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REPORT TO THE CONGRESS

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Examination Of Financial Statements Of The Government National Mortgage Association For Fiscal Year 1972

B-114828

Department of Housing and Urban Development

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

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FEB. 23, 1973



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-114828

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

This is our report on our examination of the financial
statements of the Government National Mortgage Association,
Department of Housing and Urban Development, for fiscal
year 1972.

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

Copies of this report are being sent to the Director,
Office of Management and Budget; the Secretary of the Treas-
ury; the Secretary of Housing and Urban Development; and
the President, Government National Mortgage Association.

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

Comptroller General
of the United States

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ABBREVIATIONS

FHA Federal Housing Administration
FNMA Federal National Mortgage Association
GAO General Accounting Office
GNMA Government National Mortgage Association
HUD Department of Housing and Urban Development
VA Veterans Administration

D I G E S T

WHY THE EXAMINATION WAS MADE

The Government Corporation Control Act requires the General Accounting Office (GAO) to examine the financial statements of the Government National Mortgage Association (GNMA) and of the trusts for which it is trustee.

Background

GNMA, Department of Housing and Urban Development, is a Government-owned corporation. It was created in September 1968 through the division of the Federal National Mortgage Association (FNMA) into two corporations. FNMA became a Government-sponsored private corporation and retained its function of buying and selling mortgages made by private lenders. GNMA took over all other mortgage programs previously conducted by FNMA.

OPINION ON FINANCIAL STATEMENTS

In GAO's opinion:

1. The financial statements present fairly the financial position of GNMA at June 30, 1972, and the results of its operations and the sources and application of its funds for the 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.

2. The financial statements of GNMA as trustee for the Government Mortgage Liquidation Trust, the Federal Assets Liquidation Trust, and the Federal Assets Financing Trust present fairly the financial position of the trusts at June 30, 1972, and the results of their operations and the sources and application of their funds for the 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

GNMA is involved in several programs to stimulate mortgage lending and home building. Through these programs GNMA

- provides special assistance for financing mortgages,
- manages and liquidates federally owned mortgages,
- guarantees mortgage-backed securities, and
- acts as trustee for three trusts. (See p. 3.)

The major GNMA activities during fiscal year 1972 were under the special assistance functions tandem plan programs and the mortgage-backed securities guaranty program. Under the tandem plan, GNMA aided in financing mortgages on properties which provided approximately 361,000 living units.

This was accomplished through issuing commitments to purchase over \$7.1 billion of mortgages insured by the Federal Housing Administration or guaranteed by the Veterans Administration. The cost to GNMA was \$55.2 million. (See pp. 4 and 5.)

Under the mortgage-backed securities guaranty program, GNMA had outstanding guarantees of \$4.5 billion and

\$2.2 billion at June 30, 1972. (See pp. 5 and 6.)

GNMA does not receive appropriated funds but instead borrows funds from the Treasury to carry out its operations. (See p. 3.)

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 law, to disclose the results of the annual audit of GNMA's financial statements.

CHAPTER 1

INTRODUCTION

The Government National Mortgage Association (GNMA), Department of Housing and Urban Development (HUD), is a Government-owned corporation. It was created in September 1968 through the division of the Federal National Mortgage Association (FNMA) into two corporations. FNMA became a Government-sponsored private corporation and retained its function of buying and selling mortgages made by private lenders, which are insured by the Federal Housing Administration (FHA) or guaranteed by the Veterans Administration (VA). GNMA took over all other mortgage programs previously conducted by FNMA with the objective of stimulating mortgage lending and home building. GNMA (1) provides special assistance for financing mortgages, (2) manages and liquidates federally owned mortgages, (3) guarantees mortgage-backed securities, and (4) acts as trustee for three trusts.

GNMA does not receive appropriated funds but instead has borrowing authority from the Treasury. The June 30, 1972, balance of notes payable to the Treasury was \$3.8 billion, \$3.1 billion for GNMA's special assistance functions and \$0.7 billion for its management and liquidating functions.

Congress does limit the amount that GNMA can expend for administrative expenses each fiscal year. Administrative expenses for the fiscal year were within the limit. FNMA provides most of the administrative services for GNMA under a reimbursable agreement.

