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REPORT TO THE CONGRESS

LM097024

Examination Of Financial Statements Of The Government National Mortgage Association For Fiscal Year 1974

Department of Housing and Urban Development

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

FOD-75-17

MAY 23, 1975

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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 report summarizes the results of our examination of the financial statements of the Government National Mortgage Association, Department of Housing and Urban Development, for fiscal year 1974.

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

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of the Treasury; the Secretary of Housing and Urban Development; and the President, Government National Mortgage Association.

Elmer B. Staats
Comptroller General
of the United States

Contents

ABBREVIATIONS

FHA	Federal Housing Administration
FNMA	Federal National Mortgage Association
GAO	General Accounting Office
RFC	Reconstruction Finance Corporation
VA	Veterans Administration

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

EXAMINATION OF FINANCIAL STATEMENTS OF THE GOVERNMENT NATIONAL MORTGAGE ASSOCIATION FOR FISCAL YEAR 1974
Department of Housing and Urban Development

D I G E S T

WHY THE EXAMINATION WAS MADE

The Government Corporation Control Act requires the Comptroller General to audit the financial statements of the Government National Mortgage Association and of the trusts for which it is trustee.

OPINION ON FINANCIAL STATEMENTS

In GAO's opinion:

1. The financial statements present fairly the financial position of the Association at June 30, 1974 and 1973, the results of its operations for the years then ended, and the changes in financial position for the year ended June 30, 1974, in conformity with principles and standards of accounting prescribed by the Comptroller General of the United States.

2. The Association's financial statements 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, 1974, and the results of their operations and the changes in financial position for the year then ended, in conformity with principles and standards of accounting prescribed by the Comptroller General of the United States.

OTHER MATTERS OF INTEREST

The Association is involved in several programs to stimulate mortgage lending and home building. Through these programs it

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--provides special assistance for financing mortgages,

--manages and liquidates federally owned mortgages,

--guarantees mortgage-backed securities, and

--acts as trustee for three trusts.

The Associations major activities during fiscal year 1974 were under the special assistance functions tandem plans and the mortgage-backed securities guaranty program.

Under special assistance functions tandem plans, the Association issued commitments to purchase $3 billion in mortgages. Costs to the Association for the tandem plans increased to $210 million in fiscal year 1974 from $52 million in fiscal year 1973. (See p. 4.)

Under the mortgage-backed securities guaranty program, the Association had $12.9 billion in outstanding guarantees at June 30, 1974--$10.4 billion on pass-through securities and $2.5 billion on bond-type securities. (See p. 7.)

The Association does not receive appropriated funds but instead borrows funds from the U.S. Treasury to carry out its operations. The amount outstanding at June 30, 1974, was $3,133 million. (See p. 1.)

RECOMMENDATION

This report contains no recommendations.

MATTERS FOR CONSIDERATION BY THE CONGRESS

This report, required by law, disclosed the results of GAO's audit of the Association's financial statements.

CHAPTER 1

INTRODUCTION

The Government National Mortgage Association, Department of Housing and Urban Development, is a Government-owned corporation created by the Congress in 1968. The Association (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. These activities are discussed in subsequent chapters of this report.

The Association does not receive appropriated funds but instead borrows from the U.S. Treasury. The June 30, 1974, balance of notes payable to the Treasury was $3,133 million--$3,058 million for special assistance functions and $75 million for management and liquidating functions.

The Secretary of Housing and Urban Development directs the administration of the Association and determines general operating policies. The Secretary appoints the President and other executive officers. The principal officials of the Association during fiscal year 1974 are listed in the appendix.

The Emergency Home Purchase Assistance Act of 1974 (Public Law 93-449, Oct. 18, 1974) authorizes the Association to purchase and make commitments to purchase mortgages not to exceed $7.75 billion at any one time. To alleviate the national shortage of mortgage credit, the law expands the Association's mortgage purchase program by allowing the Association to purchase conventionally financed home mortgages, including individual units of condominiums and cooperatives. Previously, the Assoication was authorized to purchase only mortgages insured by the Federal Housing Administration (FHA) or guaranteed by the Veterans Administration (VA). By mid-fiscal year 1975, the Association had issued commitments to purchase $3 billion of mortgages under this authority.

