Analysis of Financial Position and Net Results of Operations

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)

	2000	1999
Total Assets at End of FY	$106,612	$107,931
Total Liabilities at End of FY	$32,113	$32,998
Net Position at End of FY	$74,499	$74,933
Net Results of Operations	$1,613	$4,698
FHA Insurance-In-Force	$544,601	$508,215
Ginnie Mae MBS Guarantees	$603,500	$569,600
Non-FHA/Ginnie Mae Commitments	$90,762	$96,913

Analysis of Financial Position

The most significant change to HUD's financial position during fiscal 2000 was a decrease in its assets of $1.3 billion and a decrease in its liabilities of $885 million. The decrease in assets was due primarily to a decrease in fund balance with Treasury and credit program receivables offset by an increase in investments in U.S. Government Securities. The reduction in liabilities was attributable to a decrease in intra-governmental debt offset by an increase in the liabilities for loan guarantees. These changes are discussed in greater detail below.

Assets

Fund Balance:

The $1.8 billion decrease in HUD's fund balance with Treasury was due to a $4.2 billion decrease relating to the Department's Section 8 program, a $1.2 billion increase relating to FHA, a $407 million increase relating to Ginnie Mae and an increase of $773 million relating to other HUD programs. 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 2000 appropriations received. In addition, the Section 8 program fund balance with Treasury decreased by a $2.2 billion rescission. The FHA increase in fund balance with Treasury was due to the sale of single family foreclosed properties and the receipt of single family premiums offset by the payment of single family claims.

Credit Program Receivables:

The $1.2 billion decrease in credit program receivables and related foreclosed property was primarily due to FHA's increase in sales of single family foreclosed properties and notes, in the MMI fund.

Investments in US Government Securities:

The $2.5 billion increase in investments was primarily due to additional amounts invested by FHA during the year in U.S. Government securities.

Liabilities

Debt:

The decrease in debt during the year was primarily due to a $804 million decrease in debt for Housing for the Elderly and Disabled (Section 202/811) resulting from a prepay of the FY 2001 principal payment and a $841 million decrease in FHA debt due to repayments in excess of borrowings for the year.

Liabilities for Loan Guarantees (LLG):

The offsetting $1.7 billion increase in the LLG consists of two components: the LLG for post-1991 loan guarantees (which increased during the year by $2.8 billion), and the loan loss reserve relating to pre-1992 loan guarantees (which decreased during the year by $1.1 billion).

The increase in the post-1991 LLG was largely due to the increase in single family LLG. This large increase resulted from policy changes in the disposition of properties. Projections about future claims and recoveries on properties in certain geographic regions also caused single family LLG to increase.

The decrease in the pre-1992 loan guarantee component of the LLG was significantly attributed to insurance-in-force in the liquidating account.

Net Position

HUD's net position decreased by $434 million, consisting of a $2.0 billion decrease in unexpended appropriations and a $1.6 billion increase in cumulative results of operations. Unexpended appropriations represents the accumulation of appropriated funds not yet disbursed, and can change as the fund balance with Treasury changes (and for the same reasons).

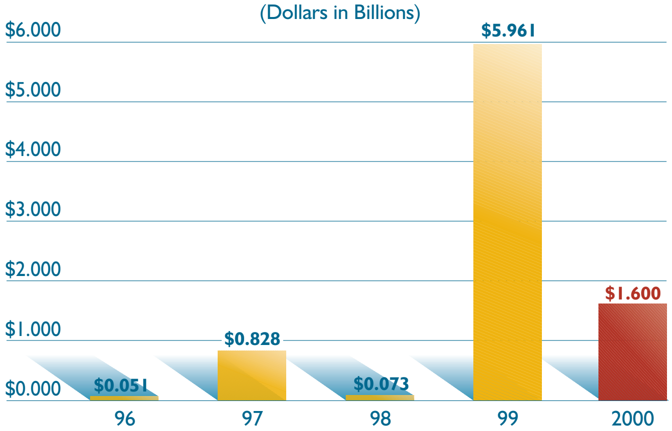
The $1.6 billion increase in cumulative results of operations is primarily due to the $1.4 billion net results of operations for fiscal 2000 generated by FHA and Ginnie Mae, and is discussed below.

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 2000, HUD's consolidated net results of operations was $1.6 billion.

Net Results of Operations
(Dollars in Billions)



FHA and Ginnie Mae generated net results of operations of $653 million and $763 million, respectively.

FHA's net results of operations were significantly lower than the $3.7 billion (as restated in fiscal 2000) from the prior year. Most of this decrease is attributable to the upward credit subsidy re-estimate of $3.9 billion, and the $1.9 billion negative subsidy generated by new endorsements.

Ginnie Mae's net results of operations of $763 million was higher than the $747 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.

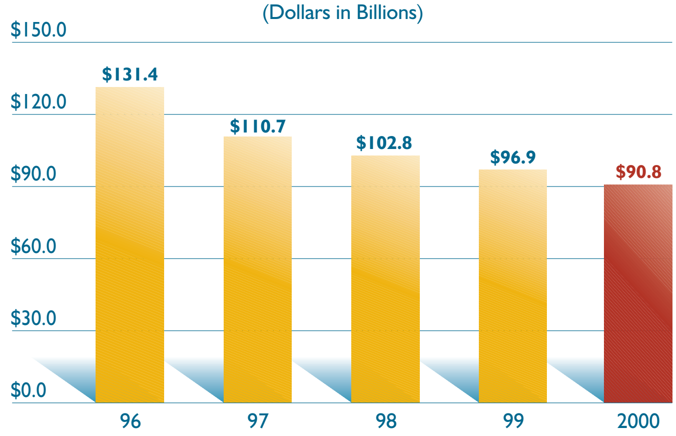
Analysis of Off-Balance-Sheet Risk

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.