The Secretary of HUD directs the administration of GNMA and determines general operating policies. The Secretary appoints the President and other executive officers. The principal officers of GNMA are: Woodward Kingman, President; Richard C. Dyas, Executive Vice President; John L. Burke, Vice President-Fiscal Management; Albert J. Fulner, Jr., Secretary-Treasurer; and Raymond J. Seitz, Controller.

CHAPTER 2

GNMA OPERATIONS

GNMA is involved in several mortgage and housing programs. When established, GNMA assumed responsibility for FNMA's special assistance and management and liquidating functions. In addition, GNMA developed and implemented a mortgage-backed security program providing new sources of funds to finance housing construction and developed and implemented tandem plan programs with FNMA assistance.

SPECIAL ASSISTANCE FUNCTIONS

Under these functions GNMA purchases selected types of home mortgages originated under special housing programs. These programs are designed to provide acceptable housing for people unable to obtain housing under other home-financing programs and home mortgages in general. The mortgage purchases are categorized as below-market-interest-rate housing, tandem plan programs, and miscellaneous programs.

During the fiscal year GNMA borrowed \$819 million from the Treasury to aid in financing its special assistance functions. At the close of the fiscal year, borrowings totaled \$3.1 billion--an increase of about \$500 million from the June 30, 1971, balance.

For the fiscal year these functions incurred a \$125.3 million loss. This was attributable largely to the difference between interest paid the Treasury on borrowings and interest earned on below-market-interest-rate mortgages and to the expense incurred in tandem plan programs.

Tandem plan programs

Tandem plan programs are GNMA's most active programs under its special assistance functions. The purpose of the programs is to enable the Government to support and stimulate the financing of housing with a minimum purchase of mortgages. These programs provide favorable financing for multifamily projects and insure reasonable prices for mortgages on federally assisted single-family units.

GNMA enters into commitments to purchase mortgages insured by FHA or guaranteed by VA at higher than market prices. Then, working with other investors, GNMA sells the mortgages or mortgage commitments at prevailing market prices. GNMA absorbs any differences between the market prices and the purchase prices.

Through issuing commitments to purchase over \$7.1 billion of mortgages, GNMA aided in financing mortgages on properties which provided approximately 361,000 living units during the fiscal year. The cost to GNMA was \$55.2 million.

MANAGEMENT AND LIQUIDATING FUNCTIONS

GNMA manages and liquidates federally owned mortgage portfolios with a minimum adverse effect on the home mortgage market and the economy. GNMA may purchase, service, or sell any obligations offered by any Federal agency. Under this authority GNMA manages and liquidates mortgages originally owned by the dissolved Reconstruction Finance Corporation and by HUD. The balance of these mortgages at June 30, 1972, was \$779 million--a decrease of about \$300 million from the balance at June 30, 1971.

Funds needed to carry out the management and liquidating functions were obtained mainly from the Treasury and from liquidating mortgages. The June 30, 1972, amount payable to the Treasury was \$681 million, a decrease of about \$268 million from the balance at June 30, 1971.

MORTGAGE-BACKED SECURITIES GUARANTY PROGRAM

The mortgage-backed securities guaranty program is a means of channeling new capital, such as pension funds, into mortgage financing. GNMA guarantees, for a fee, mortgage-backed securities issued to the public by approved issuers. The securities are backed by pools of mortgages consisting of mortgages (1) insured by FHA, (2) guaranteed by VA, or (3) guaranteed by the Farmers Home Administration, Department of Agriculture.

The issuers administer the mortgage pools backing the securities, collect principal and interest on the mortgages, and make payments to the security owners. Should the issuers default in making the obligated payments to the security owners, GNMA may make the payments and take title to the mortgages backing the securities. There have been no defaults through fiscal year 1972.

Pass-through securities

Securities on which principal and interest are paid monthly to the security owners are designated as pass-through. At June 30, 1972, GNMA's guaranty on these pass-through securities amounted to \$4,512 million. The principal of mortgages in the pools backing these securities and the collections held on deposit at June 30, 1972, were \$4,531 million.

During fiscal year 1972 GNMA made approximately 100 reviews of the records maintained by issuers and their mortgage document custodians relative to the pass-through securities. In addition, GNMA considers the FHA insurance and VA guaranty of the mortgages backing the securities as providing sufficient resources to support and safeguard its guaranty, if necessary.

Bond-type securities

On bond-type securities, interest is paid semiannually and principal is paid at maturity. FNMA and the Federal Home Loan Mortgage Corporation have issued bond-type securities. At June 30, 1972, GNMA's guaranty on bond-type securities amounted to \$2.2 billion. The principal of mortgages and the other assets deposited in trust accounts as collateral backing these securities were \$2.3 billion.