STATUS OF PRIOR YEAR'S RECOMMENDATION

In our report for the preceding fiscal year, we recommended that, unless the language of the appropriation act is changed, the president of the Association budget for and seek a dollar limitation on administrative expenses that is large enough to cover only the Association's operating expenses, such as salaries and overhead. Expected costs for contractual services (for example, services obtained from FNMA) should not be included in the amount of the limitation, but shown as a separate item in the budget presentation. Our recommendation was accepted and, beginning in 1976, the cost of contractual services provided by FNMA will no longer be included under the limitation, but will be included within the individual accounts receiving such services.

CHAPTER 2

SPECIAL ASSISTANCE FUNCTIONS

The Association's special assistance functions are to support the financing of housing for those unable to attain housing under established home-financing programs. When authorized by the President or the Congress, the Association buys selected types of mortgages insured by FHA or guaranteed by VA from mortgage lenders thereby providing them with cash for relending. The Association then sells the mortgages to mortgage investors.

MORGAGE ACTIVITY

At June 30, 1974, the Association had $3.2 billion invested in mortgages purchased under this program, of which about $880 million of mortgages was assigned to the trusts administered by the Association as trustee. (See ch. 4.) The average interest rate for mortgages on hand at June 30, 1974, was 3.99 percent--a decrease from 4.06 percent at June 30, 1973.

As shown in the graph on the following page, the dollars invested in mortgages continued to decrease from a previous high of $3.9 billion at the end of fiscal year 1972.

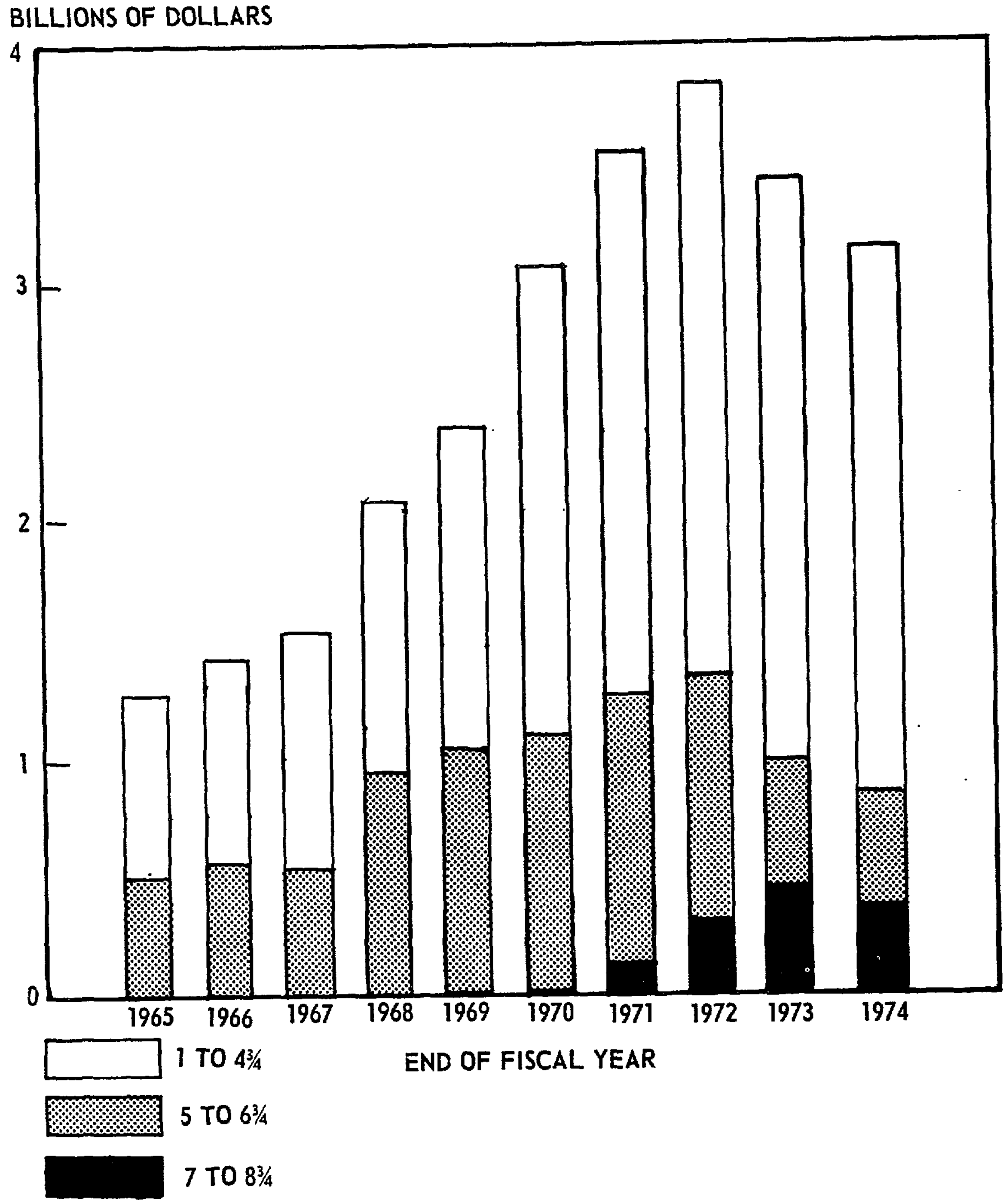
Mortgages with interest rates from 7 to 8-3/4 percent accounted for 46 percent of the 1974 reduction, from 1 to 4-3/4 percent accounted for 41 percent, and from 5 to 6-3/4 percent accounted for the remaining 13 percent.

