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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Examination Of The Government National Mortgage Association's Financial Statements For The Fiscal Year Ended September 30, 1982

GAO examined the financial statements of the Government National Mortgage Association for the year ended September 30, 1982. The examination was made in accordance with generally accepted government auditing standards.

In GAO's opinion, the financial statements present fairly the financial position of the Association as of September 30, 1982, 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.



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JANUARY 21, 1983

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

B-114828

JANUARY 21, 1983

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

This report presents our opinion on the 1982 financial statements of the Government National Mortgage Association. We made our examination pursuant to the provisions of 31 U.S.C. 9105 and in accordance with generally accepted government auditing standards.

In our opinion, the financial statements present fairly the financial position of the Government National Mortgage Association as of September 30, 1982, 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.

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

A handwritten signature in cursive script that reads "Charles A. Bowsher".

Comptroller General
of the United States

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

B-114828

JANUARY 21, 1983

To the President of the Government
National Mortgage Association

We have examined the statement of financial condition of the Government National Mortgage Association as of September 30, 1982, and the related statements of operations and retained earnings and changes in financial position for the year then ended. These financial statements do not include, and we did not audit, the two Government obligation trusts which are administered by the Government National Mortgage Association. Our examination was made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Government National Mortgage Association as of September 30, 1982, 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 basis consistent with that of the preceding year.

The statement of financial condition of the Government National Mortgage Association as of September 30, 1981, and the related statements of operations and retained earnings and changes in financial position for the year then ended were not audited by us and, accordingly, we do not express an opinion on them.

Charles A. Bowser
Comptroller General
of the United States

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REPORT ON INTERNAL ACCOUNTING CONTROLS

As part of our examination of the Government National Mortgage Association's financial statements for the year ended September 30, 1982, we made a study and evaluation of the system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted government auditing standards. For the purpose of this report, we have classified the significant internal accounting controls in the following cycles of the Association's activity:

- Mortgage-backed securities cycle
- Financial reporting cycle
- Mortgage cycle
- Treasury cycle

Our study included all of the cycles of controls listed above except that we did not evaluate the accounting controls over the mortgage, treasury, and financial reporting cycles because it was more efficient for us to expand our substantive tests. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the entity's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole or on any of the cycles of controls identified above.

The management of the Government National Mortgage Association is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in our first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the Government National Mortgage Association taken as a whole or on any of the cycles of controls identified in the first paragraph. However, our study and evaluation disclosed no condition that we believe to be a material weakness.

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

We have examined the financial statements of the Government National Mortgage Association for the year ended September 30, 1982. Our examination was made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion the Government National Mortgage Association complied with the terms and provisions of laws and regulations for the transactions tested that could have materially affected the entity's financial statements.

Nothing came to our attention in connection with our examination that caused us to believe that the Association was not in compliance with the terms and provisions of laws and regulations for those transactions not tested.

Government National Mortgage Association
Statement of Financial Condition
 As of September 30, 1982 and 1981 (Note 1)

	1982	1981 (unaudited)
	(in thousands)	
Assets		
Cash	\$ 60,400	\$ 6,400
Accrued interest and other receivables (Note 2)	46,500	41,800
U.S. Government securities (Note 3)	490,700	381,300
Deposits held for interest payments on participation certificates	37,500	35,800
Net investment in mortgages (Note 4)	3,889,900	4,049,200
Assets acquired through liquidations and claims against HUD/FHA and VA	<u>3,300</u>	<u>3,900</u>
Total Assets	<u>\$4,528,300</u>	<u>\$4,518,400</u>
Liabilities and Investment of U.S. Government		
<i>Liabilities:</i>		
Accounts payable and accrued liabilities	\$ 355,300	\$ 331,200
Trust and deposit liabilities	92,200	95,500
Notes payable to U.S. Treasury (Note 5)	10,029,900	8,297,100
Contingencies and commitments (Note 6)	<u>-</u>	<u>-</u>
Total Liabilities	<u>\$10,477,400</u>	<u>\$8,723,800</u>
<i>Investment of U.S. Government:</i>		
Retained earnings (Deficit)	<u>(5,949,100)</u>	<u>(4,205,400)</u>
Total Liabilities and Investment of U.S. Government	<u>\$4,528,300</u>	<u>\$4,518,400</u>

The accompanying notes on pages 21 to 23 are an integral part of these financial statements.

