



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

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January 3, 1980

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

Enclosed is a copy of our report on the examination
of financial statements of the Government National Mortgage
Association for fiscal year 1979 as required by the
Government Corporation Control Act (31 U.S.C. 841 et seq.).

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

Allen G. Steals

Comptroller General
of the United States

Enclosure



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

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To the President
Government National
Mortgage Association

AGC 00169

We have examined the statements of financial condition of the Government National Mortgage Association as of September 30, 1979, and the related statements of income, expenses, and retained earnings and changes in financial position for the year then ended. We made our examination in accordance with the Comptroller General's standards for financial and compliance audits. Our examination included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously made an examination of the financial statements for the 15-month period ended September 30, 1976.

We did not examine the financial statements for the year ended September 30, 1978, and accordingly express no opinion on them. The fiscal year 1978 balances are presented for comparison purposes only.

In our opinion, the accompanying financial statements (schs. 1 through 3) present fairly the financial position of the Government National Mortgage Association at September 30, 1979, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Comptroller General
of the United States

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Government
National
Mortgage
Association

COMBINED BALANCE SHEET

	September 30 1979	September 30 1978 Unaudited
<hr/>		
<u>ASSETS</u>	(000 omitted)	
Net investment in mortgages and advances (Notes 1, 2, 6)	\$2,938,000	\$3,057,500
Cash and Government securities (Note 3)	221,400	166,800
Accrued interest and other receivables	35,300	33,600
Assets acquired through liquidations and claims against HUD/FHA and VA	8,900	6,000
Trust deposits for interest payments on participation certificates	102,200	94,200
TOTAL ASSETS	<u>\$3,305,800</u>	<u>\$3,358,100</u>
 <u>LIABILITIES AND RETAINED EARNINGS</u>		
<u>LIABILITIES (Note 5)</u>		
Notes Payable to U.S. Treasury (Note 4)	\$5,586,800	\$5,247,700
Accounts payable and accrued liabilities	231,800	216,200
Trust and deposit liabilities	80,900	85,400
TOTAL LIABILITIES	<u>\$5,899,500</u>	<u>\$5,549,300</u>
 <u>RETAINED EARNINGS</u>		
Net Earnings (Deficit)	(\$2,667,100)	(\$2,257,800)
Appropriated funds	73,400	66,600
TOTAL RETAINED EARNINGS	<u>(\$2,593,700)</u>	<u>(\$2,191,200)</u>
 TOTAL LIABILITIES AND RETAINED EARNINGS	 <u>\$3,305,800</u>	 <u>\$3,358,100</u>

The accompanying notes on pages 5 to 9 are an integral part of this statement.

Government
National
Mortgage
Association

COMBINED STATEMENT OF OPERATIONS AND RETAINED EARNINGS

For the Year Ended September 30
1979
1978
Unaudited

<u>REVENUES</u> (Note 7)	(000 omitted)	
Interest income	\$ 218,300	\$ 214,200
Mortgage-Backed Securities fees	47,300	36,400
Commitment and other loan fees	16,700	10,500
Other income	600	900
TOTAL REVENUES	\$ 282,900	\$ 262,000
 <u>EXPENSES</u>		
Interest expenses	\$ 462,500	\$ 424,300
Tandem plan expenses	216,700	97,200
Fees for servicing mortgages	3,700	4,500
Mortgage-Backed Securities expenses	1,100	1,800
Administrative and other expenses	9,000	9,100
TOTAL EXPENSES	\$ 693,000	\$ 536,900
 <u>RETAINED EARNINGS</u>		
Balance Beginning of Year	(\$2,257,800)	(\$1,980,600)
Net Earnings (Deficit) for the year	(410,100)	(274,900)
Prior period adjustments (Note 8)	800	(2,300)
Balance End of Year	<u>(\$2,667,100)</u>	<u>(\$2,257,800)</u>

The accompanying notes on pages 5 to 9 are an integral part of this statement.

Government
National
Mortgage
Association

STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Year Ended September 30
1979
1978
Unaudited

<u>FUNDS PROVIDED</u>	(000 omitted)	
Income from operations	\$ 282,900	\$ 262,000
Mortgage liquidations	1,672,500	1,152,800
Appropriations for participation certificate insufficiencies	6,800	7,400
Borrowings from the U.S. Treasury	1,885,100	1,103,200
Net changes in other assets and liabilities	1,500	20,900
TOTAL FUNDS PROVIDED	<u>\$3,848,800</u>	<u>\$2,546,300</u>
 <u>FUNDS APPLIED</u>		
Expense of operations	\$ 693,000	\$ 536,900
Mortgages purchased	1,491,700	1,117,500
Repayment of borrowings to U.S. Treasury	1,546,000	763,300
Investments at cost plus unmaturred net earnings	55,300	41,500
Principal transferred to trusts	63,600	84,800
Adjustments applicable to prior year	(800)	2,300
TOTAL FUNDS APPLIED	<u>\$3,848,800</u>	<u>\$2,546,300</u>

The accompanying notes on pages 5 to 9 are an integral part of this statement.

NOTES TO THE GOVERNMENT

NATIONAL MORTGAGE ASSOCIATION'S

FINANCIAL STATEMENTS

GENERAL

GNMA's activities as trustee for three Government obligations trusts are not included in either the balance sheet, statement of operations and retained earnings, or statement of changes in financial position. Trustor agencies provide the funds necessary to pay trust debts and expenses.

