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# REPORT TO THE CONGRESS

## Examination Of Financial Statements Of The Government National Mortgage Association For Fiscal Year 1973

B-114828

Department of Housing and Urban Development

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

~~710684~~

094225

JUNE 3, 1974



COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON, D.C. 20548

B-114828

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

1 This is our report on our examination of the financial  
2 statements of the Government National Mortgage Association,  
Department of Housing and Urban Development, for fiscal year  
1973.

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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 Treas-  
ury; the Secretary of Housing and Urban Development; and the  
President, Government National Mortgage Association.

Acting

Comptroller General  
of the United States

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#### ABBREVIATIONS

FHA	Federal Housing Administration
FHLMC	Federal Home Loan Mortgage Corporation
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 Comptroller General to annually audit 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, stockholder-owned corporation engaged in mortgage activities. Under GNMA's direction, FNMA buys and sells mortgages for GNMA and manages GNMA's mortgage portfolio.

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.

OPINION ON FINANCIAL STATEMENTS

In GAO's opinion:

1. The financial statements present fairly the financial position of GNMA at June 30, 1973, and the results of its 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.
2. GNMA'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, 1973, 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

GNMA's major activities during fiscal year 1973 were under the special assistance functions tandem plan programs and the mortgage-backed securities guaranty program.

Under the tandem plan programs, GNMA issued commitments to purchase over \$4.8 billion in mortgages insured by the Federal Housing Administration or guaranteed by the Veterans Administration. Tandem costs to GNMA for completed tandem plan transactions were \$52.3 million. (See pp. 7 to 9.)

Under the mortgage-backed securities guaranty program, GNMA had outstanding guarantees of \$6.6 billion and \$2.6 billion at June 30, 1973. (See pp. 10 to 12.)

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

GNMA considers the system under which FNMA allocates costs to GNMA for the services it performs to have inherent weaknesses. GNMA is currently negotiating to use a fee system for paying these expense charges, which will obviate the need for allocations. (See pp. 4 and 5.)

The Congress limits the amount that GNMA may spend for administrative expenses. Current and past appropriation acts provide that payments to FNMA for its services may be made without regard to the administrative

expense limitation. Nevertheless, GNMA has followed the practice of including estimated payments to FNMA as part of its budget for administrative expenses. (See p. 4.)

#### RECOMMENDATION

GAO recommends that, unless the language of the appropriation act is changed, GNMA should budget for and seek a dollar limitation on administrative expenses that is large enough to cover only GNMA'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.

#### AGENCY COMMENTS

The President of GNMA advised us that he agreed with our recommendation and that approval for its implementation would be sought from the Office of Management and Budget. (See p. 4.)

#### MATTERS FOR CONSIDERATION BY THE CONGRESS

This report, required by law, discloses the results of GAO's 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 by the Congress in 1968 through the division of the Federal National Mortgage Association (FNMA) into two corporations. As a Government-owned corporation, 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.

FNMA, which inherited the name of the predecessor corporation, is a Government-sponsored, stockholder-owned corporation engaged in mortgage activities. Under GNMA's direction, FNMA buys and sells mortgages for GNMA and manages GNMA's mortgage portfolio. Only mortgages insured by the Federal Housing Administration (FHA) or guaranteed by the Veterans Administration (VA) are purchased for GNMA. GNMA reimburses FNMA for its costs.

GNMA does not receive appropriated funds but instead borrows from the Treasury. The June 30, 1973, balance of notes payable to the Treasury was \$3.1 billion--\$3.0 billion for GNMA's special assistance functions and \$0.1 billion for its management and liquidating functions.

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 officials of GNMA during fiscal year 1973 are listed in the appendix.

## CHAPTER 2

### ADMINISTRATIVE EXPENSES

#### LIMITATION ON EXPENDITURES

The Congress limits the amount that GNMA may spend for administrative expenses. Current and past appropriation acts provide that funds for services to FNMA may be made without regard to the administrative expense limitation. Nevertheless, GNMA has followed the practice of including estimated payments to FNMA as part of its budget for administrative expenses. As a result, the expense limitation has been established at a level to cover GNMA's ordinary operating expenses and its payments to FNMA. This practice is in conflict with the language of the appropriation acts.

For the past 2 years, estimated payments to FNMA have constituted more than 80 percent of the total amount established as a limitation. For example, the \$6 million limitation on administrative expenses for fiscal year 1973 (86 Stat. 550) was intended to cover expected payments to FNMA of \$5.4 million.

