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# REPORT TO THE CONGRESS



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Examination Of Financial Statements  
 --The Government National Mortgage  
 Association For Fiscal Year 1969  
 --The Federal National Mortgage  
 Association For 2-Month Period  
 Ended August 31, 1968

B-114828

Department of Housing and  
 Urban Development

BY THE COMPTROLLER GENERAL  
 OF THE UNITED STATES

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OCT. 15, 1970



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

B-114828

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

This is our report on the examination of financial statements of the Government National Mortgage Association, Department of Housing and Urban Development, for the fiscal year ended June 30, 1969, and of the Federal National Mortgage Association, for the 2-month period ended August 31, 1968, during which time it was an organizational component of the Department of Housing and Urban Development. Our examination was made pursuant to the Government Corporation Control Act (31 U.S.C. 841).

Copies of the report are being sent 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.

*James B. Stacks*

Comptroller General  
of the United States

BEST DOCUMENT AVAILABLE

*COMPTROLLER GENERAL'S  
REPORT TO THE CONGRESS*

EXAMINATION OF FINANCIAL STATEMENTS  
--THE GOVERNMENT NATIONAL MORTGAGE  
ASSOCIATION FOR FISCAL YEAR 1969  
--THE FEDERAL NATIONAL MORTGAGE ASSOCIATION  
FOR THE 2-MONTH PERIOD ENDED  
AUGUST 31, 1968 B-114828

D I G E S T

WHY THE EXAMINATION WAS MADE

The Government Corporation Control Act requires the General Accounting Office (GAO) to examine the financial statements of the Government National Mortgage Association (GNMA), Department of Housing and Urban Development (HUD), and of the trusts for which GNMA is trustee. The Federal National Mortgage Association (FNMA) was an organizational component of HUD prior to its partitioning on August 31, 1968, and was subject to the Government Corporation Control Act. Therefore, GAO examined the FNMA financial statements covering secondary market operations for the months of July and August 1968.

GAO's examination of GNMA and FNMA was made in accordance with generally accepted auditing standards and included such tests of the accounting records and other procedures as considered necessary.

FINDINGS AND CONCLUSIONS

In the opinion of GAO, the financial statements of the Government National Mortgage Association present fairly its financial position at June 30, 1969, and the results of its operations and the source and application of its funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year and with applicable Federal laws.

In the opinion of GAO, the financial statements of GNMA as trustee for the Government Mortgage Liquidation Trust, the Small Business Obligations Trust, the Federal Assets Liquidation Trust, and the Federal Assets Financing Trust--except for the manner of presentation in the trusts' income and expense statements of interest on participation certificates and the omission in the statements of commissions on the sale of participation certificates (see p. 22)--present fairly the financial position of the respective trusts at June 30, 1969, and the results of their operations and the sources and application of their funds for the period then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year and with applicable Federal laws.

Tear Sheet

OCT. 15, 1971

FNMA adjusted its accounting records in August 1968 to give effect to a change in the accounting treatment of purchase and marketing fees collected from sellers of mortgages. The change provided for the fees to be taken into income over the life of the related mortgages and for the Federal income tax equivalent to be paid on such income as earned.

The change in the accounting treatment for the fees affected the Secondary Market Operations Balance Sheet at August 31, 1968, as follows: (1) the assets were decreased by \$32.9 million, the amount of the unamortized purchase and marketing fees (schedule 12, p. 47), (2) the liabilities were reduced by the elimination of the Federal income tax equivalent liability of \$16.4 million for the fiscal year ended June 30, 1968, and of \$0.1 million for July and August 1968, and (3) the retained earnings of the stockholders were reduced by \$16.4 million (see pp. 15 through 17).

The Internal Revenue Service disagreed with FNMA's treatment of the purchase and marketing fees and, the Secretary of the Treasury disagreed with FNMA's action on the liability for the Federal income tax equivalent. On January 30, 1970, Senate bill 3207 was passed requiring the new FNMA, which assumed the assets and liabilities of the old FNMA, to pay the Federal income tax equivalent of \$16.5 million to the Secretary of the Treasury. Action on that matter is pending in the House of Representatives (see pp. 15 through 17).

In GAO's opinion, subject to the effect of the final resolution of the matters concerning the amortization of the purchase and marketing fees and the liability for the Federal income tax equivalent, the balance sheet and statement of earnings of the secondary market operations present fairly the financial position of FNMA at August 31, 1968, and the results of operations for the 2-month period then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the fiscal year ended June 30, 1968, except for the change in reporting income from purchase and marketing fees, and with applicable Federal laws.

The GAO report discusses also, the payment of \$52 million by the new FNMA to the Secretary of the Treasury on September 30, 1968, for the general surplus applicable to his stockholdings in FNMA at the time of its partitioning. The Board of Directors of the new FNMA adopted a resolution on December 11, 1968, to establish a reserve for valuation of the mortgages acquired in the partitioning of the old FNMA.

Inasmuch as the valuation reserve was to consist of the new FNMA's total general surplus at September 30, 1968, including the \$52 million applicable to the stockholdings of the Secretary of the Treasury, the Board of Directors requested the Secretary of the Treasury to refund the \$52 million. The Secretary of the Treasury disagreed with the actions of the Board of Directors of the new FNMA and refused to make the refund but agreed to hold the \$52 million in a special status account pending resolution of the matter. The GAO report points out that the Senate passed

legislation (S. 3207) on January 30, 1970, that would have the effect of removing the \$52 million from the special status account in which it has been on deposit since September 30, 1968, and transferring the amount to miscellaneous receipts of the Government by requiring the new FNMA to pay the Secretary of the Treasury the \$52 million. Action on the matter is pending in the House of Representatives (see pp. 15 through 17).

RECOMMENDATIONS OR SUGGESTIONS

GAO is not making any recommendation to GNMA, as trustee for the various trusts, on the treatment of interest and commission expenses in the trust income and expense statements because the Vice President, Fiscal Management of GNMA, informed GAO that beginning with the fiscal year 1970 statements, those items will be shown as costs of trust operations in accordance with GAO's prior recommendations.

AGENCY ACTIONS AND UNRESOLVED ISSUES

None.

MATTERS FOR CONSIDERATION BY THE CONGRESS

The report contains no recommendations or suggestions requiring action by the Congress. It is submitted to the Congress, as required by the Government Corporation Control Act, to disclose the results of GAO's annual examination of GNMA's and FNMA's financial statements and the financial statements prepared by GNMA as trustee for the Government Mortgage Liquidation Trust, the Small Business Obligations Trust, the Federal Assets Liquidation Trust, and the Federal Assets Financing Trust, and such other information deemed necessary to keep the Congress informed of the operations and financial conditions of GNMA, FNMA, and the trusts.

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ABBREVIATIONS

DHC	Defense Homes Corporation
FAFT	Federal Assets Financing Trust
FALT	Federal Assets Liquidation Trust
FHA	Federal Housing Administration
FHDA	Farmers Home Administration of the Department of Agriculture
FNMA	Federal National Mortgage Association
new FNMA	Federal National Mortgage Association (after partitioning, a Government-sponsored private corporation)
GAO	General Accounting Office
GMLT	Government Mortgage Liquidation Trust
GNMA	Government National Mortgage Association
GNMA-M&L	Government National Mortgage Association--management and liquidating functions
GNMA-SAF	Government National Mortgage Association--special assistance functions
HEW	Department of Health, Education, and Welfare
HUD	Department of Housing and Urban Development
P&M	Purchase and marketing
RFC	Reconstruction Finance Corporation
SBA	Small Business Administration
VA	Veterans Administration

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## CHAPTER 1

### INTRODUCTION

The General Accounting Office has examined the financial statements of the Government National Mortgage Association (GNMA), Department of Housing and Urban Development (HUD) for the fiscal year ended June 30, 1969, and of the Federal National Mortgage Association (FNMA) for the 2-month period ended August 31, 1968, during which time it was an organizational component of HUD. The scope of our examination is described in chapter 8 (see p. 26) of this report.

FNMA was created as a wholly owned Government corporation in 1938 and was rechartered by the Congress as a mixed-ownership corporation in 1954. As a mixed-ownership corporation, FNMA's preferred stock was held by the Federal Government (Secretary of the Treasury) and its common stock was privately held.

The FNMA Charter Act (12 U.S.C. 1716, et seq.) segregated FNMA's activities into secondary market operations, special assistance functions, and management and liquidating functions. Under these three functions, FNMA engaged in (1) the purchase of residential mortgages insured by the Federal Housing Administration (FHA) or guaranteed by the Veterans Administration (VA) and of certain other Government-held mortgages resulting from the Federal housing programs, (2) the administration of the portfolios of these mortgages, and (3) the sale of these mortgages to the public at such times as there was a market demand. Each function is discussed in subsequent chapters of this report.

The Housing and Urban Development Act of 1968 (12 U.S.C. 1717), partitioned FNMA into two separate corporations, effective September 1, 1968. One, a Government-sponsored private corporation, known as the Federal National Mortgage Association (new FNMA), was established for the purpose of conducting the predecessor FNMA's secondary market operations. The second corporation, known as the Government National Mortgage Association, was established as a Government-owned corporation to conduct the predecessor

FNMA's special assistance and management and liquidating functions, and to act as trustee for a number of financing trusts for which FNMA was trustee. The trusts had been created under authority of the Housing Act of 1964 and the Participation Sales Act of 1966 (12 U.S.C. 1717).

Prior to the partitioning, FNMA operated for 2 months in fiscal year 1969, and prepared financial statements for the secondary market operations. The statements consisted of a balance sheet as of August 31, 1968, and a statement of earnings for the 2-month period ended August 31, 1968. (See schedules 12 and 13.)