The Association's holdings in mortgages is financed primarily by borrowing from the Treasury. At June 30, 1974, notes payable to the Treasury were $3,058 million--an increase of $86 million over the previous year. The average interest rate on these notes increased in fiscal year 1974 to 6.46 percent from the previous year's 6.27 percent. The notes mature on varying dates from July 1, 1974, to July 1, 1978.

OPERATIONS

In conducting its special assistance functions, the Association incurred an operating loss of $306 million for fiscal year 1974. (See sch. 2.) The loss was attributable largely to (1) the difference between the average interest rate of 6.46 percent paid on funds borrowed from the Treasury and the average interest rate of 3.99 percent earned on mortgages in the portfolio and (2) the costs of 210 million .

SPECIAL ASSISTANCE FUNCTION MORTGAGES BY INTEREST RATES



incurred in tandem plan financing. Most all the mortgages purchased and sold during fiscal year 1974 were done so under tandem plans.

Under tandem plans the Association supports and stimulates the financing of housing without massive cash outlays required by direct mortgage purchasing programs. To provide an outlet for qualified mortgages insured by FHA or guaranteed by VA, the Association purchases the mortgages at higher than market prices and then sells them to investors at prevailing market prices, absorbing the difference between market prices and purchase prices as a subsidy. Tandem plan costs, which were principally the subsidy, amounted to $210 million for fiscal year 1974 compared with $52 million for fiscal year 1973. Because of the continued high tandem plan costs, special assistance operations are expected to result in losses estimated by the Association at $390 million in 1975.

The following table shows the number and amount of foreclosures for fiscal years 1974 and 1973 and the portfolios at fiscal yearend. Except for relatively nominal amounts, the Association does not suffer any loss on foreclosures since the mortgages are insured by FHA or guaranteed by VA.

	Fiscal year 1974 (note a)				Fiscal year 1973 (note a)			
	Foreclosures		Portfolio		Foreclosures		Portfolio	
Unit	Number	Amount	Number	Amount	Number	Amount	Number	Amount
		(millions)		(millions)		(millions)		(millions)
FHA single-family	1,288	$ 21	51,084	$ 516	1,037	$ 16	65,723	$ 760
VA single-family	134	2	24,364	248	79	1	25,167	241
FHA multifamily	88	135	1,492	2,416	94	165	1,499	2,401
	1,510	$158	76,940	$3,180	1,210	$182	92,389	$3,402

a/ Includes mortgages assigned to the trusts.