#### Recommendation

Unless the language of the appropriation act is changed, we recommend that the President of GNMA budget for and seek a dollar limitation on administrative expenses that is large enough to cover only GNMA'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.

#### Agency comments

The President of GNMA advised us that he agreed with our recommendation and that approval from the Office of Management and Budget would be sought to bring about the change.

#### ALLOCATION OF EXPENSES TO GNMA

During the year a firm of consultants was hired to review FNMA's system of allocating expenses to GNMA. The consultants recommended certain improvements to FNMA's existing system, including the adoption of an improved system of recordkeeping to document and support FNMA's charges.



Although FNMA adopted the changes suggested by the consultants, GNMA still considers FNMA's allocation system to have inherent weaknesses. According to GNMA the present system:

- Does not relate charges to the volume of work produced.
- Does not provide a reasonable means for GNMA to validate the documentation that supports the allocations.
- Uses a relatively small amount of direct work to distribute overhead, which may be totally unrelated to direct work.
- Is deficient because expense definitions and limitation and control over expenses are lacking.

HUD's Office of the Inspector General issued a report in November 1973 which dealt with problems associated with allocating expenses to GNMA. The issues raised by the Inspector General underscored the weakness in the current allocation system.

GNMA is currently negotiating to use a fee system for paying expense charges, which will obviate the need for allocations and the need to establish special memorandums of understanding or surveillance by consulting firms and audit groups.

## CHAPTER 3

### GNMA OPERATIONS

GNMA is involved in several programs to stimulate mortgage lending and home building. Through these programs GNMA provides special assistance in financing housing not usually financed by mortgage lenders; manages and liquidates a portfolio of federally owned mortgages; and guarantees the timely payment of principal and interest in mortgage-backed securities. Except for relatively nominal amounts, GNMA does not suffer any loss on foreclosures since the mortgages are insured by FHA or guaranteed by VA.

#### SPECIAL ASSISTANCE FUNCTIONS

GNMA's special assistance functions consist of providing a market for selected types of FHA-insured and VA-guaranteed mortgages for the primary purpose of supporting the production of housing for low- and moderate-income families. The mortgage purchases are in support of below-market-interest-rate housing, tandem plan programs, and miscellaneous programs.

As shown in the following table, GNMA, in fiscal year 1973, reduced the Government's investment in mortgages and thus provided funds to repay borrowings from the Treasury.

	<u>Fiscal years</u>		Increase or decrease (-)
	<u>1973</u>	<u>1972</u>	
	----- (000 omitted) -----		
Expenditures for mortgages purchased	<u>\$1,414,706</u>	<u>\$587,455</u>	<u>\$ 827,251</u>
Source of funds:			
Principally from mortgage liquidations	\$1,735,421	\$214,646	\$1,520,775
Adjusted by:			
Net borrowings or repayments (-) to U.S. Treasury	-127,595	498,076	-625,671
Net income or loss (-) from operations	<u>-193,120</u>	<u>-125,267</u>	<u>-67,853</u>
Total	<u>\$1,414,706</u>	<u>\$587,455</u>	<u>\$ 827,251</u>

The loss of \$193 million from operations in fiscal year 1973 was attributable largely to (1) the difference between the average interest rate of 6.27 percent paid on funds borrowed from the Treasury and the average interest rate of 4.06 percent earned on mortgages in the portfolio, (2) the sale of mortgages from the GNMA portfolio at a discount, and (3) the expense incurred in tandem plan programs.

The following table shows the extent of foreclosures for fiscal years 1972 and 1973 and the portfolios at fiscal yearend.

Unit	Fiscal year 1973				Fiscal year 1972			
	Foreclosures		Portfolio		Foreclosures		Portfolio	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
	(millions)		(millions)		(millions)		(millions)	
FHA single-family	1,037	\$ 16	65,723	\$ 760	560	\$ 7	84,752	\$1,017
VA single-family	79	1	25,167	241	96	1	33,910	355
FHA multifamily	<u>94</u>	<u>165</u>	<u>1,499</u>	<u>2,401</u>	<u>49</u>	<u>81</u>	<u>1,595</u>	<u>2,501</u>
	<u>1,210</u>	<u>\$182</u>	<u>92,389</u>	<u>\$3,402</u>	<u>705</u>	<u>\$89</u>	<u>120,257</u>	<u>\$3,873</u>

As shown in the graph on the following page, the upward trend of mortgages in GNMA's portfolio was reversed in fiscal year 1973. The graph also shows that in fiscal year 1973 the portfolio of mortgages bearing interest rates of from 7 to 8-1/2 percent increased while mortgages of the other interest categories decreased.