FNMA did not prepare financial statements as of August 31, 1968, for the special assistance functions, for the management and liquidating functions, or for the trusts for which it was trustee, because it transferred the assets and liabilities of these functions and the trusts to GNMA with balances cumulative from the beginning of the fiscal year--July 1, 1968. Accordingly, GNMA's financial statements at June 30, 1969, covered the operations of the special assistance and management and liquidating functions and for the trusts for the entire fiscal year. (See schedules 1 through 11.)

The new FNMA commenced to operate as a privately owned corporation on September 1, 1968, but did not retire the investment of the Secretary of the Treasury in the corporation until September 30, 1968. As a consequence, the Secretary in conformity with a provision in the FNMA Charter Act shared in the general surplus earned by the new FNMA during the month of September 1968.

The new FNMA as a privately owned corporation, is not subject to audit by us in the future except in the event that it incurs obligations which are guaranteed as to principal or interest by GNMA, then under authority of the Housing and Urban Development Act of 1968, we will audit the new FNMA's records related to the GNMA guaranteed obligations, to the extent deemed necessary to protect the Government's contingent liability. No such obligations were outstanding during any part of fiscal year 1969.

## CHAPTER 2

### MANAGEMENT

All the powers and duties of GNMA are vested in the Secretary of HUD. GNMA is administered under his direction, and within the limitations of law he determines the general policies which govern the operations of the organization. The Secretary is empowered to appoint the president, vice president, and all other executive officers of GNMA. A list of the officers of GNMA is shown in the appendix.

Prior to its partitioning, FNMA's general policies were determined within limitations of the law, by a five-member Board of Directors. The Secretary, who was Chairman of the Board, appointed the four other members, the president, and all executive officers of FNMA. The tenure of the four board members and the president of FNMA ended on August 31, 1968.

The Housing and Urban Development Act of 1968 gives the Secretary of HUD general regulatory powers over the new FNMA and empowers the Secretary to promulgate rules and regulations as necessary to insure that the purposes of the act are accomplished. In addition, the act provides that the Secretary may require that a reasonable portion of the new FNMA's mortgage purchases be related to the national goal of providing adequate housing for low and moderate income families, but with reasonable economic return to the new FNMA.

The act established a transitional period during which control of the new FNMA was to pass to the common stockholders. The transitional period, which began on the date that the new FNMA became operative, was to continue until such time that not less than one third of the common stock was owned by persons or institutions in the mortgage lending, homebuilding, real estate, or related businesses. In

any event, however, the transitional period was not to end sooner than May 1, 1970, nor later than May 1, 1973.<sup>1</sup>

The act specified that during the transitional period the Board of Directors of the new FNMA was to consist of nine members and the Secretary was to appoint all members from the beginning of the transitional period until the first annual meeting of the stockholders. At the first annual meeting, the Secretary, in accordance with the act, appointed seven members and the stockholders elected two members. The act specified also, that at every subsequent annual meeting prior to the termination of the transitional period the Secretary was to appoint five members and the stockholders were to elect four members. After the transitional period, the new FNMA is to have a 15-member Board of Directors, one third of which will be appointed annually by the President of the United States. The Board of Directors shall appoint the president, vice president, and such other officers as provided for in the by-laws.

The act specified also that, during the transitional period, the President of the United States, with the advice and consent of the Senate, was to appoint the president of the new FNMA and could remove him from office for good cause.

#### RELATIONSHIP BETWEEN GNMA AND NEW FNMA

Under authority provided by the Housing and Urban Development Act of 1968, the new FNMA and GNMA entered into an Intercorporate Functional Agreement effective September 1, 1968, whereby GNMA generally agreed, subject to the new FNMA's direction to conduct the operations of the new FNMA, until such time as the latter would be able to conduct both organizations' operations. On December 1, 1968,

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<sup>1</sup>The transitional period was ended by the Secretary at the annual meeting of the new FNMA stockholders on May 21, 1970, at which time he approved the determination that not less than one third of the common stock of the new FNMA was owned by persons or institutions in the mortgage lending, homebuilding, real estate, or related businesses.

the new FNMA commenced conducting its own operations; it also commenced conducting substantially all of the operations related to the special assistance and management and liquidating functions of GNMA, subject to GNMA's direction.

The Agreement provided that prior to December 31, 1968, the corporation conducting the operations would be reimbursed by the other for the direct and allocated expenses incurred on its behalf. The expenses incurred through December 31, 1968, were settled.

The new FNMA continued to conduct GNMA's special assistance functions and management and liquidating functions after January 1, 1969. Reimbursement for this service was based on a memorandum agreement between the new FNMA and GNMA dated March 4, 1970, made retroactive to January 1, 1969. Under the terms of the memorandum agreement, the new FNMA was to receive an agreed-upon fee in addition to being reimbursed for direct and allocated expenses.

GNMA's headquarters office is in Washington, D.C. Its mortgage activities are conducted by the new FNMA through five regional offices located in Atlanta, Georgia; Chicago, Illinois; Dallas, Texas; Los Angeles, California; Philadelphia, Pennsylvania; and a fiscal agent office in New York City.

## CHAPTER 3

### SPECIAL ASSISTANCE FUNCTIONS

The special assistance functions were conducted by FNMA in July and August 1968, and by GNMA for the remainder of fiscal year 1969, under authority of sections 301(b) and 305 of the FNMA Charter Act, as amended. These sections provide that upon specific authorization by the President of the United States or by the Congress, GNMA is to purchase (1) selected types of home mortgages originated under special housing programs designed to provide housing of acceptable standards for segments of the national population which are unable to obtain housing under established home-financing programs and (2) home mortgages generally as a means of retarding or stopping a decline in mortgage-lending and home-building activities which threatens materially the stability of a high level national economy.

At June 30, 1969, the combined statutory limitation for mortgage purchases and commitments, subject to specific authorizations by the President and by the Congress, amounted to \$5,004 million. The statutory limitation for the Presidential authorization was \$3,504.9 million and was for the purpose of conducting mortgage purchase programs related to (1) below-market interest rate housing, (2) urban renewal housing, (3) rent supplement housing, and (4) miscellaneous other programs. The statutory limitation for the congressional authorization was \$1,499.1 million and was for the purpose of conducting mortgage purchase programs related to low- and moderate-cost housing, cooperative housing, and armed services housing.

Funds required for financing the special assistance functions may be obtained through borrowings from the Treasury, from operations, and from repayment of mortgages in GNMA's special assistance portfolio.

The FNMA Charter Act, as amended, authorized the special assistance functions to participate in the creation of trusts for the purpose of providing financing by the sale of participation certificates in mortgages conveyed to the trusts by participating trustors. When authorized by the

Congress to do so, the special assistance functions may obtain funds through the sale of participation certificates by the trusts in which it participates. The special assistance functions did not participate in the sale of participation certificates in fiscal year 1969. Financing through the sale of participation certificates is discussed on pages 18 to 21 of this report.

During fiscal year 1969, borrowings from the Treasury totaled \$785.8 million and borrowings repaid to the Treasury totaled \$292.7 million. At June 30, 1969, notes payable to the Treasury totaled \$1,398.9 million. The interest rates on funds borrowed from the Treasury during fiscal year 1969 ranged from 5.5 to 6.375 percent.

In fiscal year 1969, the special assistance functions sustained a loss of \$10.4 million from its own operations and realized a profit of \$0.2 million from trust activities. Net income from trust operations amounted to \$0.7 million offset by amortization of direct trust charges of \$0.5 million. Our analysis of the special assistance functions records showed that the loss of \$10.4 million was attributable largely to the difference between interest paid on borrowed funds and interest earned on below-market interest rate mortgages in GNMA's portfolio--1 to 3.875 percent. Our analysis showed also that the \$0.2 million profit realized on the special assistance functions trust operations in fiscal year 1969 was attributable to the difference between the interest earned on some of the mortgages assigned to the trusts to back outstanding participation certificates and interest paid on these certificates.

Significant data for the fiscal years ended June 30, 1969, and 1968, summarized from the special assistance functions mortgage records follow:

	<u>1969</u>		<u>1968</u>	
	<u>Number</u>	<u>Amount (millions)</u>	<u>Number</u>	<u>Amount (millions)</u>
Number and unpaid principal of:				
Mortgages purchased under combined Presidential and congressional authori- zation	9,303	\$ 522.0	26,982	\$634.7
Mortgages sold	1	.2	32	1.3
Mortgages repaid, foreclosed and assigned	397	24.3	781	11.3
Mortgages in the portfolio at June 30	37,243	1,320.2	28,338	822.7

The special assistance functions purchased 17,679 fewer mortgages in fiscal year 1969, than in fiscal year 1968. In fiscal year 1968, a large number of mortgages were acquired principally in liquidation of contracts executed in fiscal year 1967, in connection with a program authorized by the Congress in fiscal year 1967, for the purchase of mortgages on moderate- and low-cost housing. The decrease of 17,679 in fiscal year 1969, is the net effect of the reduction in volume of small home mortgage purchases and the increase in volume of multifamily project mortgage purchases. In fiscal year 1969, 8,966 small home mortgages were purchased--a decrease of 17,848 from the preceding fiscal year--and 337 multifamily project mortgages were purchased--an increase of 169 from the preceding fiscal year.

At June 30, 1969, the unpaid principal of 73,311 mortgages of the special assistance functions which had been conveyed to the trusts in which these functions had participated totaled \$1,212.3 million and the outstanding participation certificates related to these mortgages totaled \$1,076.9 million. The conveyed mortgages are shown as a deduction from mortgages on hand on the special assistance functions balance sheet. During fiscal year 1969, participation certificates totaling \$46.5 million matured and were redeemed by the trusts. In addition to the remittance of principal and interest collected on mortgages conveyed to the trusts, the special assistance functions at the trustee's request remitted \$12.2 million to the trustee during fiscal year 1969 to cover the difference between the amount of interest collected on the mortgages conveyed to the trusts, and the interest paid on the participation certificates collateralized by the mortgages.

