net Results 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.

During fiscal 1999, HUD's consolidated net results of operations was $5.96 billion.

Net Results of Operations



FHA and Ginnie Mae generated net results of operations of $4.95 billion and $747 million, respectively.

FHA's net results of operations were significantly higher than the negative $706 million from the prior year. Most of this increase is attributable to the downward credit subsidy re-estimate of $2.4 billion, and the $3.0 billion negative subsidy generated by new endorsements in the MMI fund, which resulted in a reduction in expenses.

Ginnie Mae's net results of operations of $747 million was higher than the $674 million generated in the prior year. This increase was attributable to the combination of favorable mortgage market conditions and strong program management. The resulting increase in the outstanding MBS portfolio generated increased guaranty and commitment fee revenue.

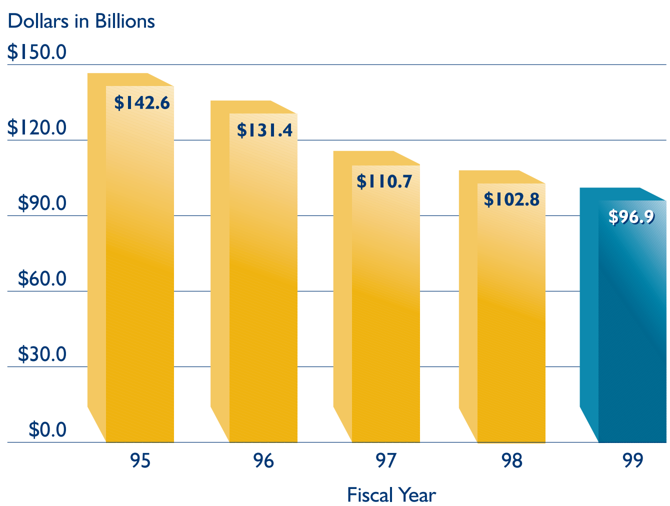
Analysis of Off-Balance-Sheet Risk

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

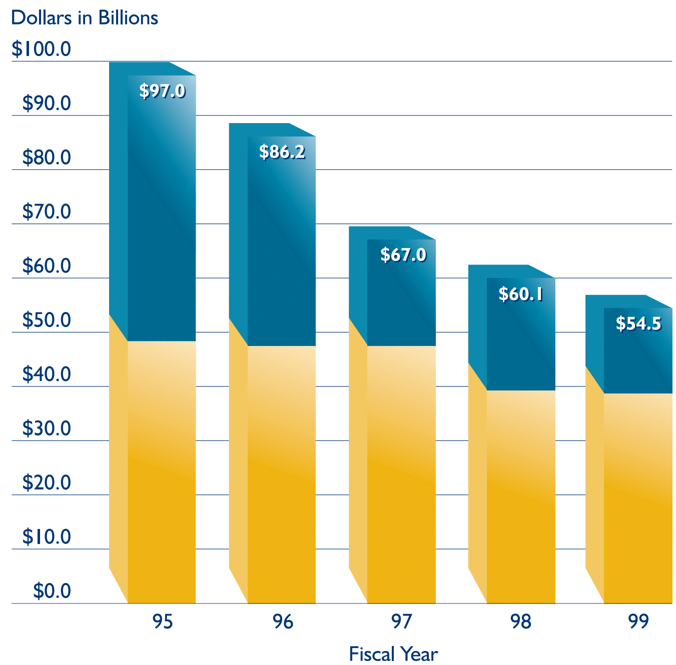
HUD contractual commitments of $96.9 billion at September 30, 1999 related to the Department's commitment to provide funds in future periods under existing contracts for its grant, loan, and subsidy programs. Reservations of $8.6 billion related to specific projects for which funds will be provided upon execution of the related contract.

Commitments Under HUDs Grants, Subsidy, and Loan Programs



Total contractual commitments decreased by $5.9 billion during fiscal 1999. Most of this decrease, $5.2 billion, related to a decrease in Section 8 commitments funded from unexpended appropriations.