Government National Mortgage Association
Statement of Operations and Retained Earnings
 For the Years Ended September 30, 1982 and 1981 (Note 1)

	1982	1981 (unaudited)
	(in thousands)	
<i>Revenues:</i>		
Interest income	\$425,100	\$407,000
Mortgage-Backed Securities Program fees	81,800	73,000
Commitment and other loan fees	62,700	39,800
Other income	600	800
Total Revenues	<u>\$570,200</u>	<u>\$520,600</u>
<i>Expenses:</i>		
Interest expenses	\$1,070,700	\$799,000
Tandem plan expenses	1,228,700	848,700
Fees for servicing mortgages	2,800	3,000
Mortgage-Backed Securities Program expenses	1,900	1,300
Administrative and other expenses	11,900	15,000
Total Expenses	<u>\$2,316,000</u>	<u>\$1,667,000</u>
Loss from operations	(\$1,745,800)	(\$1,146,400)
<i>Other financing source:</i>		
Appropriations for participation certificate insufficiencies	2,100	2,600
Net loss	(\$1,743,700)	(\$1,143,800)
Retained earnings (Deficit) at beginning of year	(4,205,400)	(3,137,800)
Prior period adjustment (Note 8)	-	76,200
Retained earnings (Deficit) at end of year	<u>(\$5,949,100)</u>	<u>(\$4,205,400)</u>

The accompanying notes on pages 21 to 23 are an integral part of these financial statements.

Government National Mortgage Association
Statement of Changes in Financial Position
 For the Years Ended September 30, 1982 and 1981 (Note 1)

	1982	1981 (unaudited)
	(in thousands)	
<i>Resources Provided By:</i>		
Revenues	\$570,200	\$520,600
Mortgages liquidated	3,003,000	2,178,700
Increase in accounts payable and accrued liabilities	24,100	22,800
Decrease in assets acquired through liquidations and claims	600	5,200
Borrowings from the U.S. Treasury	2,549,800	2,382,900
Appropriations for participation certificate insufficiencies	2,100	2,600
Total resources provided	<u>\$6,149,800</u>	<u>\$5,112,800</u>
<i>Resources Applied To:</i>		
Expenses	\$2,316,000	\$1,667,000
Mortgages purchased	2,731,600	2,167,900
Repayment of borrowings from U.S. Treasury	817,000	1,148,100
Net purchases of U.S. Government securities	109,400	93,500
Amortization of purchase discounts	13,500	30,000
Increase in accrued interest and other receivables	4,700	2,100
Increase in deposits held for interest payments on participation certificates	1,700	(33,500)
Decrease in trust and deposit liabilities	3,300	3,500
Principal transferred to trusts	98,600	28,100
Total resources applied	<u>\$6,095,800</u>	<u>\$5,106,700</u>
Increase in cash	<u>\$54,000</u>	<u>\$6,100</u>

The accompanying notes on pages 21 to 23 are an integral part of these financial statements.

Government National Mortgage Association Notes to the Financial Statements

1. Summary of Significant Accounting Policies

The Government National Mortgage Association (GNMA) is a Government corporation within the Department of Housing and Urban Development (HUD) which operates in the mortgage financing market. Its general policies are determined by the Secretary of HUD. 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 function as GNMA's agents to buy, service and sell mortgages on GNMA's behalf.