## CHAPTER 4

### MANAGEMENT AND LIQUIDATING FUNCTIONS

The management and liquidating functions were conducted by FNMA in July and August 1968, and by GNMA for the remainder of fiscal year 1969, under authority of section 301(c) and 306 of the FNMA Charter Act, as amended. These sections authorize GNMA to manage and to liquidate federally owned mortgage portfolios in an orderly manner with a minimum adverse effect on the home mortgage market. The management and liquidating functions are authorized to purchase, service, or sell any obligations offered by the Secretary of HUD or any mortgages covering residential property offered by any Federal agency.

The act also provides that GNMA administer the trusts formerly administered by FNMA under the management and liquidating functions and serve as a fiduciary with respect to mortgages or other types of obligations in which certain designated departments of the United States have a financial interest.

Funds required for financing the management and liquidating functions may be obtained through borrowings from the Treasury, from repayment of mortgages in GNMA's management and liquidating portfolio, and from operations. In addition, when authorized by the Congress, funds may be obtained through the sale of participation certificates in mortgages conveyed to trusts in which the management and liquidating functions participate. This method of financing is discussed on pages 18 to 21 of this report.

During fiscal year 1969, borrowings from the Treasury totaled \$268.6 million and borrowings repaid to the Treasury totaled \$228.5 million. At June 30, 1969, outstanding borrowings totaled \$1,028.1 million. The interest rate on funds borrowed during fiscal year 1969 ranged from 5.5 to 6.375 percent.

During fiscal year 1969, the management and liquidating functions received proceeds of \$139.6 million from the sale by the Federal Assets Financing trust of participation

certificates having a face value of \$140 million and interest rates ranging from 6.125 to 6.20 percent.

In fiscal year 1969, the management and liquidating functions had net earnings of \$9.8 million from its own and trust operations (schedule 6). Earnings from management and liquidating functions amounted to \$14.9 million, offset by a loss from trust operations of \$4.8 million and amortization of direct trust charges of \$0.3 million.

Our analysis of the management and liquidating functions records showed that the earnings of \$14.9 million were attributable principally to (1) the portfolio containing mortgages which were purchased during fiscal year 1969 which bore higher interest rates than the mortgages in the portfolio purchased in previous fiscal years and (2) using available funds to pay for a substantial portion of the mortgages purchased in fiscal year 1969, thereby decreasing the need for borrowing and the incurrence of interest costs. Our analysis showed also, that the loss sustained by management and liquidating functions from trust operations was attributable to the difference between interest earnings on mortgages assigned to the trusts, and the interest paid on the participation certificates backed by these mortgages.

Significant data for the fiscal years ended June 30, 1969, and 1968, summarized from the management and liquidating functions mortgage records follow:

	1969		1968	
	Number	Amount (millions)	Number	Amount (millions)
Number and unpaid principal of:				
FHA mortgages purchased	23,852	\$ 272.6	44,667	\$ 512.8
Mortgages sold				
Mortgages repaid, foreclosed and assigned	21,467	196.6	31,157	273.8
FHA and VA mortgages in portfolio at June 30	101,238	1,129.8	97,441	1,053.9
HUD mortgages in portfolio at June 30 (note a)	5,239	31.5	6,650	38.9
Defense Homes Corporation notes in portfolio at June 30 (note b)	2	16.9	3	19.4

<sup>a</sup>Mortgages covering World War II Lanham Act housing, formerly owned by the Public Housing Administration, acquired by the management and liquidating functions during fiscal year 1960, pursuant to authority provided by Public Law 86-372, 86th Cong., approved September 23, 1959.

<sup>b</sup>Defense Homes Corporation mortgage loans transferred to the management and liquidating functions by the Reconstruction Finance Corporation on July 1, 1954, pursuant to Reorganization Plan No. 2 of 1954, dated April 29, 1954.

At June 30, 1969, the unpaid principal of 137,043 mortgages of the management and liquidating functions which had been conveyed to the trusts in which these functions had participated totaled \$780.2 million. Outstanding participation certificates totaling \$820.3 million are collateralized by these mortgages and other trust assets. The conveyed mortgages are shown as a deduction from mortgages on hand on the management and liquidating functions balance sheet. During fiscal year 1969, participation certificates totaling \$87.4 million matured and were redeemed by the trusts. In addition to the remittance of principal and interest collected on mortgages conveyed to the trusts, the management and liquidating functions, at the request of the trustee, remitted \$6.6 million to the trustee to cover the difference between the amount of interest collected on the mortgages conveyed to the trusts and the interest paid on the participation certificates collateralized by the mortgages.

## CHAPTER 5

### SECONDARY MARKET OPERATIONS

Prior to partitioning, FNMA, through its secondary market operations, gave supplementary assistance to the secondary market for home mortgages by providing a degree of liquidity for mortgage investments thereby improving the distribution of investment capital available for home mortgage financing. In conducting this operation, FNMA purchased Government-insured or guaranteed mortgages at times when, and in areas where, private investment funds were in short supply and sold mortgages when private investment capital was greater than the then-current investment market could absorb.

After the partitioning on September 1, 1968, administration of the secondary market operations was taken over by the new FNMA, a private corporation. The new FNMA assumed the assets and liabilities of the secondary market operations of FNMA in conformity with the Housing and Urban Development Act of 1968.

### COMMENTS ON FINANCIAL STATEMENTS

#### Statement presentation inconsistent with presentation in preceding fiscal year

The financial statements included in this report (schedules 12 and 13) cover the final 2-months--July and August 1968--of the secondary market operations under the administration of FNMA. The presentation of income from purchase and marketing (P&M) fees and the liability for the Federal income tax equivalent in these financial statements is not consistent with the presentation of these items in prior financial statements of the secondary market operations.

Prior to fiscal year 1968, FNMA followed the practice of including the full amount of P&M fees collected from the sellers of mortgages in the secondary market operations as taxable income in the year collected, and recording the Federal income tax equivalent liability on the net income

of the secondary market operations. In fiscal year 1968, FNMA obtained an opinion from a legal counsel that the P&M fees should be considered purchase discounts and, for tax determination purposes, should be amortized over the life of the mortgages rather than treated as taxable income in the year collected.

FNMA accepted the advice of the legal counsel and computed, retroactive to November 1, 1954--the date when the income from secondary market operations became subject to Federal income tax--the P&M fees that would have been unamortized at June 30, 1968, if, beginning in 1954, it had followed the practice of amortizing the P&M fees over the life of the related mortgages. FNMA estimated that of the Federal income tax equivalent that was paid since 1954, \$16.4 million was applicable to the P&M fees that would have been unamortized at June 30, 1968. To conform the past payments of the Federal income tax equivalent to reflect the changed method of reporting the P&M fees, FNMA deferred payment of \$16.4 million of its Federal income tax equivalent due for fiscal year 1968, and showed this amount as a deferred liability in its balance sheet at June 30, 1968. FNMA made this change without obtaining agreement from the Department of the Treasury, the agency to which FNMA, under the FNMA Charter Act, was required to pay annually the Federal income tax equivalent on income from secondary market operations.

Inasmuch as FNMA accomplished the change relating to the P&M fees without adjusting the earnings of the secondary market operations or the total liability for the Federal income tax equivalent in the financial statements for the secondary market operations for the fiscal year ended June 30, 1968, we did not qualify our opinion of these financial statements for fiscal year 1968.

In August 1968, FNMA adjusted its accounting records to give effect to the change in the accounting treatment of the P&M fees. The effect of the adjustments on the balance sheet (schedule 12) at August 31, 1968, is shown below:

Million

Decrease in asset:	
Unamortized P&M fees (shown as a deduction from FHA-insured and VA-guaranteed mortgages at cost)	<u>\$32.9</u>
Decrease in liabilities:	
Elimination of Federal income tax equivalent liability:	
Amount as shown on balance sheet at June 30, 1968	\$16.4
Amount applicable to July and August 1968	0.1
Decrease in investment of the United States Gov- ernment:	
Retained earnings of the preferred stockholder (the Secretary of the Treasury) from \$52.4 million to \$42.9 million	9.5
Decrease in investment of the Public:	
Retained earnings of the common stockholders from \$37.3 million to \$30.4 million	<u>6.9</u>
	<u>\$32.9</u>

In November 1968, the Internal Revenue Service stated that in its view purchase and marketing fees were not discounts but fees for services rendered in connection with mortgage purchases and were includable in income for the taxable year in which mortgages were purchased.

The Secretary of the Treasury disagreed with FNMA's deferring payment of the Federal income tax equivalent and legislation (S. 3207 dated December 4, 1969), which was passed by the Senate on January 30, 1970, requiring the new FNMA, which assumed the assets and liabilities of the old FNMA, to pay the Federal income tax equivalent of \$16.5 million to the Secretary of the Treasury. Action on this matter is pending in the House of Representatives.

## CHAPTER 6

### TRUSTEE OPERATIONS

The Housing Act of 1964 and the Participation Sales Act of 1966 amended the FNMA Charter Act to authorize the creation of trusts, with FNMA as trustee, to sell, for financing purposes, participation certificates in pooled mortgages and other obligations of FNMA and certain other agencies. The other agencies specified in the acts were (1) the Farmers Home Administration, Department of Agriculture, (2) the Office of Education, Department of Health, Education, and Welfare, (3) HUD (except for secondary market operations of FNMA), (4) the Veterans Administration, (5) the Export-Import Bank, and (6) the Small Business Administration.