CHAPTER 3

MANAGEMENT AND LIQUIDATING FUNCTIONS

The Association is responsible for managing and liquidating federally owned mortgages with a minimum adverse effect on the home mortgage market and a minimum loss to the Government. These mortgages were originally owned by the dissolved Reconstruction Finance Corporation (RFC) and by the Department of Housing and Urban Development.

Liquidation of the mortgages is accomplished through regular principal repayments, by sales of mortgages to private investors, and by prepayments and foreclosures. The Association did not purchase any mortgages under this program during fiscal years 1974 or 1973. In fiscal year 1974 its liquidations were $10.7 million, its net earnings were $2.7 million (see sch. 2), and its repayments to the Treasury were $5.3 million more than its borrowings.

The following table shows the number and amount of foreclosures for fiscal years 1974 and 1973 and the portfolios at fiscal yearend. Most all the mortgages are insured by FHA or guaranteed by VA.

	Fiscal year 1974 (note a)				Fiscal year 1973 (note a)			
	Foreclosures		Portfolio		Foreclosures		Portfolio	
Unit	Number	Amount	Number	Amount	Number	Amount	Number	Amount
		(millions)		(millions)		(millions)		(millions)
FHA single-family	548	$5	48,223	$296	1,200	$11	53,551	$333
VA single-family	18	-	32,828	72	20	-	42,558	94
FHA multifamily	1	2	61	57	-	-	64	64
Other	2	-	1,776	11	2	-	1,964	13
	569	$7	82,888	$436	1,222	$11	98,137	$504

a/ Includes mortgages assigned to the trusts.

CHAPTER 4

MORTGAGE-BACKED SECURITIES GUARANTY PROGRAM

The mortgage-backed securities guaranty program is a means of channeling new capital into mortgage financing. The Association guarantees, for a fee, mortgage-backed pass-through and bond-type securities issued to the public by approved issuers. The securities are backed by pools of mortgages controlled by the issuers of the securities. The mortgages are insured by FHA or guaranteed by VA.

PASS-THROUGH SECURITIES

Securities on which principal and interest are paid monthly to the security owners are designated "pass-through." 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 required monthly payments, the Association will take such steps as are required or deemed necessary to fulfill the terms of the guaranty agreement. The Association considers the FHA insurance and VA guaranty of the mortgages as providing sufficient resources to support and safeguard its guaranty. No issuers have defaulted in making the required monthly payments.

During fiscal year 1974, $4.1 billion in securities were issued, an increase of $1.6 billion over the previous year. The securities outstanding at June 30, 1974, totaled $10.4 billion and, according to Association records, were fully backed by mortgages in the pools and collections held on deposit.

Issuers are required to furnish monthly financial reports to the Association that include data on their payments of principal and interest to security holders. The Association reviews the reports and makes site visits on a selected basis to issuers and to the custodians of mortgage documents to review their records and provide them with guidance.

BOND-TYPE SECURITIES

On bond-type securities, interest is paid semiannually and principal is paid at maturity, which is generally 2 to 25 years after issue. The Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation have issued securities of this type. However, in fiscal year 1974 no securities were issued, as compared with $1.04 billion in securities issued in the previous year.

Securities outstanding at June 30, 1974, totaled $2.5 billion and, according to FNMA and Federal Home Loan Mortgage Corporation records, were fully backed by mortgages in the pools and other assets in trust accounts.

CHAPTER 5

TRUSTEE OPERATIONS

The Association manages the assets and liabilities of three trusts and is the guarantor of payments on the participation certificates the trusts issued. The three trusts are: the Government Mortgage Liquidation Trust, the Federal Assets Liquidation Trust, and the Federal Assets Finnancing Trust.