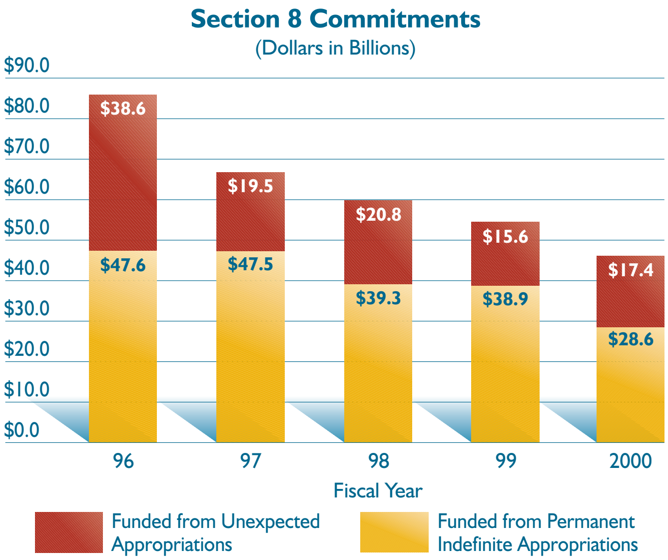
Contractual Commitments

HUD contractual commitments of $90.8 billion at September 30, 2000, related to the Department's commitment to provide funds in future periods under existing contracts for its grant, loan, and subsidy programs. Reservations (administrative commitments) of $6.5 billion related to specific projects for which funds will be provided upon execution of the related contract.

Commitments Under HUD's Grants, Subsidy, and Loan Programs
(Dollars in Billions)



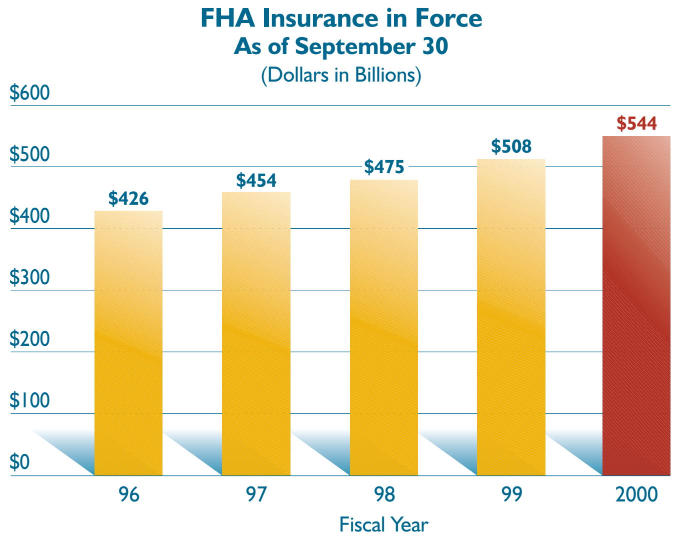
Total contractual commitments experienced a net decrease of $6.1 billion during fiscal 2000. The majority of this change is attributable to a net change of $8.5 billion in Section 8 Commitments, consisting of a decrease of $10.3 billion in Section 8 Commitments funded from permanent indefinite appropriations offset by a $1.8 billion increase in those funded by unexpended 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.

FHA Insurance in Force

FHA's total insurance-in-force increased from $508.2 billion at the end of fiscal 1999 to $544.6 billion at the end of fiscal 2000. Most of this $36.4 billion increase was due to a $38 billion increase in the MMI fund (the MMI fund comprises 83 percent of FHA's total insurance-in-force).



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 FY 2000 was $603.5 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 $33.9 billion over the prior year.

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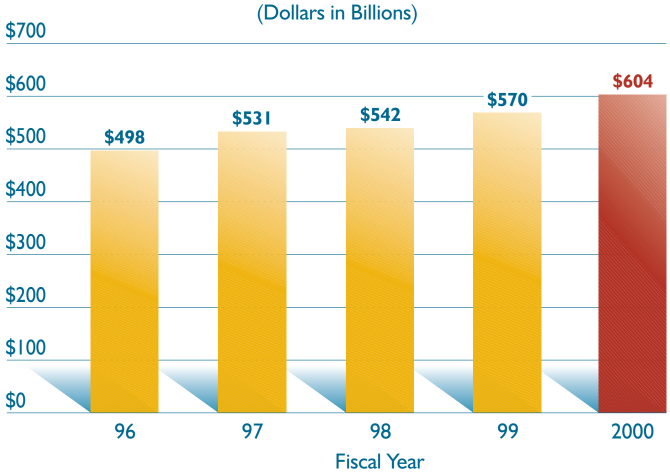
Mortgage-Backed Securities
Outstanding at FY End
(Dollars in Billions)



Outstanding MBS commitments as of the end of fiscal 2000 were $36.4 billion.

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.