Basis of presentation – The financial statements are presented on the accrual basis of accounting. Reclassifications have been made in the 1981 financial statements to conform to the presentation used in 1982. They represent the combination of all funds associated with GNMA's four major activities less significant interfund transactions among the Mortgage-Backed Securities Program, the Special Assistance Functions, the Management and Liquidation Function, and the Emergency Home Purchase Assistance Function.

U.S. Government securities – U.S. Government securities are recorded at cost, net of unamortized discount or premiums. Discounts and premiums are amortized over the life of the security. Federal Housing Administration (FHA) debentures are recorded at cost and are either held until maturity or used to pay FHA insurance premiums.

Net investment in mortgages – Mortgages are recorded at the unpaid principal balance. Starting in 1981, under the tandem plan programs, discounts are recognized as income immediately, while discounts prior to 1981 are amortized.

Revenues and expenses – Income is recognized on an accrual basis, and interest income is generally recognized monthly. GNMA reimburses HUD for facilities and equipment which are provided for GNMA's use. Losses on mortgages, receivables, assets acquired, and claims against HUD/FHA and Veterans Administration (VA) are recognized when they occur. Most GNMA assets are covered by insurance or guarantees.

Fiduciary responsibility – GNMA acts as trustee for two Government obligation trusts which are not included in GNMA's financial statements. Trustor agencies, including GNMA, provide the funds necessary to pay trust debts and expenses. The total Government obligations of the trusts, as of September 30, 1982, were \$2,165 million of which GNMA's portion was \$429 million.

Related parties – In addition to the controls established by basic Government corporation control laws (31 U.S.C. 9101 through 9109), GNMA is subject to management controls by the Secretary of HUD and the Director of the Office of Management and Budget. Such controls could affect GNMA's financial position or operating results in a manner that differs from those that might have been obtained if GNMA were autonomous.

2. Accrued Interest and Other Receivables

Accrued interest and other receivables as of September 30, 1982 and 1981 are as follows:

	1982	1981 (unaudited)
	(in thousands)	
Accrued interest	\$33,200	\$28,300
Advances	3,300	3,900
Other receivables	10,000	9,600
	<u>\$46,500</u>	<u>\$41,800</u>

GNMA makes payments to investors and establishes a receivable in the form of an advance when a mortgage-backed securities issuer fails to make timely principal and interest payments. The collectability of these advances is uncertain. GNMA seeks clarification from its general counsel on the write-off of these advances on a case-by-case basis. Depending on the counsel's opinion, all or part of the \$3,300,000 and \$3,900,000 advances as of September 30, 1982 and 1981, respectively, may not be collected.

3. U.S. Government Securities

The U.S. Government Securities as of September 30, 1982 and 1981 are as follows:

	1982	1981 (unaudited)
	(in thousands)	
U.S. Treasury	\$376,500	\$258,500
FHA debentures	114,200	122,800
	<u>\$490,700</u>	<u>\$381,300</u>

U.S. Treasury securities are net of unamortized discounts/premiums and FHA debentures are at cost. The market value as of September 30, 1982 for the U.S. Treasury securities was \$387 million and for FHA debentures was \$89 million.

4. Net Investment in Mortgages

Net investment in mortgages is the unpaid principal balance less the unamortized purchase discounts, participation equities, deferred tandem plan discounts, and loans subject to participation sales trusts. The remaining lives of the mortgages range from one to 30 years on single-family dwellings and one to 40 years on multifamily dwellings. The average holding period for the entire portfolio is 12 years. GNMA periodically sells its mortgages, thereby affecting the average holding period.