CHAPTER 3

TRUSTEE OPERATIONS

In 1968 GNMA assumed responsibility from FNMA for managing the assets and liabilities of four trusts and succeeded FNMA as the guarantor of payments on the participation certificates the trusts issue. Three trusts are currently active: the Government Mortgage Liquidation Trust, the Federal Assets Liquidation Trust, and the Federal Assets Financing Trust. The Small Business Obligations Trust matured in fiscal year 1971.

The agencies participating with GNMA as trustors in the three trusts are the (1) Farmers Home Administration, (2) Department of Health, Education, and Welfare, (3) HUD, (4) VA, and (5) the Small Business Administration.

These participating agencies conveyed title to certain mortgages to the trusts but retained control and administration of these mortgages. Then FNMA, the original trustee, issued and sold to private investors participation certificates backed by these mortgages. The agencies used the proceeds from these sales to reduce funds borrowed from the Treasury and to reduce the use of Government funds for their programs. The certificates outstanding at June 30, 1972, totaled \$4.9 billion.

GNMA, as trustee, receives from the trustor agencies the principal and interest collected on the mortgages, less the service charges made by the agencies. These funds are used to pay interest on the participation certificates, to pay trust expenses, and to retire participation certificates at maturity. If these funds are not adequate, GNMA requests additional funds from the trustor agencies. Funds are available to the trustor agencies under the Independent Offices Appropriation Act, 1967 (80 Stat. 683).

In the Government Mortgage Liquidation Trust, five issues of participation certificates, totaling \$1.8 billion, have been sold since the trust was established; the last issue was dated June 23, 1966. Certificates totaling \$1.1 billion were outstanding at June 30, 1972. Collections received during the fiscal year were sufficient to cover interest due on the certificates.

The Federal Assets Liquidation Trust sold four issues of participation certificates, totaling \$3.2 billion, since it was established; the last issue was dated April 8, 1968.

At June 30, 1972, certificates outstanding totaled \$1.4 billion. During fiscal year 1972 collections on mortgages backing the certificates were insufficient to cover the interest due on the certificates and GNMA, as trustee, obtained \$21.7 million from the trustors.

In the Federal Assets Financing Trust, four issues of participation certificates, totaling \$4.3 billion, have been sold since the trust was established; the last issue was dated August 12, 1968. At June 30, 1972, certificates outstanding totaled \$2.5 billion. Because fiscal year 1972 collections on mortgages backing the certificates were insufficient to cover the interest due on the certificates, GNMA obtained \$47.3 million from the trustors.

CHAPTER 4

SCOPE OF EXAMINATION

We examined the GNMA comparative statement of financial condition at June 30, 1972 and 1971; the comparative statement of income, expense, and retained earnings for the fiscal years ended June 30, 1972 and 1971; and the statement of sources and application of funds for the fiscal year ended June 30, 1972. The statements are presented on a combined basis and separately for the special assistance functions, the management and liquidating functions, and the mortgage-backed securities guaranty program.

We also examined financial statements of GNMA as trustee for the Government Mortgage Liquidation Trust, the Federal Assets Liquidation Trust, and the Federal Assets Financing Trust. These statements include the statement of financial condition at June 30, 1972; the statement of income and expense for the fiscal year ended June 30, 1972; and the statement of sources and application of funds for the fiscal year ended June 30, 1972.

We made our examination in accordance with generally accepted auditing standards and included such tests of the accounting records and such auditing procedures as we considered necessary in view of the effectiveness of the system of internal control. Our examination was conducted principally at GNMA, Washington, D.C., and at FNMA's Dallas, Texas, and Los Angeles, California, regional offices.

CHAPTER 5

OPINION ON FINANCIAL STATEMENTS

Schedules 1 through 3 are GNMA statements. GNMA made certain minor revisions to its fiscal year 1971 statements to conform with its fiscal year 1972 presentation. In our opinion, these statements present fairly the financial position of GNMA at June 30, 1972, and the results of its operations and the sources and application of its funds for the 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.