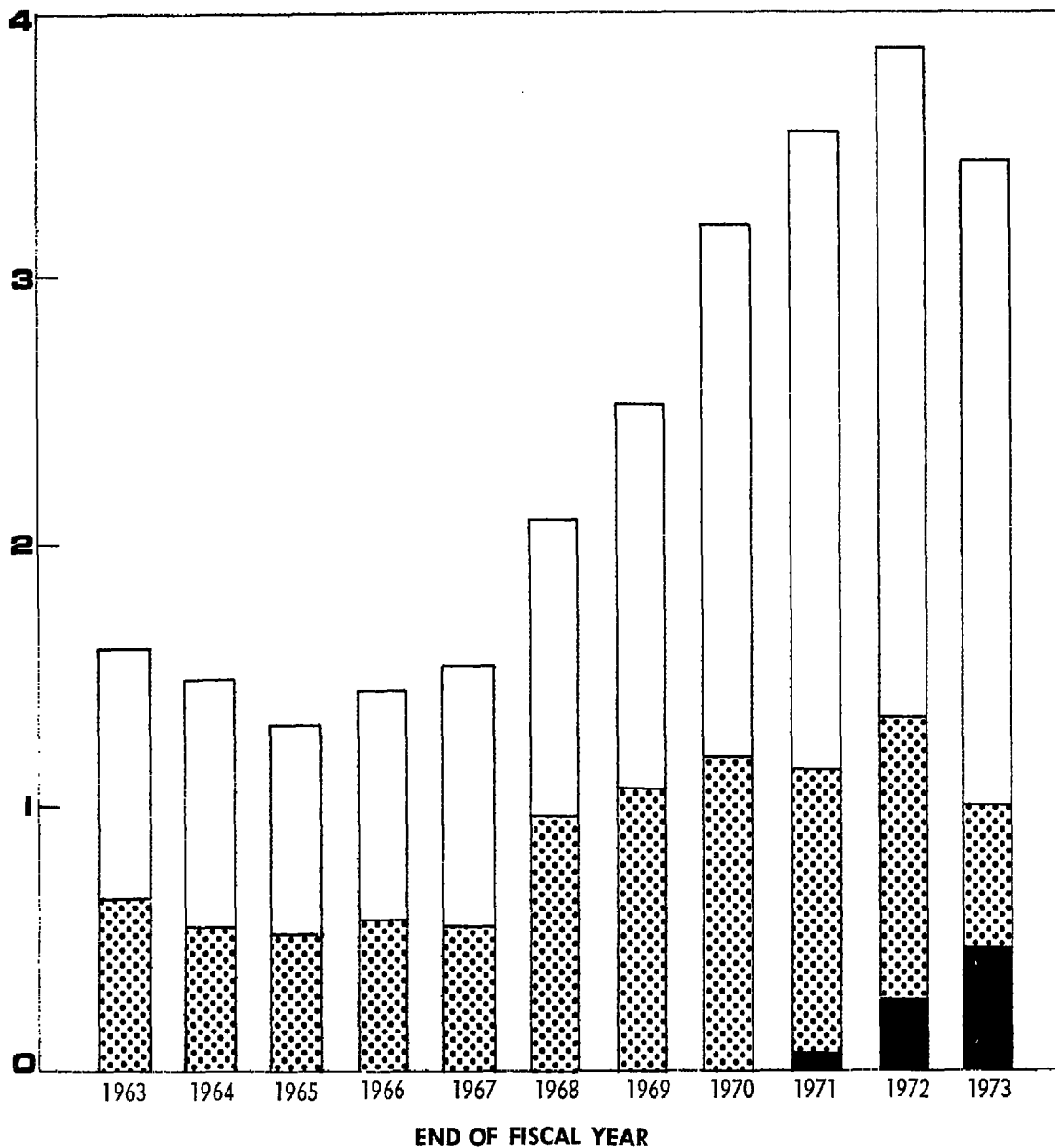
#### Tandem plan programs

Tandem plan programs are GNMA's most active programs under its special assistance functions. Their purpose is to enable the Government to support and stimulate the financing of housing without the need for massive cash outlays required by the normal Government mortgage purchasing programs. These tandem plan programs provide favorable financing for multi-family projects and insure reasonable prices for mortgages on single-family units.

GNMA enters into commitments to purchase mortgages insured by FHA or guaranteed by VA at higher than market prices. GNMA then sells the mortgages to FNMA or other investors at prevailing market prices, absorbing the difference between market prices and purchase prices as a subsidy.