The following is a summary of GNMA's net investment in mortgages as of September 30, 1982:

Type	Range of Interest Rates	Weighted Average Interest Rate	Investment (In thousands)
<i>Single family:</i>			
FHA/VA	1.00-13.00	6.51	\$ 653,300
Conventional	7.13-14.00	7.24	30,700
<i>Multifamily:</i>			
FHA	3.00-14.88	5.60	<u>3,429,300</u>
Total Investment			\$4,113,300
Less unamortized discounts, participation equities, and other adjustments			<u>223,400</u>
Net Investment in Mortgages			<u>\$3,889,900</u>

The following is a summary of GNMA's net investment in mortgages as of September 30, 1981 (unaudited):

Type	Range of Interest Rates	Weighted Average Interest Rate	Investment (In thousands)
<i>Single family:</i>			
FHA/VA	1.00-13.00	6.35	\$ 665,400
Conventional	7.13-11.50	7.20	31,000
<i>Multifamily:</i>			
FHA	3.00-9.50	5.69	<u>3,686,200</u>
Total Investment			\$4,382,600
Less unamortized discounts, participation equities, and other adjustments			<u>333,400</u>
Net Investment in Mortgages			<u>\$4,049,200</u>

5. Notes Payable to U.S. Treasury

GNMA borrows from the U.S. Treasury, as necessary, to finance its operations instead of receiving appropriated funds. Interest rates on these borrowings are determined by the Secretary of the Treasury. Interest expense on these borrowings represent \$1,041 million and \$760 million for 1982 and 1981, respectively. The following is a summary of GNMA's notes payable:

September 30, 1982			
Years of Maturity	Range of Interest Rates	Weighted Average Interest Rate	Outstanding (in thousands)
1983	8.38 - 9.38	8.88	\$597,600
1984	8.88 - 13.50	10.24	2,626,400
1985	9.38 - 14.63	10.69	3,020,400
1986	3.13 - 16.00	14.08	2,734,800
1987	14.00 - 14.50	14.07	<u>1,050,700</u>
Total			<u>\$10,029,900</u>

September 30, 1981 (unaudited)			
Years of Maturity	Range of Interest Rates	Weighted Average Interest Rate	Outstanding (in thousands)
1982	6.88 - 8.00	7.25	\$ 509,800
1983	8.38 - 9.38	8.78	904,800
1984	8.88 - 13.50	10.24	2,626,400
1985	9.38 - 14.63	10.69	3,020,400
1986	3.13 - 15.25	13.92	<u>1,235,700</u>
Total			<u>\$8,297,100</u>

The outstanding authority to borrow from the U.S. Treasury is \$14 billion. The amount due each June 30 is refinanced by the U.S. Treasury and becomes due 5 years later.

6. Contingencies and Commitments

GNMA was contingently liable as of September 30, 1982 and 1981 for about \$115.5 billion and \$104.6 billion, respectively, under its guaranty of timely principal and interest payments to mortgage-backed securities (MBS) holders. These securities are backed by pools of FHA-insured, Farmers Home Administration-insured, and VA-guaranteed mortgage loans. Under its MBS guarantee, GNMA paid out \$389,069 and \$241,134 in 1982 and 1981, respectively. These amounts represent less than .001 percent of mortgage-backed securities outstanding at fiscal year end.

Prior to incurring a contingent liability as guarantor of mortgage-backed securities, GNMA accepts commitment applications from securities issuers. The commitment ends when the mortgage-backed securities are issued or when the commitment period expires. Outstanding unused commitments as of September 30, 1982 and 1981 were \$28.6 billion and \$28.0 billion, respectively.

GNMA had outstanding commitments to purchase mortgages of \$4.3 billion and \$5.1 billion as of September 30, 1982 and 1981, respectively. Delivery of mortgages under these commitments is optional at the discretion of the sellers.

7. Retirement Plan

All permanent, full-time employees of GNMA are covered by the contributory Civil Service Retirement System. GNMA makes annual contributions to the plan equal to the employees' contributions. The retirement plan expenses for 1982 and 1981 were \$118,000 and \$99,000, respectively.

8. Prior Period Adjustment

The retained earnings (deficit) for 1981 was restated to correct the accounting presentation of appropriations. The effects of the correction were to decrease the net loss by \$2.6 million in 1981 and to reduce the deficit by the \$76.2 million in appropriations received for participation certificate insufficiencies.



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