The financial statements of GNMA as trustee for the Government Mortgage Liquidation Trust, the Federal Assets Liquidation Trust, and the Federal Assets Financing Trust are presented as schedule 4. In our opinion, these statements present fairly the financial position of the trusts at June 30, 1972, and the results of their operations and the sources and application of their funds for the 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.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION
COMPARATIVE STATEMENT OF FINANCIAL CONDITION
AT JUNE 30, 1972 AND 1971

	Combined		Special Assistance Functions		Management and Liquidating Functions		Mortgage Backed Securities Program	
	6/30/72	6/30/71	6/30/72	6/30/71	6/30/72	6/30/71	6/30/72	6/30/71
(In thousands)								
<u>Assets</u>								
PHA-insured and VA-guaranteed mortgages at cost	\$ 5,181,337	\$ 5,228,450	\$ 3,861,913	\$ 3,547,010	\$ 1,319,424	\$ 1,681,440	\$	\$
Less principal subject to participation sales trust	1,591,009	1,728,389	1,025,269	1,093,128	565,740	635,261		
	3,590,328	3,500,061	2,836,644	2,453,882	753,684	1,046,179		
Other mortgage loans - unpaid principal	25,046	31,770			25,046	31,770		
	3,615,374	3,531,831	2,836,644	2,453,882	778,730	1,077,949		
Equity in participation sales trusts	410,023	382,062	312,854	292,272	97,169	89,790		
Participation in construction loan advances	5,973	2,097	5,973	2,097				
Accrued interest receivable	15,901	13,595	12,200	8,822	3,701	4,773		
Accrued guaranty fees receivable	240	142					240	142
Other receivables	8,429	4,514	640	224	7,789	4,290		
Inter-program receivable	3,692	5,642		5,623	3,692	19		
Assets acquired through liquidation and claims in process against FHA and VA (net of allowance for losses)	15,573	13,284	8,690	8,506	6,883	4,778		
Property held for sale	21	34		16	21	18		
Cash	195	344	98	103	95	100	2	141
FHA debentures - principal and accrued interest	407	2,621	407	2,621				
Investments at cost plus unmatured net earnings	3,462	654					3,462	654
Deferred charges	1,822	2,157	970	1,170	852	987		
Total assets	\$ 4,081,112	\$ 3,958,977	\$ 3,178,476	\$ 2,775,336	\$ 898,932	\$ 1,182,704	\$ 3,704	\$ 937
<u>Liabilities</u>								
Accrued interest payable to U. S. Treasury	\$ 108,643	\$ 103,051	\$ 88,709	\$ 77,004	\$ 19,934	\$ 26,047	\$	\$
Accounts payable	19,704	16,104	8,370	7,004	11,323	9,100	11	
Inter-program payable	3,692	5,642	3,690			5,623	2	19
Accrued service charges	647	593	320	196	327	397		
Trust and deposit liabilities	88,204	97,556	60,565	66,988	27,639	30,568		
Commitment contract deposits	5,725		5,725					
Accrued tandem point allowances payable	6,734	2,191	6,734	2,191				
Deferred credits	11,245	19,227			11,245	19,227		
Employees' accrued annual leave		78				78		
Total liabilities	244,594	244,442	174,113	153,383	70,468	91,040	13	19
<u>Investment of the U.S. Government</u>								
Notes payable to the U. S. Treasury	3,781,390	3,551,694	3,100,010	2,601,934	681,380	949,760		
Retained earnings or (deficit)	39,448	156,762	(111,327)	13,940	147,084	141,904	3,691	918
Appropriations for Participation Sales Fund insufficiencies	15,680	6,079	15,680	6,079				
Total investment	3,836,518	3,714,535	3,004,363	2,621,953	828,464	1,091,664	3,691	918
Total liabilities and investment	\$ 4,081,112	\$ 3,958,977	\$ 3,178,476	\$ 2,775,336	\$ 898,932	\$ 1,182,704	\$ 3,704	\$ 937

The notes following schedule 4 are an integral part of this schedule.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION

COMPARATIVE STATEMENT OF INCOME, EXPENSE, AND RETAINED EARNINGS
FOR THE FISCAL YEARS ENDED JUNE 30, 1972 AND 1971

Income	Combined		Special Assistance Functions		Management and Liquidating Functions		Mortgage Backed Securities Program	
	6/30/72	6/30/71	6/30/72	6/30/71	6/30/72	6/30/71	6/30/72	6/30/71
	(in thousands)							
Interest	\$ 154,619	\$ 161,479	\$ 94,808	\$ 90,351	\$ 59,811	\$ 71,128	\$	\$
Commitment fees	2,515	5,325	2,515	5,324		1		
Purchase and marketing fees	86	226	86	226				
Purchase discounts realized	6,658	2,509	3,459	193	3,199	2,316		
Fees under Mortgage Backed Securities Program	3,081	1,260					3,081	1,260
Income from investments	121	4					121	4
Other	1,719	783	545	246	1,165	536	9	1
	<u>168,799</u>	<u>171,586</u>	<u>101,413</u>	<u>96,340</u>	<u>64,175</u>	<u>73,981</u>	<u>3,211</u>	<u>1,265</u>
Expense								
Interest on notes to the U. S. Treasury	226,241	209,904	174,528	158,708	51,713	59,196		
Tandem plan discount costs - net	55,226	2,887	55,226	2,887				
Fees for servicing mortgages	6,938	8,129	2,583	2,648	4,355	5,481		
Provision for losses on foreclosures	1,213	789	759	364	454	425		
Administrative	6,568	4,287	4,169	2,545	1,976	1,427	423	315
Security issuance expense	13						13	
Loss from sale of mortgages	8,249				8,249			
Other	811	385	10	4	799	381	2	
	<u>305,259</u>	<u>226,381</u>	<u>237,275</u>	<u>159,156</u>	<u>67,546</u>	<u>66,910</u>	<u>438</u>	<u>315</u>
Earnings or (loss) from operations	(136,460)	(54,795)	(135,862)	(62,816)	(3,371)	7,071	2,773	950
Gain or (loss) from operation of Participation Sales Trusts	11,650	(977)	10,981	2,940	669	(3,917)		
Amortization of deferred commission expense on sale of assets through Government Obligations Participation Sales Trusts	(335)	(657)	(200)	(373)	(135)	(284)		
Realization of deferred credit acquired from RFC (Reorg. Plan No. 2, 1954)	2,238	927			2,238	927		
Realization of reserve for contingencies on mortgages acquired from Secretary of Housing & Urban Development	5,745				5,745			
Terminated reserve for employees' accrued annual leave	78				78			
FNMA functional services expense applicable to prior years	(231)		(186)		(45)			
Net earnings or (loss)	<u>\$ (117,315)</u>	<u>\$ (55,502)</u>	<u>\$ (125,267)</u>	<u>\$ (60,249)</u>	<u>\$ 5,179</u>	<u>\$ 3,797</u>	<u>\$ 2,773</u>	<u>\$ 950</u>
Retained earnings or (deficit) at beginning of year	\$ 156,762	\$ 212,264	\$ 13,940	\$ 74,189	\$ 141,904	\$ 138,107	\$ 918	\$ (32)
Net earnings or (loss) for twelve months' period	<u>(117,315)</u>	<u>(55,502)</u>	<u>(125,267)</u>	<u>(60,249)</u>	<u>5,179</u>	<u>3,797</u>	<u>2,773</u>	<u>950</u>
Retained earnings or (deficit) at end of year	<u>\$ 39,447</u>	<u>\$ 156,762</u>	<u>\$ (111,327)</u>	<u>\$ 13,940</u>	<u>\$ 147,083</u>	<u>\$ 141,904</u>	<u>\$ 3,691</u>	<u>\$ 910</u>

The notes following schedule 4 are an integral part of this schedule.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION

STATEMENT OF SOURCES AND APPLICATION OF FUNDS
FOR FISCAL YEAR ENDED JUNE 30, 1972

	Combined	Special Assistance Functions	Management and Liquidating Functions	Mortgage Backed Securities Program
(in thousands)				
Funds provided				
Mortgage liquidations	\$ 501,975	\$ 204,693	\$ 297,282	\$
Appropriations for participation certificate insufficiencies	9,601	9,601		
Income	168,799	101,413	64,175	3,211
Borrowings from the U. S. Treasury	1,080,540	819,100	261,440	
Adjustments applicable to prior year:				
Realization of deferred credit	2,239		2,239	
Realization of reserve for contingencies on mortgages acquired from Secretary of Housing & Urban Development	5,745		5,745	
Terminated reserve for annual leave	78		78	
	<u>\$ 1,768,977</u>	<u>\$ 1,134,807</u>	<u>\$ 630,959</u>	<u>\$ 3,211</u>
Funds applied				
Purchase of mortgages	\$ 587,756	\$ 587,455	\$ 301	\$
Expense	305,259	237,275	67,546	438
Loss or (gain) on trust operations	(11,315)	(10,781)	(534)	
Repayment of borrowings to the U. S. Treasury	850,844	321,024	529,820	
Investments at cost plus unmatured net earnings	2,809			2,809
Net change in other assets and liabilities	33,393	(352)	33,781	(36)
Adjustment applicable to prior year: FNMA functional services expense	231	186	45	
	<u>\$ 1,768,977</u>	<u>\$ 1,134,807</u>	<u>\$ 630,959</u>	<u>\$ 3,211</u>