# Special Assistance Function Mortgages by Interest Rates

BILLIONS OF DOLLARS



- 1 TO 4 3/4 Percent
- 5 TO 6 3/4 Percent
- 7 TO 8 1/2 Percent

Investors may purchase such mortgages at periodic GNMA auctions or may assume the commitments at an interim selling price established by GNMA from time to time. The first GNMA auction was held in July 1972 and in fiscal year 1973 GNMA sold in auctions a total of \$1.1 billion in mortgages purchased under the tandem plan. Mortgage lenders bidding in GNMA auctions for mortgages delivered under the tandem plan find they can arrange to sell these mortgages in the form of "pass through" mortgage-backed securities through major investment firms. (See p. 11 for further comments.)

Commitments to purchase mortgages decreased from \$7.1 billion in fiscal year 1972 to \$4.8 billion in fiscal year 1973. Tandem costs incurred when the tandem plan transaction is completed decreased from \$55.2 million in fiscal year 1972 to \$52.3 million in fiscal year 1973.

#### MANAGEMENT AND LIQUIDATING FUNCTIONS

GNMA is responsible for managing and liquidating federally owned mortgage portfolios with a minimum adverse effect on the home mortgage market and minimum loss to the Government. Under this program GNMA manages and liquidates mortgages originally owned by the dissolved Reconstruction Finance Corporation and by HUD.

As shown in the following table, GNMA did not purchase any mortgages under this program during fiscal year 1973. In addition, there were significant increases in mortgage liquidations and repayments of borrowings from the Treasury in fiscal year 1973 as compared with fiscal year 1972.

	<u>Fiscal years</u>		<u>Increase or decrease (-)</u>
	<u>1973</u>	<u>1972</u>	
	————(000 omitted)————		
Expenditures for mortgages purchased	\$ <u>-</u>	\$ <u>300</u>	\$ <u>-300</u>
Source of funds:			
Principally from mortgage liquidations	\$658,148	\$263,501	\$394,647
Adjusted by:			
Net borrowings or repayments (-) to U.S. Treasury	-601,160	-268,380	-332,780
Net income or loss (-) from operations	<u>-56,988</u>	<u>5,179</u>	<u>-62,167</u>
Total	\$ <u>-</u>	\$ <u>300</u>	\$ <u>-300</u>

The loss from operations is attributed to the sale of mortgages at a discount and to the difference between the average interest of 6.15 percent paid on funds borrowed from the Treasury and the average interest rate of 5.08 percent earned on mortgages in the portfolio.

The following table shows the extent of foreclosures for fiscal years 1972 and 1973 and the portfolios at fiscal yearend.

Unit	Fiscal year 1973				Fiscal year 1972			
	Foreclosures		Portfolio		Foreclosures		Portfolio	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
	(millions)		(millions)		(millions)		(millions)	
FHA single-family	1,200	\$11	53,551	\$333	2,000	\$19	132,727	\$1,156
VA single-family	20	-	42,558	94	27	-	48,990	121
FHA multifamily	-	-	64	64	-	-	69	72
Other	2	-	1,964	13	2	-	2,385	27
	<u>1,222</u>	<u>\$11</u>	<u>98,137</u>	<u>\$504</u>	<u>2,029</u>	<u>\$19</u>	<u>184,171</u>	<u>\$1,376</u>

MORTGAGE-BACKED SECURITIES  
GUARANTY PROGRAM

The mortgage-backed securities guaranty program is a means of channeling new capital, such as pension and retirement funds, into mortgage financing. GNMA 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 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 will take such steps as are required or deemed necessary to fulfill the terms of the guaranty agreement. GNMA considers the FHA insurance and VA guaranty of the mortgages as providing sufficient resources to support and safeguard its guaranty, if necessary. No issuers have defaulted in making monthly payments and GNMA has, therefore, incurred no losses.

## Pass-through securities

Securities on which principal and interest are paid monthly to the security owners are designated "pass through." Investors are assured prompt payment each month whether or not the scheduled payments are collected on the mortgages in the pool. The pass-through is a single piece of paper which eliminates the inconveniences of mortgage investment, such as default or foreclosure problems. The securities can be conveniently traded like stocks and bonds and sold through brokerage houses.

During fiscal year 1973, \$2.5 billion in pass-through securities were issued by approved issuers, about the same amount as were issued in the previous year. The securities outstanding at June 30, 1973, and guaranteed by GNMA, totaled \$6.6 billion and according to GNMA records were fully backed by mortgages in the pool and collections held on deposit. Over \$3 billion in pass-through securities are expected to be issued in fiscal year 1974.