The Housing and Urban Development Act of 1968 further amended the FNMA Charter Act and the changes included the designation of GNMA to replace FNMA as trustee of the trusts. Accordingly, GNMA began to function as trustee on September 1, 1968, and assumed responsibility for the assets and liabilities of the respective trusts as of that date. As did its predecessor, GNMA administered the fiduciary acts of a trustee under its management and liquidating functions. As of June 30, 1969, four trusts had been established. Inasmuch as most of the financial transactions were consummated by FNMA during its tenure as trustee, reference is made to FNMA where applicable in the discussion that follows.

The agencies participating in the trusts conveyed title to certain mortgages and loans to the trusts, and in accordance with the FNMA Charter Act, the agencies retained custody, control, and administration of the conveyed mortgages and loans. FNMA, acting as trustee, issued and sold to private investors participation certificates in these mortgages and loans. Thus, the 1964 and 1966 acts provided means for substituting funds of private investors for funds borrowed from the Secretary of the Treasury.

GNMA in its corporate capacity has succeeded FNMA as the guarantor of the payment of all participation

certificates. In addition, the participation certificates are considered to be obligations of the United States on the basis of an opinion rendered by the Attorney General of the United States on September 30, 1966.

FNMA, and subsequently GNMA, as trustee, received from the participating trustor agencies principal and interest collected on the mortgages and loans subject to the trusts less the charges made by the agencies for administering the assets conveyed to the trusts. These funds are used to pay interest on the participation certificates, to pay trust expenses, and to retire participation certificates on maturity. Pending disbursement, the trustee invested these funds in Government securities. Funds without fiscal-year limitation are available to the trustors under provision of the Independent Offices Appropriation Act, 1967 (80 Stat. 663, 683), to enable the trustors to pay such insufficiency as may be required by the trustee on account of outstanding participation certificates.

Our review of the trust records indicated that the trusts have complied with the provisions of the trust indentures which set limits on the amount of participation certificates that may be issued against the pool of mortgages and loans collateralizing the participation certificates. The four trusts are discussed in the following paragraphs.

#### GOVERNMENT MORTGAGE LIQUIDATION TRUST

On October 1, 1964, FNMA and the Veterans Administration established a trust known as the Government Mortgage Liquidation Trust, with FNMA as trustee, to sell to private investors participation certificates in mortgages conveyed by the two agencies to the trust.

Five issues of participation certificates, aggregating \$1,790 million, have been sold since the trust was established. The last issue was dated June 23, 1966. As of June 30, 1969, participation certificates totaling \$360 million had been redeemed at maturity, of which certificates totaling \$110 million were redeemed in fiscal year 1969. At June 30, 1969, participation certificates outstanding

totalled \$1,430 million with maturities ranging from July 1969 to June 1981 and interest rates ranging from 4.25 to 5.5 percent.

#### SMALL BUSINESS OBLIGATIONS TRUST

On June 1, 1966, FNMA and the Small Business Administration established a trust known as the Small Business Obligations Trust, with FNMA as trustee, to sell to private investors participation certificates in loans conveyed to the trust by the Small Business Administration.

One issue of participation certificates, aggregating \$350 million, was sold by the trust on June 23, 1966. As of June 30, 1969, participation certificates totaling \$210 million had been redeemed at maturity, of which \$70 million were redeemed in fiscal year 1969. At June 30, 1969, participation certificates outstanding totaled \$140 million of which \$70 million matured in June 1970 and \$70 million will mature in June 1971. The participation certificates bear interest at the rate of 5.75 percent.

#### FEDERAL ASSETS LIQUIDATION TRUST

FNMA, as trustor and as trustee, entered into a trust indenture as of December 1, 1966, to establish a trust known as the Federal Assets Liquidation Trust, to sell to private investors certificates of participation in mortgages and loans conveyed to the trust. The trust indenture provided for the acceptance by the trustee of conveyances in trust of obligations from the other agencies named in the FNMA Charter Act. Such conveyances were received from (1) the Farmers Home Administration, Department of Agriculture, (2) the Office of Education, Department of Health, Education, and Welfare, (3) HUD, (4) the Veterans Administration and (5) the Small Business Administration.

Four issues of participation certificates aggregating \$3,230 million have been sold since the trust was established. In fiscal year 1969, participation certificates totaling \$450 million were redeemed at maturity. At June 30, 1969, participation certificates outstanding totaled \$2,780 million with maturities ranging from September 1969 to

April 1987 and interest rates ranging from 5 to 6.45 percent.

During fiscal year 1969, the collections of interest on mortgages received from four trustors were insufficient to cover the interest due on the participation certificates. The trustee requested and obtained \$28 million from the trustors to cover the insufficiency. As stated previously, funds were appropriated to the trustors by the Congress to pay the insufficiencies.

#### FEDERAL ASSETS FINANCING TRUST

FNMA, as trustor and as trustee, entered into a trust indenture as of November 1, 1967, to establish a trust known as Federal Assets Financing Trust, to sell to private investors certificates of participation in mortgages and loans conveyed to the trust. The trust indenture provided for the acceptance by the trustee of conveyances in trust of obligations from the other agencies named in the FNMA Charter Act. Such conveyances were received from (1) the Farmers Home Administration, Department of Agriculture, (2) the Office of Education, Department of Health, Education, and Welfare, (3) HUD, (4) the Veterans Administration, and (5) the Small Business Administration.

From inception to June 30, 1969, the trust sold four issues of participation certificates aggregating \$4,250 million of which \$1,330 million were sold in fiscal year 1969. The interest rates on the participation certificates, all of which were outstanding at June 30, 1969, ranged from 6 to 6.45 percent. The maturity dates ranged from February 1970 to August 1988.

During the fiscal year, the interest remitted by the trustors on the mortgages backing the participation certificates was insufficient to cover interest due on the participation certificates. The trustee requested and obtained \$62.7 million from the trustors to cover the insufficiency. As stated previously, funds were appropriated to the trustors by the Congress to pay the insufficiencies.

## COMMENTS ON TRUST FINANCIAL STATEMENTS

### Interest and commission expenses omitted from trust operating statements

In our report to the Congress on the examination of the financial statements of FNMA for the fiscal year ended June 30, 1968 (B-114828; dated November 26, 1969), we recommended that GNMA, which succeeded FNMA as trustee of the various trusts on September 1, 1968, present as a cost of trust operations in the income and expense statements for the trusts, interest paid to holders of participation certificates and commissions paid to brokers for the sale of participation certificates.

We made similar recommendations to FNMA, trustee, on these matters in our report to the Congress on the examination of the FNMA financial statements for fiscal year 1968 (B-114828, dated September 20, 1968).

We made these recommendations because we believed that interest and commission expenses on the participation certificates issued by the trusts were trust expenses and should have been shown in the trusts income and expense statements, and also because there are no other financial statements in which the total interest and commission expenses incurred by the trusts in connection with the participation certificates are shown.

The Vice President-Fiscal Management of GNMA has informed us that beginning in fiscal year 1970, the trusts' statements of income and expense will show as a cost of trust operations the interest paid to participation certificate holders and the commissions paid to brokers on the sale of participation certificates. Accordingly, we are not making any recommendations in this report on these matters.

## CHAPTER 7

### SECRETARY OF TREASURY'S SHARE OF FNMA'S

#### EARNING REMAINS IN A SPECIAL STATUS ACCOUNT

On September 30, 1968, a month after the partitioning of FNMA became effective, the new FNMA retired the preferred stock held by the Secretary of the Treasury in the secondary market operations. As prescribed by section 303 of the FNMA Charter Act, the preferred stock was retired at par value plus an allocated portion of the general surplus deemed to have been earned through use of the capital represented by the preferred stock. Accordingly, on September 30, 1968, the Secretary of the Treasury was paid \$217,934,960, consisting of \$163,820,305 for the par value of the preferred stock, \$52,190,693 for the share of the general surplus allocated to the preferred stock, and \$1,923,962 for a dividend declared for July, August, and September 1968 and payable on September 30, 1968.

At the request of the new FNMA, the Department of the Treasury held the \$52,190,693 in a special status account because of the view within the new FNMA that the foregoing amount would not be payable to the Secretary of the Treasury if a reserve were established for depreciation in value of the mortgage portfolio acquired in the partitioning of FNMA.

On December 11, 1968, the Board of Directors of the new FNMA determined that the assets of the secondary market operations, which the new FNMA had acquired in the partitioning, had depreciated in value as of September 30, 1968, by not less than an amount equal to the then full general surplus of FNMA. To implement its determination, the Board on December 11, 1968, approved a resolution to establish a "Surplus Reserve" as of September 30, 1968, immediately preceding the retirement of the preferred stock. The resolution provided that the reserve be established by the transfer of the general surplus of FNMA which included the amount applicable to the investment of the Secretary of the Treasury. The Board specified that the Surplus Reserve was not to be considered as having been earned through use of the capital invested in FNMA by the Secretary of the Treasury.

The resolution approved by the Board regarding the depreciation in value of the secondary market operations assets was made after the payment on September 30, 1968, to the Secretary of the Treasury, covering the par value of the preferred stock and the general surplus allocated to such stock. This being so, the Board resolved also on December 11, 1968, to request the Secretary of the Treasury to return the \$52,190,693 paid as the Treasury's share of the general surplus.

In a reply to the new FNMA's request for return of the \$52,190,693, the General Counsel of the Department of the Treasury advised the new FNMA, by letter dated January 15, 1969, that it could not accept the views of the Board that led to the establishment of the Surplus Reserve and that setting up a reserve for depreciation in value of the portfolio of secondary market operations mortgages was unwarranted for a number of reasons. Among the reasons cited were that the portfolio consisted almost exclusively of Government-insured mortgages on which no foreseeable losses will be sustained and that there was no necessity of the new FNMA to sell the mortgages before maturity. In his letter, the General Counsel proposed to transfer into the miscellaneous receipts account of the Government the \$52,190,693 that had been deposited in a special status account and requested the new FNMA's concurrence in this action. In February 1969, the Board of Directors of the new FNMA reaffirmed the resolutions adopted on December 11, 1968, in which the Board set forth its position regarding the \$52,190,693.