The notes following schedule 4 are an integral part of this schedule.

SCHEDULE 4

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION

Trustee for Government Obligations Participation Sales Trusts

	Combined Trusts	Government Mortgage Liquidation Trust	Federal Assets Liquidation Trust	Federal Assets Financing Trust
(in thousands)				
STATEMENT OF FINANCIAL CONDITION AT JUNE 30, 1972				
Assets				
Obligations subject to trust:				
Principal	\$ 5,023,736	\$ 1,362,529	\$ 1,407,495	\$ 2,253,712
Accrued interest receivable-net	53,913	4,182	18,394	31,337
Total subject to trust	<u>5,077,649</u>	<u>1,366,711</u>	<u>1,425,889</u>	<u>2,285,049</u>
Collections due from trustors	58,334	16,478	19,947	21,909
Investments at cost plus unmaturred net earnings	705,978	409,430	27,214	269,334
Cash	13	3	1	9
	<u>\$ 5,841,974</u>	<u>\$ 1,792,622</u>	<u>\$ 1,473,051</u>	<u>\$ 2,576,301</u>
Liabilities				
Participation certificates (note 1):				
Principal	\$ 4,920,000	\$ 1,100,000	\$ 1,355,000	\$ 2,465,000
Accrued interest payable	88,403	12,747	26,562	49,094
Total due certificate holders	<u>5,008,403</u>	<u>1,112,747</u>	<u>1,381,562</u>	<u>2,514,094</u>
Accounts payable	28	19	5	4
Trustors' subordinated reversionary interest	833,543	679,856	91,484	62,203
	<u>\$ 5,841,974</u>	<u>\$ 1,792,622</u>	<u>\$ 1,473,051</u>	<u>\$ 2,576,301</u>

STATEMENT OF INCOME AND EXPENSE FOR FISCAL YEAR ENDED JUNE 30, 1972

Income				
Interest earned on obligations subject to trust - net of allowances for servicing expenses	\$ 244,815	\$ 69,031	\$ 70,614	\$ 105,170
Investment income	<u>50,567</u>	<u>22,002</u>	<u>18,778</u>	<u>9,787</u>
	<u>295,382</u>	<u>91,033</u>	<u>89,392</u>	<u>114,957</u>
Expense				
Interest on participation certificates	322,824	55,769	113,738	153,317
Administration	<u>389</u>	<u>143</u>	<u>119</u>	<u>127</u>
	<u>323,213</u>	<u>55,912</u>	<u>113,857</u>	<u>153,444</u>
Net income or (loss) from operations	(27,831)	35,121	(24,465)	(38,487)
Interest deficiencies assumed by trustors	<u>68,957</u>	<u> </u>	<u>21,703</u>	<u>47,254</u>
Net allocation to trustors	<u>\$ 41,126</u>	<u>\$ 35,121</u>	<u>\$ (2,762)</u>	<u>\$ 8,767</u>