Issuers are required to furnish monthly financial reports to GNMA that include data on their payments of principal and interest to security holders. GNMA 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.

GNMA reported that, during the first 3 years of the mortgage-backed securities program, about two-thirds of the issues sold were bought by thrift institutions. Further, in the latter part of fiscal year 1973, thrift institutions, feeling the effects of substantial deposit withdrawals, sharply reduced their buying of mortgage-backed securities. At the same time that thrift institutions were cutting down their investments in pass-through securities, pension funds, bank trust funds, life insurance companies, and other nonmortgage-oriented institutions heavily increased their purchases of GNMA pass-throughs. GNMA considers that this shift has helped to achieve the program's primary objective of attracting new sources of mortgage funds that are less vulnerable to the cycle of money supply in the banking system and thrift institutions.

## 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 (FHLMC) have issued bond-type securities. During fiscal year 1973, \$1.04 billion in bond-type securities were issued, as compared with \$1 billion in securities issued in the previous year. In fiscal year 1974,

\$1 billion in securities are expected to be issued. The bonds outstanding at June 30, 1973, and guaranteed by GNMA totaled \$2.6 billion and were, according to FNMA and FHLMC records, fully backed by mortgages in the pool and other assets in trust accounts.



## CHAPTER 4

### TRUSTEE OPERATIONS

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

The agencies participating with GNMA 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) HUD, (4) VA, and (5) the Small Business Administration.

These participating agencies conveyed title to mortgages placed in the trusts to GNMA as trustee but retained control and administration of these mortgages. Then the 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. After retirement of \$440 million in certificates during fiscal year 1973, \$4.5 billion in certificates were outstanding at June 30, 1973.

GNMA, as trustee, receives from the trustor agencies the principal and interest collected on the mortgages, 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, GNMA requests 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 \$990 million were outstanding at June 30, 1973. 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, 1973, certificates outstanding totaled \$1 billion. The certificates mature at various times through

1987. Because net interest earned on the mortgages and cash deposits held for the trustors were less than the interest expense accruing on the certificates, additional contributions of \$19 million were made to the trust by the trustors in fiscal year 1973.

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, 1973, certificates outstanding totaled \$2.5 billion. Because net interest earned on the mortgages and cash deposits held for the trustors were less than the interest expense accruing on the certificates, additional contributions of \$38 million were made to the trust by the trustors in fiscal year 1973.

## CHAPTER 5

### SCOPE OF EXAMINATION

We examined GNMA's comparative statement of financial condition at June 30, 1973 and 1972; its comparative statement of income, expense, and retained earnings for the fiscal years ended June 30, 1973 and 1972; and its statement of changes in financial position for the fiscal year ended June 30, 1973. 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 examined GNMA's financial statements 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, 1973; the statement of income and expense for the fiscal year ended June 30, 1973, and the statement of changes in financial position for the fiscal year ended June 30, 1973.

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 GNMA offices in Washington, D.C. We also observed and tested the audit work of the FNMA audit staff in their review of FNMA records pertaining to GNMA accounts at the FNMA regional office in Chicago and at FNMA's office in Washington, D.C. In addition, we examined the records of FHLMC in Washington, D.C., as they pertained to mortgage-backed securities guaranteed by GNMA. Furthermore, we considered the review by HUD's Office of the Inspector General of FNMA's charges to GNMA.

## CHAPTER 6

### OPINION ON FINANCIAL STATEMENTS

Schedules 1 through 4 are GNMA statements. GNMA made certain minor revisions to its fiscal year 1972 statements to conform with its fiscal year 1973 presentation. In our opinion, the accompanying financial statements (schedules 1 through 3) present fairly the financial position of GNMA at June 30, 1973, and the results of its 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.