ORGANIZATION

GNMA--a Government corporation within the Department of Housing and Urban Development (HUD)--operates in the mortgage financing market. Its general policies are determined by the Secretary of HUD, and its mortgage activities are handled primarily through servicing agreements with the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC). Designated FNMA and FHLMC employees are GNMA's attorneys-in-fact to buy, service, and sell mortgages on GNMA's behalf.

NOTE 1:
UNPAID PRINCIPAL OF
MORTGAGE LOANS (sch. 1)

Net mortgages reflect unpaid principal balances less unamortized purchase discounts, participation equities, and loans subject to participations sales trusts.

NOTE 2:
COMMITMENTS TO PURCHASE MORTGAGE
LOANS AT FUTURE DELIVERY DATES (sch. 1)

GNMA had outstanding commitments to purchase mortgage principal totaling \$5,170 million at September 30, 1979. Delivery of mortgages under the commitments issued by GNMA is optional at the discretion of the sellers. The commitments are issued with 24- to 36-month expiration periods and can be renewed upon GNMA's approval.

NOTE 3:
CASH AND GOVERNMENT
SECURITIES (sch. 1)

The September 30, 1979, Cash and Government Securities balance is composed of the following elements:

<u>Type of asset</u>	<u>Amount</u>
	(000 omitted)
Cash	\$ 4,200
U.S. treasury securities	121,100
FHA debentures	<u>96,100</u>
Total Cash and Government Securities	<u>\$221,400</u>

U.S. Treasury securities are recorded at cost, net of unamortized discounts/premiums. Federal Housing Administration (FHA) debentures are recorded at cost and are either held until maturity or used to pay FHA insurance premiums.

NOTE 4:
NOTES PAYABLE TO
U.S. TREASURY (sch. 1)

GNMA borrows from the Treasury to finance its operations

instead of receiving appropriated funds. Interest rates on these borrowings are determined by the Secretary of the Treasury. At September 30, 1979, GNMA's notes payable to the Treasury due after one year totaled \$4,207,543,000. The following summarizes GNMA's notes payable to the U.S. Treasury due after 1 year:

<u>Date of maturity</u>	<u>Interest rate</u>	<u>Amount</u>
	(percent)	(000 omitted)
July 1, 1981	3-1/8	\$ 2,660
	3-3/8	6,275
	3-7/8	1,670
	6-1/8	189,690
	6-3/8	23,200
	6-3/4	50,000
	6-7/8	68,650
	7	66,900
	7-1/4	2,200
	7-1/2	45,760
	7-5/8	215,808
	7-3/4	327,700
July 1, 1982	6-7/8	169,350
	7	13,900
	7-1/8	49,400
	7-1/4	45,750
	7-3/8	65,150
	7-1/2	214,340
	7-3/4	47,850
	7-7/8	92,380
8	57,740	
8-1/8	122,810	

July 1, 1983	8-3/8	451,570
	8-5/8	117,910
	8-7/8	67,080
	9	205,590
	9-1/8	104,120
	9-1/4	47,190
	9-3/8	33,680
July 1, 1984	8-7/8	78,150
	9	<u>1,223,070</u>
Total due after one year		<u>\$4,207,543</u>

NOTE 5:
CONTINGENT LIABILITY AS GUARANTOR
OF MORTGAGE-BACKED SECURITIES (sch. 1)

GNMA is contingently liable for about \$84.5 billion under its guaranty of timely principal and interest payments to mortgage-backed securities (MBS) holders. These securities are backed by pools of FHA-insured and Veterans Administration-guaranteed mortgage loans. During fiscal year 1979, GNMA paid out \$392,959.74 under its MBS guaranty: this amount is less than 1 percent of mortgage-backed securities outstanding at the fiscal year's end.

NOTE 6:
COLLECTABILITY OF MORTGAGE-BACKED
SECURITIES LOAN ADVANCES (sch. 1)

A mortgage-backed securities issuer is considered in "default" when he is unable to "pass through," to investors, required principal and interest collections by the 15th of the month. In such cases, GNMA (1) uses its own funds to pay investors until a substitute issuer is found and (2) estab-

lishes a corresponding receivable--loan advances on MBS pools--for the amount of funds advanced.

GNMA is unsure about the collectability of these advances and has sought clarification from HUD's general counsel. Depending on counsel's opinion, part or all of the \$3,282,899.89 carried as MBS loan advances at September 30, 1979, may not be considered collectible.

NOTE 7:
REVENUE RECOGNITION (sch. 2)

Interest income is GNMA's primary revenue source. This income is generally recognized monthly. Income is also received from MBS, commitment, and other loan fees that are generally recognized when received.

NOTE 8:
ADJUSTMENTS APPLICABLE
TO PRIOR YEARS (sch. 2)

GNMA's prior period adjustments consist of the following items:

<u>Year</u>	<u>Amount</u>	<u>Reason for adjustment</u>
	(000 omitted)	
1978	\$3,300	Decrease due to adjusted miscellaneous expenses
1978	1,000	Increase due to erroneously recorded interest income
1979	\$ 100	Increase due to adjusted staff expenses
1979	700	Increase due to adjusted services expenses