From inception of the secondary market operations FNMA did not provide a valuation reserve, such as the Surplus Reserve, for the mortgage portfolio acquired in these operations. The Board of Directors of FNMA had declined to provide such a reserve on the premise that FNMA would not be forced to liquidate the secondary market operations mortgage portfolio under adverse market conditions and that a reservation of surplus presumed future losses from forced sales in an adverse market.

The operating experience of the secondary market operations has shown the position of FNMA to have been reasonable.

In our opinion, the mortgage portfolio of the secondary market operations was presented fairly in the past financial statements of the secondary market operations and is presented fairly in the amount of \$6,534,917,669 in the financial statements for these operations for the 2-month period ended August 31, 1968 (schedule 12).

The resolution to establish the valuation reserve was approved by the Board of Directors of the new FNMA after August 31, 1968, and therefore had no effect on the financial statements for secondary market operations included in this report. However, in accordance with generally accepted auditing standards, disclosure must be made of significant events which occur subsequent to the date of the financial statements under examination if these events could be important considerations in an evaluation of the statements.

Legislation was passed by the Senate on January 30, 1970 (S. 3207, dated December 4, 1969), which would have the effect of removing the \$52,190,693 from the special status account in which it has been on deposit since September 30, 1968, and transferring the amount to miscellaneous receipts of the Government, by requiring the new FNMA to pay \$52,386,117 to the Secretary of the Treasury. Action on this matter is pending in the House of Representatives.

The general surplus applicable to preferred stock held by the Secretary of the Treasury amounted to \$52,386,117 at September 30, 1968, an increase of \$195,424 from the amount of \$52,190,693 at July 1, 1968. The increase resulted from the secondary market operations during the 3-months--July through September--prior to the retirement on September 30, 1968, of the preferred stock held by the Secretary of the Treasury. We examined the statements of earnings covering the secondary market operations for the 3-month period ended September 30, 1968, and we agreed with the amount allocated to the preferred stock held by the Secretary of the Treasury. The first 2-months operations were conducted by FNMA prior to its partitioning, and the operations for the third month were conducted by the new FNMA.

## CHAPTER 8

### SCOPE OF EXAMINATION

Our examination of GNMA's financial statements for fiscal year 1969 included an examination of the balance sheets as of June 30, 1969, the statements of earnings and the statement of sources and application of funds for the year then ended. The statements are presented in this report on a combined basis and separately for the special assistance functions and the management and liquidating functions.

Our examination of FNMA's statements for secondary market operations included an examination of the balance sheet as of August 31, 1968, and the statement of earnings for the 2-month period ended August 31, 1968.

We also examined financial statements of GNMA as trustee for the Government Mortgage Liquidation Trust, the Federal Assets Liquidation Trust, the Small Business Obligations Trust, and the Federal Assets Financing Trust. These statements included statements of condition as of June 30, 1969, for the four trusts and statements of income and expense and of sources and application of funds for the fiscal year ended June 30, 1969.

Our examination was made in accordance with generally accepted auditing standards and included such tests of the accounting records and such auditing procedures as we considered to be necessary in the circumstances.

Our examination was conducted at the Washington headquarters of GNMA and FNMA and at two of FNMA's five regional offices--Philadelphia, Pennsylvania, and Los Angeles, California. Our work included the examination of a number of mortgages in the portfolio in the custody of the agency offices. We did not, however, count all the mortgages in GNMA's portfolio at June 30, 1969. We also examined the records of each of the seven trustors related to the activities of the four trusts.

We reviewed the work done by the new FNMA's internal auditors for GNMA including their verification of the GNMA mortgage portfolio, and found the coverage and quality of the auditors' work to be satisfactory. The work of the new FNMA internal auditors enabled us to reduce our examination of the mortgage portfolio and our tests of the accounting records.

## CHAPTER 9

### OPINION OF FINANCIAL STATEMENTS

The financial statements presented in this report as schedules 1 through 7 are the statements of GNMA. In our opinion, the accompanying financial statements present fairly the financial position of GNMA at June 30, 1969, and the results of its operations and the sources and application of its funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year and with applicable Federal laws.

The financial statements of GNMA as trustee for the Government Mortgage Liquidation Trust, the Small Business Obligations Trust, the Federal Assets Liquidation Trust, and the Federal Assets Financing Trust are presented as schedules 8 through 11. In the section "Comments on Trust Financial Statements," (see p. 15), we point out that the interest expense on participation certificates is not clearly described in the income and expense statements of the trusts and is not shown as an expense of the trusts. In our opinion, the income and expense statements of the trusts would be more informative if interest on participation certificates were so labeled and were treated as a cost of trust operations instead of being termed "increase in preferred equity of participation certificates--accrued interest" and deducted from net income from operations.

We also point out that the financial statements of the Federal Assets Financing Trust would be more informative if commissions paid to brokers on the sale of participation certificates were shown as part of the cost of trust operations.

In our opinion, except as noted in the preceding comments, the accompanying financial statements of the trusts--schedules 8 through 11--present fairly their financial positions at June 30, 1969, and the results of their operations and the sources and application of their funds for the period then ended in conformity with generally accepted

accounting principles applied on a basis consistent with that of the preceding year and with applicable Federal laws.

The financial statements presented in this report as schedules 12 and 13, are the statements of the old FNMA covering secondary market operations for the months of July and August 1968. FNMA's presentation of the purchase and marketing fees, and the liability for Federal income tax equivalent as of August 31, 1968, was inconsistent with the presentation accorded those items at June 30, 1968. The changed accounting treatment is explained in the section, "Comments on Financial Statements for Secondary Market Operations" (see pp. 15 through 17). The changed accounting treatment resulted in the inclusion in the Balance Sheet (schedule 12) of \$32.9 million as unamortized purchase and marketing fees and in the elimination of the August 31, 1968, liability of \$16.5 million for Federal income tax equivalent, and in the reduction of stockholders' retained earnings by \$16.4 million. The changed accounting treatment given the purchase and marketing fees had no significant effect on the net earnings of the secondary market operations shown in the Statement of Earnings (schedule 13) for the 2 months ended August 31, 1968.

In our opinion, subject to the effect of the final resolution of the matters concerning the amortization of the purchase and marketing fees and the liability for the Federal income tax equivalent, the balance sheet and statement of earnings of the secondary market operations present fairly the financial position of FNMA at August 31, 1968, and the results of operations for the 2-month period then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the fiscal year ended June 30, 1968, except for the change in reporting the income from purchase and marketing fees over the life of the related mortgages instead of income in the period collected, and with applicable Federal laws.



BEST DOCUMENT AVAILABLE

FINANCIAL STATEMENTS

10

10

**Government National Mortgage Association  
COMBINED BALANCE SHEET**

<b>ASSETS</b>	June 30, 1969	June 30, 1968
Mortgages and related receivables:		
FHA-insured and VA-guaranteed mortgages at cost:		
Insured by Federal Housing Administration .....	\$3,769,411,686	\$3,191,907,636
Guaranteed by Veterans Administration .....	625,453,469	645,029,343
	<u>4,394,865,155</u>	<u>3,836,936,979</u>
Less unpaid principal of mortgages subject to:		
Government Mortgage Liquidation Trust .....	815,357,117	870,831,134
Federal Assets Liquidation Trust .....	623,214,822	677,620,137
Federal Assets Financing Trust .....	553,934,944	455,379,144
	<u>2,402,358,272</u>	<u>1,833,106,564</u>
Equity in the Government Mortgage Liquidation Trust .....	321,823,960	305,751,708
Equity in the Federal Assets Liquidation Trust .....	29,108,704	29,952,703
Equity in the Federal Assets Financing Trust .....	(445,086)	(91,401)
	<u>2,752,845,850</u>	<u>2,168,719,574</u>
Direct mortgage loans transferred from HUD:		
Unpaid principal .....	\$31,486,104	
Less allowance for losses .....	<u>5,757,312</u>	
	25,728,792	33,124,705
DHC purchase money notes transferred from RFC:		
Unpaid principal .....	16,868,933	
Less unrealized equity .....	<u>14,410,226</u>	
	2,458,707	4,994,648
Total .....	<u>2,781,033,349</u>	<u>2,206,838,927</u>
Accrued interest receivable .....	9,302,433	7,523,494
Other receivables arising from mortgages .....	5,089,102	5,410,639
	<u>2,795,424,884</u>	<u>2,219,773,060</u>
Assets acquired through foreclosure and claims in process:		
Property held pending transfer to:		
Federal Housing Administration .....	4,489,272	4,769,434
Veterans Administration .....	50,613	7,782
Claims in process against:		
Federal Housing Administration .....	3,505,422	4,325,444
Veterans Administration .....	482,615	676,363
	<u>8,527,922</u>	<u>9,779,023</u>
Less allowance for losses .....	325,043	318,072
	<u>8,202,879</u>	<u>9,460,951</u>
Property held for sale .....	26,069	53,387
	<u>8,228,948</u>	<u>9,514,338</u>
Other assets:		
Cash on hand and on deposit with the U.S. Treasury <sup>a</sup> .....	4,931,984	8,480,670
Deferred charges and miscellaneous .....	3,796,721	4,487,367
Furniture and equipment, less accumulated depreciation .....	283,893	334,655
	<u>9,012,598</u>	<u>13,302,692</u>
	<u>2,812,666,430</u>	<u>2,242,590,090</u>
<b>LIABILITIES</b>		
Liabilities:		
Accrued interest payable on notes to the U.S. Treasury .....	58,202,792	38,014,105
Accounts payable and accrued liabilities .....	24,363,025	21,512,234
Trust and deposit liabilities <sup>b</sup> .....	73,519,955	58,577,798
Deferred credits .....	26,817	48,789
Employees' accrued annual leave .....	81,712	808,676
	<u>156,194,301</u>	<u>118,961,602</u>
Investment of the United States Government:		
Notes payable to the U.S. Treasury .....	2,426,984,000	1,893,754,000
Retained earnings:		
Reserved for losses and contingencies .....	229,488,129	229,874,488
	<u>2,656,472,129</u>	<u>2,123,628,488</u>
	<u>2,812,666,430</u>	<u>2,242,590,090</u>

Footnotes to Combined Balance Sheet are shown on bottom of Schedule 2.