The agencies participating with the Association as trustors in one or more of the three trusts are (1) the Farmers Home Administration, (2) the Department of Health, Education, and Welfare, (3) the Department of Housing and Urban Development, (4) VA, and (5) the Small Business Administration.

These participating agencies conveyed title to assets (mortgages and housing-related debt instruments) to the three trusts for which the Association is trustee; however, the agencies retained control and administration of these assets. Then the trustee issued and sold to private investors participation certificates backed by these assets. The last sales were in 1968. 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. Certificates outstanding at June 30, 1974, totaled $4.3 billion.

The Association, as trustee, receives from the trustor agencies the principal and interest collected on the assets, less the agencies' service charges. These funds are used to pay interest on the participation certificates, pay trust expenses, and retire participation certificates at maturity. If these funds are not adequate, the Association request additional funds from the trustor agencies. Specific appropriations are available to the trustor agencies for payment of participation sales insufficiencies.

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 sold in 1966. Certificates totaling $880 million were outstanding at June 30, 1974. The certificates mature at various times through 1981. Collections received during the fiscal year were sufficient to cover interest due on the certificates.

In the Federal assets Liquidation Trust, four issues of participation certificates, totaling $3.2 billion, have been sold since it was established; the last issue was sold in

1968. At June 30, 1974, certificates outstanding totaled $1 billion. The certificates mature at various times through 1987. Because net interest earned on the assets and cash deposits held for the trustors were less than the interest expense accruing on the certificates, additional contributions of $9 million were made to the trust by the trustors in fiscal year 1974.

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 sold in 1968. The certificates mature at various times through 1988. At June 30, 1974, certificates outstanding totaled $2.4 billion. Because net interest earned on the assets and cash deposits held for the trustors were less than the in terest expense accruing on the certificates, additional contributions of $32 million were made to the trust by the trustors in fiscal year 1974.

CHAPTER 6

SCOPE OF EXAMINATION AND

OPINION ON FINANCIAL STATEMENTS

SCOPE OF EXAMINATION

We examined the Association's comparative statement of financial condition; its comparative statement of income, expense, and retained earnings; and its statement of changes in financial position. 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 the Association's financial statements as trustee for the Government Mortgage Liquidation Trust, the Federal Assets Liquidation Trust, and the Federal Assets Financing Trust. These statements are the statement of financial condition, the statement of income and expense, and the statement of changes in financial position.

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 at the Association offices in Washington, D.C. We also observed and tested the work of the FNMA audit staff in their review of Association accounts at the FNMA regional office in Philadelphia and at FNMA's office in Washington, D.C. In addition, we examined records of the Federal Home Loan Mortgage Corporation in Washington, D.C., as they pertained to mortgage-backed securities guaranteed by the Association. Furthermore, we reviewed reports issued by the Department of Housing and Urban Development's Office of the Inspector General relating to the Association.

OPINION ON FINANCIAL STATEMENTS

In our opinion, the accompanying financial statements (sch. 1 through 3) present fairly the financial position of the Association at June 30, 1974 and 1973, the results of its operations for the years then ended, and the changes in its financial position for the year ended June 30, 1974, in conformity with principles and standards of accounting prescribed by the Comptroller General of the United States.

The Association's financial statements 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, the statements on schedule 4 present fairly the financial position of the trusts at June 30, 1974, and the results of their operations and the changes in financial position for the year then ended, in conformity with principles and standards of accounting prescribed by the Comptroller General of the United States.