STATEMENT OF SOURCES AND APPLICATION OF FUNDS FOR FISCAL YEAR ENDED JUNE 30, 1972

	Increases	Decreases	Increases	Decreases	Increases	Decreases	Increases	Decreases
Obligations subject to trust:								
Principal	\$ 848,300	\$	\$ 138,662	\$	\$ 530,046	\$	\$ 179,592	\$
Accrued interest receivable-net	10,188			583	7,687		3,084	
Collections due from trustors	4,864			123	3,561		1,426	
Investments at cost plus unmaturred net earnings	193,675			61,708	448,644			193,261
Retirement of participation certificates		1,085,000		110,000		975,000		
Accrued interest payable		13,577		1,379		12,198		
Miscellaneous accounts payable		11		1		7		5
Net income or loss from operations		27,831	35,121		24,465		38,487	
Interest deficiencies assumed by trustors	<u>68,957</u>				<u>21,703</u>		<u>47,254</u>	
	<u>1,125,984</u>	<u>1,126,419</u>	<u>173,784</u>	<u>173,793</u>	<u>1,011,641</u>	<u>1,011,670</u>	<u>231,356</u>	<u>231,753</u>
Net change in cash balance		<u>435</u>		<u>9</u>		<u>29</u>		<u>397</u>
	<u>\$ 1,125,984</u>	<u>\$ 1,125,984</u>	<u>\$ 173,784</u>	<u>\$ 173,784</u>	<u>\$ 1,011,641</u>	<u>\$ 1,011,641</u>	<u>\$ 231,356</u>	<u>\$ 231,356</u>

Note 1: The Congress has authorized appropriations to provide additional funds, if necessary, to meet interest and principal requirements of the participation certificates of the Federal Assets Liquidation Trust and the Federal Assets Financing Trust

The notes following schedule 4 are an integral part of this schedule.

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NOTES TO THE FINANCIAL STATEMENTS

GENERAL

The combined statements of financial condition; income, expense, and retained earnings; and sources and application of funds exclude the activity of GNMA as trustee for the Government obligations participation sales trusts, for which data is furnished in schedule 4. As trustee GNMA has legal title to all trust assets. Additionally, by virtue of a separate guaranty in its regular corporate capacity, GNMA is contingently liable for the timely payment of principal and interest due the trust beneficiaries. The extent of trust liabilities is reflected in schedule 4. With respect to the Federal Assets Liquidation Trust and the Federal Assets Financing Trust, the Congress has authorized appropriations to meet trust obligations, as may be necessary. The trustor Federal agencies having control and administration of the obligations subject to the trusts have provided much of the financial data in schedule 4.

CONTINGENT LIABILITY AS GUARANTOR OF MORTGAGE-BACKED SECURITIES

GNMA is contingently liable for about \$6.7 billion pursuant to its guaranty of timely payment of principal and interest to holders of mortgage-backed securities. These securities are issued by financial organizations and are based upon, and backed by, pools of FHA-insured and VA-guaranteed mortgage loans.

TRUST AND DEPOSIT LIABILITIES (sch. 1)

The balances identified as trust and deposit liabilities include only the portion of mortgage tax and insurance payment deposits held directly by GNMA. GNMA is also responsible for payments by servicing contractors of taxes and insurance from mortgagors' funds held in escrow in banks insured by the Federal Deposit Insurance Corporation: \$25,812,889 at June 30, 1972, and \$25,649,562 at June 30, 1971.

UNPAID PRINCIPAL OF MORTGAGE LOANS (sch. 1)

The amounts reported for FHA-insured and VA-guaranteed mortgage loans, including loans subject to the participation sales trusts, are reported at cost on the basis of unpaid principal less unamortized purchase discount and other participation equities. Following are the amounts of unpaid principal due from the mortgage debtors:

Combined	\$5,191,634,587
Special assistance functions	3,872,211,155
Management and liquidating functions	1,319,423,432

COMMITMENTS TO PURCHASE MORTGAGE
LOANS AT FUTURE DELIVERY DATES (sch. 1)

In addition to the mortgage principal presently included in the accounts, GNMA has advance commitments to purchase mortgage principal totaling \$719 million, including commitments subject to tandem arrangements.

TANDEM PLAN (sch. 2)

As a means of holding down the cash outlays needed for a direct purchasing program, GNMA has developed a so-called tandem plan, which provides for paying differentials between required investment yield prices and prices appropriate for meeting housing and economic stability goals. GNMA issues advance commitments to purchase mortgages. To the extent possible, GNMA then transfers these commitments to private investors for completion of the mortgage financing transactions, making such transfers at prices based upon market requirements for mortgage investment yields. When the mortgage transactions are completed, GNMA pays to the transferee-investor the difference between the advance commitment purchase price and the agreed-upon transfer price. When GNMA is unable to dispose of an advance commitment before delivery of the final mortgage loan, GNMA completes the purchase at the commitment price and places the mortgage loan for sale at auction. Tandem plan commitments totaled \$7,143,709,437 in fiscal year 1972. Accrued tandem plan expenses were \$55,226,164.

Copies of this report are available from the U. S. General Accounting Office, Room 6417, 441 G Street, N W., Washington, D.C., 20548.

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