Section 8 Commitments



	95	96	97	98	99
Unexpected Approp.	48.5	38.6	19.5	20.8	15.6
Permanent Indefinite Approp.	48.5	47.6	47.5	39.3	38.9

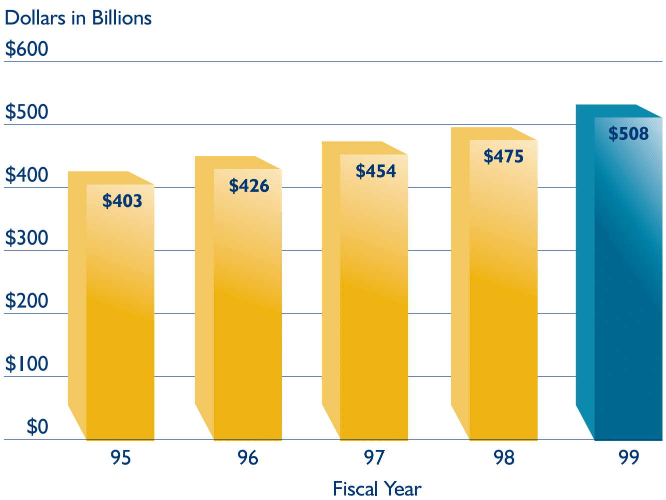
Funded From Permanent Indefinite Appropriations — Funded From Unexpected Appropriations

To contain the costs of future Section 8 contract renewals, the Department began converting all expiring contracts to 1-year terms during fiscal 1996. By changing to 1-year contract terms, HUD effectively reduced the annual budget authority needed from 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 continued to decline as commitments under the expiring multi-year contracts are disbursed and replaced by contractual commitments with significantly shorter terms.

FHA Insurance in Force

FHA's total insurance-in-force increased from $475.2 billion at the end of fiscal 1998 to $508.2 billion at the end of fiscal 1999. Most of this $33 billion increase was due to a $31 billion increase in the MMI fund (the MMI fund comprises 81 percent of FHA's total insurance-in-force).

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 Ginnie Mae guaranteed security is a pass-through security whereby mortgage principal and interest payments, except for servicing and guaranty fees, are passed through to the security holder.

The total amount of Ginnie Mae-guaranteed securities outstanding at the end of fiscal 1999 was $569.6 billion; however, the amount of potential loss is significantly less because the underlying mortgages serve as primary collateral and the FHA, RHS and VA insurance or guaranty indemnify Ginnie Mae for most losses. This amount represents an increase of $27.4 billion over the prior year.

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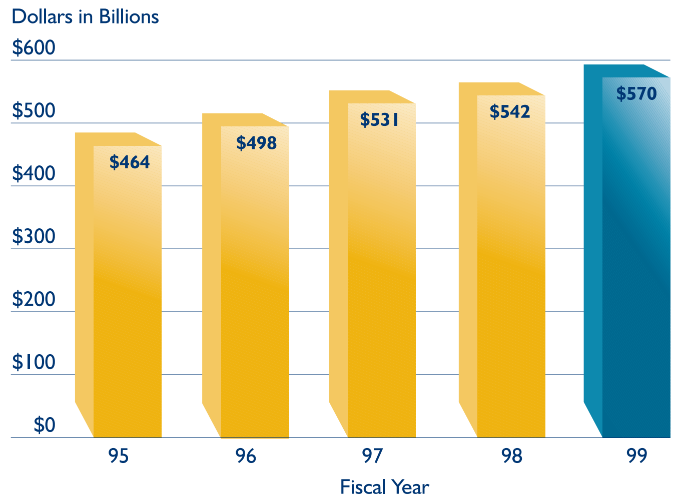
Mortgage-Backed Securities
Outstanding at Fiscal End



Outstanding MBS commitments as of the end of fiscal 1999 and fiscal 1998 were $58.8 billion and $22.2 billion, respectively.

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.