SCHEDULE 1

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION

COMPARATIVE STATEMENT OF FINANCIAL CONDITION
AT JUNE 30, 1974 AND 1973

	Combined		Special Assistance Functions		Management and Liquidating Functions		Mortgage-Backed Securities Program	
	6/30/74	6/30/73	6/30/74	6/30/73	6/30/74	6/30/73	6/30/74	6/30/73
	(in thousands)							
Assets								
Mortgages less unamortized discount	$ 3,598,265	$ 3,885,011	$ 3,168,096	$ 3,387,385	$ 430,169	$ 497,626	$	$
Less mortgages subject to participation sales trusts	1,235,259	1,345,998	879,922	933,862	355,337	412,136		
	2,363,006	2,539,013	2,288,174	2,453,523	74,832	85,490		
Equity in trusts	416,574	426,176	317,921	324,656	98,653	101,520		
Accrued interest receivable	9,176	12,976	8,759	11,981	417	995		
Other receivables	8,596	56,472	212	49,680	7,738	6,442	646	350
Claims against FHA and VA (net of allowance for losses)	41,410	20,591	39,982	17,870	1,428	2,721		
Cash	247	219	79	103	143	109	25	7
Federal securities at cost plus accrued interest	19,422	8,176	1,785		1,860		15,777	8,176
Deferred charges	1,320	1,560	671	811	649	749		
Total assets	$ 2,859,751	$ 3,065,183	$ 2,657,583	$ 2,858,624	$ 185,720	$ 198,026	$ 16,448	$ 8,533
Liabilities								
Accrued interest payable to U. S. Treasury	$ 94,740	$ 88,934	$ 92,442	$ 86,525	$ 2,298	$ 2,409	$	$
Trust and deposit liabilities	72,387	74,981	61,322	60,261	11,065	14,720		
Accounts payable	26,144	28,827	21,274	18,219	4,658	10,582	212	26
Total liabilities	193,271	192,742	175,038	165,005	18,021	27,711	212	26
Investment of the U.S. Government								
Notes payable to U. S. Treasury	3,133,335	3,052,635	3,058,435	2,972,415	74,900	80,220		
Retained earnings or (deficit)	(501,050)	(205,845)	(610,085)	(304,447)	92,799	90,095	16,236	8,507
Appropriations for Trust Fund insufficiencies	34,195	25,651	34,195	25,651				
Total investment	2,666,480	2,872,441	2,482,545	2,693,619	167,699	170,315	16,236	8,507
Total liabilities and investment	$ 2,859,751	$ 3,065,183	$ 2,657,583	$ 2,858,624	$ 185,720	$ 198,026	$ 16,448	$ 8,533

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

SCHEDULE 2

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION

COMPARATIVE STATEMENT OF INCOME, EXPENSE, AND RETAINED EARNINGS
FOR THE FISCAL YEARS ENDED JUNE 30, 1974 AND 1973

	Combined		Special Assistance Functions		Management and Liquidating Functions		Mortgage-Backed Securities Program	
	6/30/74	6/30/73	6/30/74	6/30/73	6/30/74	6/30/73	6/30/74	6/30/73
	(in thousands)							
Income								
Interest and discount on mortgages	$ 115,853	$ 164,952	$ 109,583	$ 122,036	$ 6,270	$ 42,916	$	$
Fees:								
Mortgage-backed securities	7,870	4,986					7,870	4,986
Commitment	1,051	1,834	1,051	1,807		27		
Purchase and marketing	27	285	27	285				
Income from investments	814	340					814	340
Other	1,835	1,316	1,787	1,252	48	62		2
	127,450	173,713	112,448	125,380	6,318	43,005	8,684	5,328
Expense								
Interest on notes payable to U. S. Treasury	212,956	236,159	208,218	202,608	4,738	33,551		
Tandem plan costs:								
Subsidized	147,966	51,122	147,966	51,122				
Unsubsidized	62,246	1,195	62,246	1,195				
Loss from sale of mortgages		133,819		62,746		71,073		
Fees for servicing mortgages	2,600	6,775	2,278	3,586	322	3,189		
Administrative	6,657	6,000	5,291	4,115	790	1,405	576	480
MBS guaranty costs	378						378	
Provision for possible losses		24						24
Other	20	22	2	9	18	4		9
	432,823	435,116	426,001	325,381	5,868	109,222	954	513
Earnings or (loss) from operations	(305,373)	(261,403)	(313,553)	(200,001)	450	(66,217)	7,730	4,815
Gain or (loss) from trust operations	10,086	2,408	7,962	4,295	2,124	(1,887)		
Realization of deferred credit acquired from RFC		11,245				11,245		
Adjustments affecting prior years	83	2,457	(47)	2,586	130	(129)		
Net earnings or (loss)	(295,204)	(245,293)	(305,638)	(193,120)	2,704	(56,988)	7,730	4,815
Retained earnings or (deficit) at beginning of year	(205,846)	39,447	(304,447)	(111,327)	90,095	147,083	8,506	3,691
Retained earnings or (deficit) at end of year	$ (501,050)	$ (205,846)	$ (610,085)	$ (304,447)	$ 92,799	$ 90,095	$ 16,236	$ 8,506