SCHEDULE 2

**Government National Mortgage Association  
COMBINED STATEMENT OF EARNINGS**

INCOME	Fiscal Year Ended	
	June 30, 1969	June 30, 1968
Interest .....	\$116,786,245	\$ 82,342,804
Commitment and other fees .....	5,282,605	6,753,033
Acquisition and service fees .....		
Purchase and marketing fees .....	1,619,560	4,078,826
Purchase discounts realized .....	2,637,918	2,260,071
Service fees .....	638	28,100
Other .....	315,671	143,333
	<u>126,642,637</u>	<u>95,606,167</u>
<b>EXPENSE</b>		
Interest on notes to the United States Treasury .....	109,296,225	74,315,288
Interest on notes—other .....		
Administrative <sup>a</sup> .....	3,906,126	3,647,571
Fees for servicing mortgages .....	7,660,192	5,500,555
Net losses on sales .....		
Provision for losses .....	1,026,118	712,786
Other .....	177,704	117,815
	<u>122,066,365</u>	<u>84,294,015</u>
Earnings prior to income from GMLT, FALT and FAFT operations . . . .	4,576,272	11,312,152
Gain or (loss) on trust operations:		
Government Mortgage Liquidation Trust .....	16,072,254	12,993,764
Federal Assets Liquidation Trust .....	(9,490,674)	(8,304,921)
Federal Assets Financing Trust .....	(10,706,203)	(2,589,953)
Amortization of deferred charges and credits on sale of assets—net:		
Government Mortgage Liquidation Trust participations .....	(256,707)	(273,250)
Federal Assets Liquidation Trust participations .....	(324,172)	(119,165)
Federal Assets Financing Trust participations .....	(257,129)	(32,384)
Net earnings .....	<u>(386,359)</u>	<u>12,986,243</u>

**CUMULATIVE NET EARNINGS AND ANALYSIS OF DISPOSITION**

Cumulative net earnings—June 30, 1968 .....	\$497,247,315
Net loss for the twelve months ended June 30, 1969 .....	(386,359)
	<u>496,860,956</u>
Dividends paid .....	164,401,297
Earnings paid to the United States Treasury .....	97,633,561
Liability for accrued annual leave for employees transferred from RFC .....	418,926
Adjustments of reserves covering certificates of claim .....	4,919,043
Retained earnings:	
Reserved for losses and contingencies .....	<u>229,488,129</u>
	<u>496,860,956</u>

<sup>a</sup>Includes expenses for the custody, control and administration of mortgages subject to GMLT, FALT and FAFT.

**FOOTNOTES TO COMBINED BALANCE SHEET**

<sup>a</sup>Excludes \$592 interest at June 30, 1969 and June 30, 1968, on deposit with the U.S. Treasury for payment of matured interest on notes payable—other.

<sup>b</sup>Includes only that portion of such deposits held in the general funds of the Association. In addition, the Association is responsible for the payment by servicing institutions for taxes, insurance, etc., (out of funds received from mortgagors and held in escrow for that purpose) in the amount of \$22,300,129 at June 30, 1969. All such funds are on deposit with commercial banks which are members of the Federal Deposit Insurance Corporation.

Note: On June 30, 1969, the unpaid principal balance of FHA mortgages was \$3,816,487,532 and VA, \$625,999,009 and on that date, under contracts previously executed, the Association was committed to purchase FHA-insured and VA-guaranteed mortgages aggregating \$1,328,029,304 upon delivery of eligible mortgages. Included in the unpaid principal balances are \$1,537,032,360 in FHA mortgages and \$455,474,523 in VA mortgages which are subject to GMLT, FALT, and FAFT. This statement does not show the Association's accountability under the four Trusteeships (GMLT, SBOT, FALT and FAFT). Such information and the Association's contingent liability relative thereto appear in the last footnote of Schedule 5 and in schedules 8, 9, 10, and 11.

**Government National Mortgage Association  
Special Assistance Functions  
BALANCE SHEET**

ASSETS	June 30, 1969	June 30, 1968
Mortgages and related receivables:		
FHA-insured and VA-guaranteed mortgages at cost:		
Insured by Federal Housing Administration .....	\$2,116,000,523	\$1,698,241,515
Guaranteed by Veterans Administration .....	412,716,636	393,965,735
	<u>2,528,717,159</u>	<u>2,092,207,250</u>
Less unpaid principal of mortgages subject to:		
Government Mortgage Liquidation Trust .....	686,010,223	731,374,737
Federal Assets Liquidation Trust .....	289,346,638	295,234,238
Federal Assets Financing Trust .....	236,982,397	246,880,031
	<u>1,316,377,901</u>	<u>818,718,244</u>
Equity in the Government Mortgage Liquidation Trust .....	267,024,765 <sup>a</sup>	253,549,899 <sup>a</sup>
Equity in the Federal Assets Liquidation Trust .....	(963,237) <sup>a</sup>	(50,280) <sup>a</sup>
Equity in the Federal Assets Financing Trust .....	(516,331) <sup>a</sup>	(1,036,896) <sup>a</sup>
Total .....	<u>1,581,923,098</u>	<u>1,071,180,967</u>
Accrued interest receivable .....	4,021,011	3,068,134
Other receivables arising from mortgages .....	1,238,306	1,382,236
	<u>1,587,182,415</u>	<u>1,075,631,337</u>
Assets acquired through foreclosure and claims in process:		
Property held pending transfer to:		
Federal Housing Administration .....	703,188	963,670
Veterans Administration .....	50,388	2,492
Claims in process against:		
Federal Housing Administration .....	1,050,207	677,581
Veterans Administration .....	445,055	566,569
	<u>2,248,838</u>	<u>2,210,312</u>
Less allowance for losses .....	90,811	62,838
	<u>2,158,027</u>	<u>2,147,474</u>
Other assets:		
Cash on hand and on deposit with the U.S. Treasury .....	2,793,733	55,079
Deferred charges .....	2,169,431	2,705,225
	<u>4,963,164</u>	<u>2,760,304</u>
	<u>1,594,303,606</u>	<u>1,080,539,115</u>
<b>LIABILITIES</b>		
Liabilities:		
Accrued interest payable on notes to the U.S. Treasury .....	34,344,027	17,024,888
Accounts payable and accrued liabilities <sup>b</sup> .....	11,249,281	9,601,811
Trust and deposit liabilities .....	44,761,636	32,900,622
Deferred credits .....	25,274	41,783
	<u>90,380,218</u>	<u>59,569,104</u>
Investment of the United States Government:		
Notes payable to the U.S. Treasury .....	1,398,924,000	905,784,000
Retained earnings:		
Reserved for losses and contingencies .....	104,999,388	115,186,011
	<u>1,503,923,388</u>	<u>1,020,970,011</u>
	<u>1,594,303,606</u>	<u>1,080,539,115</u>

<sup>a</sup> See Schedules 8, 10, and 11.

<sup>b</sup> Includes current monthly collections on mortgages subject to GMLT, FALT and FAFT which were paid to the Trustee: \$10,988,091 in July 1969 and \$9,155,065 in July 1968.

Note: On June 30, 1969, the unpaid principal of FHA mortgages was \$2,119,261,797 and VA, \$413,262,176. On that date, under contracts previously executed, the Association was committed to purchase FHA-insured and VA-guaranteed mortgages aggregating \$1,321,814,870 upon delivery of eligible mortgages and, in addition, had reserved funds of \$786,431,000 for projects awaiting approval for FHA insurance. Included in the unpaid principal balances are \$969,601,568 in FHA mortgages and \$242,737,690 in VA mortgages which are subject to GMLT, FALT and FAFT.

SCHEDULE 4

**Government National Mortgage Association  
Special Assistance Functions  
STATEMENT OF EARNINGS**

INCOME	Fiscal Year Ended	
	June 30, 1969	June 30, 1968
Interest . . . . .	\$ 48,867,098	\$ 25,330,886
Commitment and other fees . . . . .	5,281,630	6,752,653
Purchase and marketing fees . . . . .	1,619,560	4,078,826
Purchase discounts realized . . . . .	180,108	195,526
Services fees . . . . .	(283)	119
Other . . . . .	43,079	37,546
	<u>55,991,192</u>	<u>36,395,556</u>
<b>EXPENSE</b>		
Interest on notes to the U.S. Treasury . . . . .	62,228,901	31,476,986
Administrative <sup>a</sup> . . . . .	1,440,546	1,391,244
Fees for servicing mortgages . . . . .	2,478,976	910,773
Net losses on sales . . . . .		
Provision for losses . . . . .	202,786	160,128
Other . . . . .	2,014	339
	<u>66,353,223</u>	<u>33,939,470</u>
Earnings prior to income from GMLT, FALT and FAFT operations . . . . .	(10,362,031)	2,456,086
Gain or (loss) on trust operations:		
Government Mortgage Liquidation Trust . . . . .	13,474,867	10,317,139
Federal Assets Liquidation Trust . . . . .	(6,914,288)	(5,509,080)
Federal Assets Financing Trust . . . . .	(5,865,887)	(2,227,566)
Amortization of deferred charges and credits on sale of assets—net:		
Government Mortgage Liquidation Trust participations . . . . .	(218,283)	(233,642)
Federal Assets Liquidation Trust participations . . . . .	(175,657)	(7,495)
Federal Assets Financing Trust participations . . . . .	(125,344)	(10,616)
Net earnings <sup>b</sup> . . . . .	<u>(10,186,623)</u>	<u>4,784,826</u>

  

<b>CUMULATIVE NET EARNINGS AND ANALYSIS OF DISPOSITION</b>	
Cumulative net earnings—June 30, 1968 . . . . .	\$117,819,572
Net loss for the twelve months ended June 30, 1969 . . . . .	(10,186,623)
	<u>107,632,949</u>
Earnings paid to the United States Treasury . . . . .	2,633,561
Retained earnings reserved for losses and contingencies . . . . .	104,999,388
	<u>107,632,949</u>

<sup>a</sup>Includes expenses for the custody, control and administration of mortgages subject to GMLT, FALT and FAFT.