GNMA'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, these statements present fairly the financial position of the trusts at June 30, 1973, 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, 1973 AND 1972

	<u>Combined</u>		<u>Special Assistance</u>		<u>Management and</u>		<u>Mortgage Backed</u>	
	<u>6/30/73</u>	<u>6/30/72</u>	<u>6/30/73</u>	<u>6/30/72</u>	<u>6/30/73</u>	<u>6/30/72</u>	<u>6/30/73</u>	<u>6/30/72</u>
(in thousands)								
<u>Assets</u>								
Mortgages less unamortized discount	\$ 3,885,011	\$ 5,206,383	\$ 3,387,385	\$ 3,861,913	\$ 497,626	\$ 1,344,470	\$	\$
Less mortgages subject to participation sales trusts	1,345,998	1,591,009	933,862	1,025,269	412,136	565,740		
	2,539,013	3,615,374	2,453,523	2,836,644	85,490	778,730		
Equity in trusts	426,176	410,023	324,656	312,854	101,520	97,169		
Construction loan advances		5,973		5,973				
Accrued interest receivable	12,976	15,901	11,981	12,200	995	3,701		
Other receivables	56,472	12,361	49,680	640	6,442	11,481	350	240
Claims against FHA and VA (net of allowance for losses)	20,591	15,594	17,870	8,690	2,721	6,904		
Cash	219	195	103	98	109	95	7	2
Federal securities at cost plus accrued interest	8,176	3,869		407			8,176	3,462
Deferred charges	1,560	1,822	811	970	749	852		
<b>Total assets</b>	<b>\$ 3,065,183</b>	<b>\$ 4,081,112</b>	<b>\$ 2,858,624</b>	<b>\$ 3,178,476</b>	<b>\$ 198,026</b>	<b>\$ 898,932</b>	<b>\$ 8,533</b>	<b>\$ 3,704</b>
<u>Liabilities</u>								
Accrued interest payable to U. S. Treasury	\$ 88,934	\$ 108,643	\$ 86,525	\$ 88,709	\$ 2,409	\$ 19,934	\$	\$
Trust and deposit liabilities	74,981	93,929	60,261	66,290	14,720	27,639		
Accounts payable	28,827	30,777	18,219	19,114	10,582	11,650	26	13
Deferred credits		11,245				11,245		
<b>Total liabilities</b>	<b>192,742</b>	<b>244,594</b>	<b>165,005</b>	<b>174,113</b>	<b>27,711</b>	<b>70,468</b>	<b>26</b>	<b>13</b>
<u>Investment of the U.S. Government</u>								
Notes payable to U. S. Treasury	3,052,635	3,781,390	2,972,415	3,100,010	80,220	681,380		
Retained earnings or (deficit)	(205,845)	39,448	(304,447)	(111,327)	90,095	147,084	8,507	3,691
Appropriations for Trust Fund insufficiencies	25,651	15,680	25,651	15,680				
<b>Total investment</b>	<b>2,872,441</b>	<b>3,836,518</b>	<b>2,693,619</b>	<b>3,004,363</b>	<b>170,315</b>	<b>828,464</b>	<b>8,507</b>	<b>3,691</b>
<b>Total liabilities and investment</b>	<b>\$ 3,065,183</b>	<b>\$ 4,081,112</b>	<b>\$ 2,858,624</b>	<b>\$ 3,178,476</b>	<b>\$ 198,026</b>	<b>\$ 898,932</b>	<b>\$ 8,533</b>	<b>\$ 3,704</b>

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, 1973 AND 1972

Income	Combined		Special Assistance Functions		Management and Liquidating Functions		Mortgage Backed Securities Program	
	6/30/73	6/30/72	6/30/73	6/30/72	6/30/73	6/30/72	6/30/73	6/30/72
	(in thousands)							
Interest and discount on mortgages	\$ 164,952	\$ 161,277	\$ 122,036	\$ 98,267	\$ 42,916	\$ 63,010	\$	\$
Fees:								
Mortgage-backed securities	4,986	3,081					4,986	3,081
Commitment	1,834	2,515	1,807	2,515	27			
Purchase and marketing	285	86	285	86				
Income from investments	340	121					340	121
Other	1,316	1,719	1,252	545	62	1,165	2	9
	<u>173,713</u>	<u>168,799</u>	<u>125,380</u>	<u>101,413</u>	<u>43,005</u>	<u>64,175</u>	<u>5,328</u>	<u>3,211</u>
<b>Expense</b>								
Interest on notes payable to U. S. Treasury	236,159	226,241	202,608	174,528	33,551	51,713		
Tandem plan costs:								
Subsidized	51,122	37,887	51,122	37,887				
Unsubsidized	1,195	17,339	1,195	17,339				
Loss from sale of mortgages	133,819	8,249	62,746		71,073	8,249		
Fees for servicing mortgages	6,775	6,938	3,586	2,583	3,189	4,355		
Administrative	6,000	6,568	4,115	4,169	1,405	1,976	480	423
Provision for possible losses	24	1,213		759		454	24	
Other	22	824	9	10	4	799	9	15
	<u>435,116</u>	<u>305,259</u>	<u>325,381</u>	<u>237,275</u>	<u>109,222</u>	<u>67,546</u>	<u>513</u>	<u>438</u>
Earnings or (loss) from operations	(261,403)	(136,460)	(200,001)	(135,862)	(66,217)	(3,371)	4,815	2,773
Gain or (loss) from trust operations	2,408	11,315	4,295	10,781	(1,887)	534		
Realization of deferred credit acquired from RFC	11,245	2,238			11,245	2,238		
Termination of contingency reserve for mortgages acquired from HUD		5,745				5,745		
Adjustments affecting prior years	2,457	(153)	2,586	(186)	(129)	33		
	<u>(245,293)</u>	<u>(117,315)</u>	<u>(193,120)</u>	<u>(125,267)</u>	<u>(56,988)</u>	<u>5,179</u>	<u>4,815</u>	<u>2,773</u>
Retained earnings or (deficit) at beginning of year	39,447	156,762	(111,327)	13,940	147,083	141,904	3,691	416
	<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>416</u>
Retained earnings or (deficit) at end of year	\$ (205,846)	\$ 39,447	\$ (304,447)	\$ (111,327)	\$ 90,095	\$ 147,083	\$ 8,506	\$ 3,691
	<u><u>(205,846)</u></u>	<u><u>39,447</u></u>	<u><u>(304,447)</u></u>	<u><u>(111,327)</u></u>	<u><u>90,095</u></u>	<u><u>147,083</u></u>	<u><u>8,506</u></u>	<u><u>3,691</u></u>