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

 SCHEDULE 3

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR FISCAL YEAR ENDED JUNE 30, 1974

	Combined	Special Assistance Functions	Management and Liquidating Functions	Mortgage-Backed Securities Program
	(in thousands)			
Funds Provided				
Mortgage liquidations	$ 1,718,081	$ 1,707,424	$ 10,657	$
Appropriations for Trust Fund insufficiencies	8,544	8,544		
Income	127,450	112,448	6,318	8,684
Borrowings from the U.S. Treasury	1,174,270	1,165,350	8,920	
Adjustments applicable to prior year:				
Reversal of sales discounts on repurchased mortgage loans	151		151	
	$ 3,028,496	$ 2,993,766	$ 26.046	$ 8,684
Funds Applied				
Mortgages purchased	$ 1,542,075	$ 1,542,075	$	$
Expense	432,823	426,001	5,868	954
Loss or (gain) on trust operations	(10,086)	(7,962)	(2,124)	
Repayment of borrowings to the U. S. Treasury	1,093,570	1,079,330	14,240	
Investments at cost plus unmatured net earnings	7,601			7,601
Net change in other assets and liabilities	(37,555)	(45,725)	8,041	129
Adjustment applicable to prior year: FNMA services expense	68	47	21	
	$ 3,028,496	$ 2,993,766	$ 26,046	$ 8,684

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

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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, 1974				
Assets				
Obligations subject to trust:				
Principal	$3,869,519	$1,096,138	$ 914,785	$1,858,596
Accrued interest receivable - net	31,271	2,962	9,631	18,678
Total subject to trust	3,900,790	1,099,100	924,416	1,877,274
Collections due from trustors	24,761	-0-	11,195	13,566
Investments at cost plus unmatured net earnings	1,117,452	319,704	186,268	611,480
Cash	23	16	5	2
	$5,043,026	$1,418,820	$1,121,884	$2,502,322
Liabilities				
Participation certificates:				
Principal	$4,295,635	$ 880,000	$1,025,000	$2,390,635
Accrued interest payable	79,063	9,989	21,713	47,361
Total due certificate holders	4,374,698	889,989	1,046,713	2,437,996
Accounts payable	29	18	5	6
Trustors' equity	668,299	528,813	75,166	64,320
	$5,043,026	$1,418,820	$1,121,884	$2,502,322

STATEMENT OF INCOME AND EXPENSE FOR FISCAL YEAR ENDED JUNE 30, 1974

	Combined Trusts	Government Mortgage Liquidation Trust	Federal Assets Liquidation Trust	Federal Assets Financing Trust
Income				
Interest earned on obligations subject to trust - net of allowance for servicing expense	$ 164,621	$ 53,848	$ 37,928	$ 72,845
Investment income	66,187	22,354	9,335	34,498
	230,808	76,202	47,263	107,343
EXPENSE				
Interest on participation certificates	$ 247,307	$ 45,444	$ 53,100	$ 148,763
Administration	358	133	78	147
	247,665	45,577	53,178	148,910
Net income or (loss) from operations	(16,857)	30,625	(5,915)	(41,567)
Interest contributions by trustors	40,986	-0-	9,258	31,728
Interest retained by trustors	(57,422)	(53,823)	(3,400)	(199)
Net allocation to trustors	$ (33,293)	$ (23,198)	$ (57)	$ (10,038)