<sup>b</sup>Net operating loss for fiscal year ended June 30, 1969 is attributable to \$19,652,000 excess interest cost of borrowed funds used to finance mortgages bearing lower than market interest rates.

**Government National Mortgage Association  
Management and Liquidating Functions  
BALANCE SHEET**

ASSETS	June 30, 1969	June 30, 1968
Mortgages and related receivables:		
FHA-insured and VA-guaranteed mortgages at cost:		
Insured by Federal Housing Administration .....	\$1,653,411,163	\$1,493,666,121
Guaranteed by Veterans Administration .....	212,736,833	251,063,608
	<u>1,866,147,996</u>	<u>1,744,729,729</u>
Less unpaid principal of mortgages subject to:		
Government Mortgage Liquidation Trust .....	129,346,894	139,456,397
Federal Assets Liquidation Trust .....	333,868,184	382,385,899
Federal Assets Financing Trust .....	316,952,547	208,499,113
	<u>1,085,980,371</u>	<u>1,014,388,320</u>
Equity in the Government Mortgage Liquidation Trust .....	54,799,195 <sup>a</sup>	52,201,809 <sup>a</sup>
Equity in the Federal Assets Liquidation Trust .....	30,071,941 <sup>a</sup>	30,002,983 <sup>a</sup>
Equity in the Federal Assets Financing Trust .....	71,245 <sup>a</sup>	945,495 <sup>a</sup>
	<u>1,170,922,752</u>	<u>1,097,538,607</u>
Direct mortgage loans transferred from HUD:		
Unpaid principal .....	\$31,486,104	
Less allowance for losses .....	5,757,312	33,124,705
DHC purchase money notes transferred from RFC:		
Unpaid principal .....	16,868,933	
Less unrealized equity .....	14,410,226	4,994,648
	<u>2,458,707</u>	
Total .....	1,199,110,251	1,135,657,960
Accrued interest receivable .....	5,281,422	4,455,360
Other receivables arising from mortgages .....	3,850,796	4,028,403
	<u>1,208,242,469</u>	<u>1,144,141,723</u>
Assets acquired through foreclosure and claims in process:		
Property held pending transfer to:		
Federal Housing Administration .....	3,786,084	3,805,764
Veterans Administration .....	225	5,290
Claims in process against:		
Federal Housing Administration .....	2,455,215	3,647,863
Veterans Administration .....	37,560	109,794
	<u>6,279,084</u>	<u>7,568,711</u>
Less allowance for losses .....	234,232	255,234
	<u>6,044,852</u>	<u>7,313,477</u>
Property held for sale .....	26,069	53,387
	<u>6,070,921</u>	<u>7,366,864</u>
Other assets:		
Cash on hand and on deposit with the U. S. Treasury <sup>b</sup> .....	2,138,251	8,425,591
Deferred charges and miscellaneous .....	1,627,290	1,782,142
Furniture and equipment, less accumulated depreciation .....	283,893	334,655
	<u>4,049,434</u>	<u>10,542,388</u>
	<u>1,218,362,824</u>	<u>1,162,050,975</u>
<b>LIABILITIES</b>		
Liabilities:		
Accrued interest payable on notes to the U.S. Treasury .....	23,858,765	20,989,217
Accounts payable and accrued liabilities <sup>c</sup> .....	13,113,744	11,910,423
Trust and deposit liabilities .....	28,758,319	25,677,176
Employees' accrued annual leave .....	81,712	808,676
Deferred credits .....	1,543	7,006
	<u>65,814,083</u>	<u>59,392,498</u>
Investment of the United States Government:		
Notes payable to the U.S. Treasury .....	1,028,060,000	987,970,000
Retained earnings:		
Reserved for losses and contingencies .....	124,488,741	114,688,477
	<u>1,152,548,741</u>	<u>1,102,658,477</u>
	<u>1,218,362,824</u>	<u>1,162,050,975</u>

<sup>a</sup> See Schedules 8, 10, and 11.

<sup>b</sup> Excludes \$592 interest at June 30, 1969 and June 30, 1968 on deposit with the U.S. Treasury for payment of matured interest on notes payable—other.

<sup>c</sup> Includes current monthly collections on mortgages subject to GMLT, FALT, and FAFT which were paid to the Trustee: \$11,248,192 in July 1969 and \$10,274,936 in July 1968.

Notes: On June 30, 1969 the unpaid principal balance of FHA mortgages was \$1,697,225,735 and VA, \$212,736,833. In addition, \$6,214,434 was obligated for the purchase of mortgages in process of delivery by FHA. Included in the unpaid balances were \$567,430,792 in FHA mortgages and \$212,736,833 in VA mortgages subject to GMLT, FALT, and FAFT.

Under the trust instruments, the Trustee holds legal title to all of the assets in GMLT, SBOT, FALT and FAFT. In its corporate capacity, by virtue of a separate guaranty, the Association also has corporate contingent liability to certificate holders for the timely payment of all interest and principal of outstanding participation certificates. At June 30, 1969, the amount of such unmatured contingent liabilities was \$1,430,000,000 for outstanding certificates plus \$16,871,917 interest under GMLT, \$140,000,000 for outstanding certificates plus \$178,889 interest under SBOT, \$2,780,000,000 for outstanding certificates plus \$44,796,583 interest under FALT and \$4,250,000,000 for outstanding certificates plus \$90,010,979 interest under FAFT. On that date, the Trustor's subordinated reversionary interest exceeded the obligations of the Trust by \$582,243,226 for GMLT, \$211,948,029 for SBOT, \$133,071,478 for FALT and \$51,450,565 for FAFT.

**Government National Mortgage Association  
Management and Liquidating Functions  
STATEMENT OF EARNINGS**

INCOME	Fiscal Year Ended	
	June 30, 1969	June 30, 1968
Interest . . . . .	\$ 67,919,147	\$ 57,011,918
Commitment and other fees . . . . .	975	380
Acquisition and service fees . . . . .		
Purchase discounts realized . . . . .	2,457,810	2,064,545
Service fees . . . . .	921	27,981
Other . . . . .	272,592	105,787
	<u>70,651,445</u>	<u>59,210,611</u>
<b>EXPENSE</b>		
Interest on notes to the U.S. Treasury . . . . .	47,067,324	42,838,302
Interest on notes—other . . . . .		
Administrative <sup>a</sup> . . . . .	2,465,580	2,256,327
Fees for servicing mortgages . . . . .	5,181,216	4,589,782
Net losses on sales . . . . .		
Provision for losses . . . . .	823,332	552,658
Other . . . . .	175,690	117,476
	<u>55,713,142</u>	<u>50,354,545</u>
Earnings prior to income from GMLT, FAFT and FALT operations . . . .	14,938,303	8,856,066
Gain or (loss) on trust operations:		
Government Mortgage Liquidation Trust . . . . .	2,597,387	2,676,625
Federal Assets Liquidation Trust . . . . .	(2,576,386)	(2,795,841)
Federal Assets Financing Trust . . . . .	(4,840,316)	(362,387)
Amortization of deferred charges and credits on sale of assets—net:		
Government Mortgage Liquidation Trust participations . . . . .	(38,424)	(39,608)
Federal Assets Liquidation Trust participations . . . . .	(148,515)	(111,670)
Federal Assets Financing Trust participations . . . . .	(131,785)	(21,768)
Net earnings . . . . .	<u>9,800,264</u>	<u>8,201,417</u>

**CUMULATIVE NET EARNINGS AND ANALYSIS OF DISPOSITION**

Cumulative net earnings—June 30, 1968 . . . . .	\$379,427,743
Net earnings for the twelve months ended June 30, 1969 . . . . .	9,800,264
	<u>389,228,007</u>
Dividends paid . . . . .	164,401,297
Earnings paid to the United States Treasury . . . . .	95,000,000
Liability for accrued annual leave of employees transferred from RFC . . . . .	418,926
Adjustments of reserves covering certificates of claim . . . . .	4,919,043
Retained earnings reserved for losses and contingencies . . . . .	124,488,741
	<u>389,228,007</u>

<sup>a</sup>Includes expenses for the custody, control and administration of mortgages subject to GMLT, FALT and FAFT.