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

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION  
STATEMENT OF CHANGES IN FINANCIAL POSITION  
FOR FISCAL YEAR ENDED JUNE 30, 1973

	Combined	Special Assistance Functions	Management and Liquidating Functions	Mortgage Backed Securities Program
(in thousands)				
<b>Funds Provided</b>				
Mortgage liquidations	\$ 2,479,823	\$ 1,797,827	\$ 681,996	\$
Appropriations for Trust Fund insufficiencies	9,971	9,971		
Income	173,713	125,380	43,005	5,328
Borrowings from the U.S. Treasury	1,523,525	1,339,225	184,300	
Adjustments applicable to prior year:				
Realization of deferred credit	11,245		11,245	
Recovery of tandem allowances	2,586	2,586		
Washington office administrative expense	2		2	
	<u>\$ 4,200,865</u>	<u>\$ 3,274,989</u>	<u>\$ 920,548</u>	<u>\$ 5,328</u>
<b>Funds Applied</b>				
Mortgages purchased	\$ 1,414,706	\$ 1,414,706	\$	\$
Expense	435,116	325,381	109,222	513
Loss or (gain) on trust operations	(2,408)	(4,295)	1,887	
Repayment of borrowings to the U. S. Treasury	2,252,280	1,466,820	785,460	
Investments at cost plus unmaturred net earnings	4,713			4,713
Net change in other assets and liabilities	96,327	72,377	23,848	102
Adjustment applicable to prior year: Sec. 312 loan service allowance	131		131	
	<u>\$ 4,200,865</u>	<u>\$ 3,274,989</u>	<u>\$ 920,548</u>	<u>\$ 5,328</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
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(in thousands)

#### STATEMENT OF FINANCIAL CONDITION AT JUNE 30, 1973

##### Assets

Obligations subject to trust:				
Principal	\$ 4,251,043	\$ 1,213,836	\$ 1,020,611	\$ 2,016,595
Accrued interest receivable-net	42,783	2,937	11,823	28,023
Total subject to trust	<u>4,293,826</u>	<u>1,216,773</u>	<u>1,032,434</u>	<u>2,044,619</u>
Collections due from trustors	39,593	4,001	13,213	22,379
Investments at cost plus unmatrued net earnings	1,002,413	403,317	80,476	512,620
Cash	7	2	4	1
	<u>\$ 5,335,839</u>	<u>\$ 1,624,093</u>	<u>\$ 1,126,127</u>	<u>\$ 2,585,619</u>

##### Liabilities

Participation certificates:				
Principal	\$ 4,480,000	\$ 990,000	\$ 1,025,000	\$ 2,465,000
Accrued interest payable	82,175	11,368	21,713	49,094
Total due certificate holders	<u>4,562,175</u>	<u>1,001,368</u>	<u>1,046,713</u>	<u>2,514,094</u>
Accounts payable	27	16	6	5
Trustors' subordinated reversionary interest	773,637	622,709	79,408	71,520
	<u>\$ 5,335,839</u>	<u>\$ 1,624,093</u>	<u>\$ 1,126,127</u>	<u>\$ 2,585,619</u>