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR FISCAL YEAR ENDED JUNE 30, 1974

	Combined Trusts Provided	Combined Trusts Applied	Government Mortgage Liquidation Trust Provided	Government Mortgage Liquidation Trust Applied	Federal Assets Liquidation Trust Provided	Federal Assets Liquidation Trust Applied	Federal Assets Financing Trust Provided	Federal Assets Financing Trust Applied
Obligations subject to trust:								
Principal	$381,526		$117,698		$105,827		$158,001	
Accrued interest receivable-net	11,513			$ 25	2,192		9,346	
Collections due from trustors	14,833		4,001		2,018		8,814	
Investments		$190,877	83,613			$105,792		$168,698
Retirement of participation certificates		110,000		110,000				
Accrued interest payable		1,379		1,379				
Miscellaneous accounts payable			2			2		
Net income or loss from operations		16,857	30,625			5,915		41,567
Additional principal contributed or retained by trustors		72,306		70,698		4,185	2,577	
Additional interest contributed or retained by trustors		16,437		53,823	5,858		31,528	
Net change in cash balance		16		14		1		1
	$407,872	$407,872	$235,939	$235,939	$115,895	$115,895	$210,266	$210,266

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 changes in financial position exclude the activity of the Association as trustee for the Government obligations participation sales trusts, for which data is furnished in schedule 4. As trustee, the Association has legal title to all trust assets. Additionally, by virtue of a separate guaranty in its regular corporate capacity, the Association 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.

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

The Association is contingently liable for about $12.9 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 the Association. It 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: $14,166,484 at June 30, 1974, and $15,133,916 at June 30, 1973.

UNPAID PRINCIPAL OF MORTGAGE LOANS (sch. 1)

The amounts reported for mortgage loans, including loans subject to the participation sales trusts, are reported at cost on the basis of unpaid principal less unamortized purchase discount, participation equities, and deferred tandem plan discounts. Following are the amounts of unpaid principal due to the Association from the mortgage debtors:

Combined	$3,616,327,135
Special assistance functions	3,180,156,189
Management and liquidating functions	436,170,946

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

In addition to the mortgage principal presently included in the accounts, the Association has advance commitments to purchase mortgage principal totaling $3.1 billion 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, the Association 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. The Association issues advance commitments to purchase mortgages. To the extent possible, it 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, the Association pays to the transferee-investor the difference between the advance commitment purchase price and the agreed-upon transfer price. When the Association is unable to dispose of an advance commitment before delivery of the final mortgage loans, it completes the purchase at the commitment price and places the mortgage loan for sale at auction. Tandem plan commitments totaled $3,026,408,050 in fiscal year 1974. Tandem plan expenses were $210,211,570.

PARTICIPATION CERTIFICATES (sch. 4)

The participation certificates of $2.4 billion in the Federal Asset Financing Trust do not include $74.4 million held by the trust as treasury certificates. The certificates were purchased by the trust and are subject to reissue.

PRINCIPAL OFFICIALS

RESPONSIBLE FOR THE ACTIVITIES

DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
SECRETARY OF HOUSING AND URBAN DEVELOPMENT:		
Carla A. Hills	Mar. 1975	Present
James T. Lynn	Feb. 1973	Feb. 1975
ASSISTANT SECRETARY FOR HOUSING PRODUCTION AND MORTGAGE CREDIT AND COMMISSIONER OF THE FEDERAL HOUSING ADMINISTRATION:		
David M. deWilde (acting)	Dec. 1974	Present
Sheldon B. Lubar	June 1973	Nov. 1974
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION:		
Daniel P. Kearney, President	July 1974	Present
Woodward Kingman, President	May 1971	July 1974
Richard C. Dyas, Executive Vice President	Apr. 1970	Present
John L. Burke, Vice President--Fiscal Management	Mar. 1972	Present
Albert J. Fulner, Jr., Secretary-Treasurer	Nov. 1969	Present
Raymond J. Seitz, Controller	June 1972	Present

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