#### STATEMENT OF INCOME AND EXPENSE FOR FISCAL YEAR ENDED JUNE 30, 1973

##### Income

Interest earned on obligations subject to trust - net of allowances for servicing expenses	\$ 201,773	\$ 59,890	\$ 51,295	\$ 90,588
Investment income	49,674	22,787	4,801	22,086
	<u>251,447</u>	<u>82,677</u>	<u>56,096</u>	<u>112,674</u>

##### Expense

Interest on participation certificates	273,461	50,607	69,537	153,317
Administration	364	125	92	147
	<u>273,825</u>	<u>50,732</u>	<u>69,629</u>	<u>153,464</u>

Net income or (loss) from operations	(22,378)	31,945	(13,533)	(40,790)
Interest contributions by trustors	57,692		19,444	38,248
Interest retained by trustors	(27,736)	(27,736)		
Net allocation to trustors	<u>\$ 7,578</u>	<u>\$ 4,209</u>	<u>\$ 5,911</u>	<u>\$ (2,542)</u>

#### STATEMENT OF CHANGES IN FINANCIAL POSITION FOR FISCAL YEAR ENDED JUNE 30, 1973

	Provided	Applied	Provided	Applied	Provided	Applied	Provided	Applied
Obligations subject to trust:								
Principal	\$ 772,693	\$ 148,693	\$ 386,884	\$ 237,116	\$ 237,116	\$ 237,116	\$ 237,116	\$ 237,116
Accrued interest receivable-net	11,130	1,245	6,571	3,314	3,314	3,314	3,314	3,314
Collections due from trustors	18,740	12,477	6,734	277	277	277	277	277
Investments at cost plus unmatrued net earnings		296,434	6,113	53,262	53,262	53,262	249,213	249,213
Retirement of participation certificates		440,000		110,000	330,000	330,000		
Accrued interest payable		6,228		1,379	4,849	4,849		
Miscellaneous accounts payable	1			3	2	2	2	2
Net income or loss from operations		22,378	31,945	13,533	13,533	13,533	40,790	40,790
Additional principal contributed or retained by trustors		61,885		61,356	12,388	12,388	11,859	11,859
Additional interest contributed or retained by trustors		24,356		27,736	13,844	13,844	38,248	38,248
	<u>826,920</u>	<u>826,925</u>	<u>200,473</u>	<u>200,474</u>	<u>414,035</u>	<u>414,032</u>	<u>290,539</u>	<u>290,539</u>
Net change in cash balance		<u>5</u>		<u>1</u>		<u>3</u>		<u>7</u>
	<u>\$ 826,920</u>	<u>\$ 826,920</u>	<u>\$ 200,473</u>	<u>\$ 200,473</u>	<u>\$ 414,032</u>	<u>\$ 414,032</u>	<u>\$ 290,539</u>	<u>\$ 290,539</u>

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



## NOTES TO THE FINANCIAL STATEMENTS

### GENERAL

The combined statements of financial condition; income, expense, and retained earnings; changes in financial position 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 \$9.2 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: \$15,133,916 at June 30, 1973, and \$25,812,889 at June 30, 1972.

### 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, participation

equities, and deferred tandem plan discounts. Following are the amounts of unpaid principal due to GNMA from the mortgage debtors:

Combined	\$3,905,840,192
Special assistance functions	3,401,896,186
Management and liquidating functions	503,944,006

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 \$1.5 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, 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 \$4,777,511,060 in fiscal year 1973. Tandem plan expenses were \$52,316,918.

APPENDIX

PRINCIPAL OFFICIALS OF  
 THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
 AND THE GOVERNMENT NATIONAL MORTGAGE ASSOCIATION  
 RESPONSIBLE FOR THE ACTIVITIES  
 DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
SECRETARY OF HOUSING AND URBAN DEVELOPMENT:		
James T. Lynn	Feb. 1973	Present
George W. Romney	Jan. 1969	Jan. 1973
ASSISTANT SECRETARY FOR HOUSING PRODUCTION AND MORTGAGE CREDIT AND COMMISSIONER OF THE FEDERAL HOUSING ADMINISTRATION:		
Sheldon B. Lubar	June 1973	Present
Woodward Kingman (acting)	Feb. 1973	June 1973
Eugene A. Gullledge	Oct. 1969	Jan. 1973
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION:		
Woodward Kingman, President	May 1971	Present
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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