BEST DOCUMENT AVAILABLE

**Government National Mortgage Association**  
**STATEMENT OF SOURCE AND APPLICATION OF FUNDS**  
**Fiscal Year 1969**

	Combined	Special Assistance Functions	Management and Liquidating Functions
<b>RECEIPTS FROM OPERATIONS (funds provided)</b>			
Sales, repayments and other disposals of mortgages	\$ 239,781,854	\$ 85,506,554	\$ 154,275,300
Proceeds from the sale of furniture and equipment	16,831		16,831
Income:			
Interest	116,786,245	48,867,098	67,919,147
Commitment, purchase and marketing and other fees	6,902,803	6,900,907	1,896
Purchase discounts realized	2,637,918	180,108	2,457,810
Other	306,221	43,079	263,142
Borrowings:			
From the U.S. Treasury	1,054,380,000	785,820,000	268,560,000
Sale of participation certificates—Federal Assets Financing Trust	140,000,000		140,000,000
	<u>1,560,811,872</u>	<u>927,317,746</u>	<u>633,494,126</u>
<b>GROSS EXPENDITURES (funds applied)</b>			
Purchase of FHA-insured and VA-guaranteed mortgages (net of discount)	522,016,463	522,016,463	
FHA-insured mortgages acquired from FHA for cash (net of discount)	265,761,712		265,761,712
Purchase of furniture and equipment	36,038		36,038
Expense:			
Interest on notes	109,296,225	62,228,901	47,067,324
Fees for servicing mortgages	7,660,192	2,478,976	5,181,216
Administrative	3,833,838	1,440,546	2,393,292
Other	1,196,691	204,800	991,891
Loss or (gain) on trust operations:			
Government Mortgage Liquidation Trust	(16,072,254)	(13,474,867)	(2,597,387)
Federal Assets Liquidation Trust	9,490,674	6,914,288	2,576,386
Federal Assets Financing Trust	10,706,203	5,865,887	4,840,316
Amortization of deferred charges and credits on sale of assets—net:			
Government Mortgage Liquidation Trust participations	256,707	218,283	38,424
Federal Assets Liquidation Trust participations	324,172	175,657	148,515
Federal Assets Financing Trust participations	257,129	125,344	131,785
Repayment of borrowings:			
To the U.S. Treasury	521,150,000	292,680,000	228,470,000
Retirement at maturity—participation certificates of			
Government Mortgage Liquidation Trust participations	49,471,545	40,804,878	8,666,667
Federal Assets Liquidation Trust participations	84,343,500	5,647,500	78,696,000
Net changes in other assets and liabilities	(8,916,963)	(8,910)	(8,908,053)
	<u>1,560,811,872</u>	<u>927,317,746</u>	<u>633,494,126</u>

Note: This statement does not show the Association's activity as Trustee under the Government Mortgage Liquidation Trust, the Small Business Obligations Trust, the Federal Assets Liquidation Trust and the Federal Assets Financing Trust. This information appears in Schedules 8, 9, 10, and 11.

Government National Mortgage Association  
GOVERNMENT MORTGAGE LIQUIDATION TRUST

STATEMENT OF CONDITION <i>June 30, 1969</i>	STATEMENT OF INCOME AND EXPENSE <i>Fiscal Year Ended June 30, 1969</i>
<b>ASSETS</b>	<b>INCOME</b>
Obligations subject to trust	Interest earned on obligations subject to trust . . . . . \$ 92,517,883
Principal . . . . . \$1,725,477,485	Less service fees retained by trustors . . . . . 8,929,291
Accrued interest receivable - net . . . . . 6,722,983	Income from investments . . . . .
Receivable from trustors . . . . .	<u>\$ 83,588,592</u>
Investments at cost plus unamortized net earnings . . . . .	<u>14,059,357</u>
Cash on deposit with the United States Treasury . . . . .	<u>97,647,949</u>
<u>2,029,138,561</u>	
<b>LIABILITIES AND EQUITIES</b>	<b>EXPENSE</b>
Participation certificates:	Premiums on investments - amortized portion . . . . . 114,704
Principal . . . . . 1,430,000,000	Service charges - Federal Reserve Bank . . . . . 71,807
Accrued interest . . . . . 16,871,917	Administrative trustee . . . . . 73,271
Trustors' subordinated reversionary interest:	Printing and publication . . . . . 2,019
Beginning balance at July 1, 1968 . . . . . 556,649,521	<u>261,801</u>
Net reduction of obligations subject to trust . . . . . 630,670	Net income from operations . . . . . 97,386,148
Allocation of net income . . . . . 26,224,375	Less increase in preferred equity of participation certificates - accrued interest . . . . . 71,161,773
Accounts payable . . . . .	Balance allocated to trustors' subordinated reversionary interest . . . . . 26,224,375
<u>2,029,138,561</u>	
Notes: Financial data in substantial part represent information provided by trustors who, under the trust indenture, have custody, control and administration of the obligations which are subject to the trust. Financial details by trustors are contained in the schedule below.	

STATEMENT OF SOURCES AND APPLICATION OF FUNDS <i>Fiscal Year Ended June 30, 1969</i>			
SOURCE OF FUNDS		APPLICATION OF FUNDS	
Net income from operations . . . . .	\$ 97,386,148	Purchase of investments . . . . .	\$450,804,362
Liquidation of obligations subject to trust - principal and interest - net . . . . . \$130,244,539		Retirement of participation certificates . . . . .	110,000,000
Receivable from trustors . . . . . 191,787		Interest paid - participation certificates . . . . .	72,533,127
Liquidation of investments . . . . .		Net change in miscellaneous assets and liabilities . . . . .	(35,736)
	<u>130,436,326</u>		<u>633,301,753</u>
	<u>405,479,279</u>		
	<u>633,301,753</u>		

SCHEDULE OF FINANCIAL DETAILS									
	Trustors					Trustors			
	GNMA-SAF	GNMA-M&L	VA	Total		GNMA-SAF	GNMA-M&L	VA	Total
Obligations subject to trust:					Trustors' subordinated reversionary interest:				
Unpaid principal . . . . .	\$ 686,010	\$ 129,347	\$ 910,120	\$1,725,477	Beginning balance July 1, 1968 . . . . .	\$ 253,550	\$ 52,202	\$ 250,898	\$ 556,650
Accrued interest - net . . . . .	4,993	508	1,222	6,723	Allocation of net income . . . . .	13,474	2,598	10,152	26,224
	<u>691,003</u>	<u>129,855</u>	<u>911,342</u>	<u>1,732,200</u>	Net reduction of obligations subject to trust . . . . .			631	631
Receivable from trustors:					Distribution of income and expense:				
Principal collections . . . . .	4,341	876	6,181	11,398	Net income on obligations subject to trust . . . . .	34,721	6,032	42,835	83,588
Interest collections . . . . .	2,828	520	3,409	6,757	Interest accrued on participation certificates . . . . .	26,841	4,741	39,579	71,161
	<u>7,169</u>	<u>1,396</u>	<u>9,590</u>	<u>18,155</u>	Income from investments . . . . .	7,880	1,291	3,256	12,427
Participation certificates outstanding:					Expense of trust operations . . . . .	5,696	1,328	7,035	14,059
Principal . . . . .	532,585	104,000	793,415	1,430,000		<u>102</u>	<u>21</u>	<u>139</u>	<u>262</u>
Accrued interest . . . . .	5,593	1,471	9,808	16,872		<u>13,474</u>	<u>2,598</u>	<u>10,152</u>	<u>26,224</u>
	<u>538,178</u>	<u>105,471</u>	<u>803,223</u>	<u>1,446,872</u>					

**Government National Mortgage Association  
GOVERNMENT MORTGAGE LIQUIDATION TRUST**

SUMMARY OF OBLIGATIONS SUBJECT TO TRUST AND RELATED PARTICIPATION CERTIFICATES									
	Fiscal Year Ended June 30, 1969				October 1, 1964 through June 30, 1969				
	Trustor GNMA		Trustor VA	Total	Trustor GNMA		Trustor VA	Total	
	SAF	M & L			SAF	M & L			
<b>FHA-insured and VA-guaranteed mortgages:</b>									
Unpaid principal at beginning of period . . . .	\$731,374,737	\$139,456,397	\$987,020,238	\$1,857,851,372	\$428,115,729		\$ 204,646,817	\$ 632,762,546	
Additions . . . . .			15,739,563	15,739,563	472,073,963	\$175,866,754	1,071,003,806	1,718,944,523	
Withdrawals . . . . .			16,370,233	16,370,233			66,925,588	66,925,588	
Repayments . . . . .	38,938,053	8,932,248	76,269,200	124,139,501	155,958,065	35,820,383	298,604,667	490,383,115	
Other credits . . . . .	6,426,461	1,177,255		7,603,716	58,221,404	10,699,477		68,920,881	
Outstanding at June 30, 1969 . . . . .	686,010,223	129,346,894	910,120,368	1,725,477,485	686,010,223	129,346,894	910,120,368	1,725,477,485	
<b>Participations certificates:</b>									
<b>Principal at face value:</b>									
Issued November 2, 1964 . . . . .					200,000,000		100,000,000	300,000,000	
Issued July 1, 1965 . . . . .					120,000,000	130,000,000	275,000,000	525,000,000	
Issued December 1, 1965 . . . . .					75,000,000		300,000,000	375,000,000	
Issued April 4, 1966 . . . . .					160,000,000		250,000,000	410,000,000	
Issued June 23, 1966 . . . . .					120,000,000		60,000,000	180,000,000	
Paid or retired during period . . . . .	40,804,878	8,666,667	60,528,455	110,000,000	142,414,634	26,000,000	191,585,366	360,000,000	
Outstanding at June 30 1969 . . . . .	532,585,366	104,000,000	793,414,634	1,430,000,000	532,585,366	104,000,000	793,414,634	1,430,000,000	
<b>Interest payable:</b>									
Outstanding at beginning of period . . . . .	5,700,040	2,535,000	10,008,231	18,243,271					
Accrued . . . . .	26,840,832	4,741,576	39,579,365	71,161,773	109,558,285	21,089,076	157,947,731	288,595,092	
Liquidated . . . . .	26,948,275	5,805,838	39,779,014	72,533,127	103,965,688	19,618,338	148,139,149	271,723,175	
Outstanding at June 30, 1969 . . . . .	5,592,597	1,470,738	9,808,582	16,871,917	5,592,597	1,470,738	9,808,582	16,871,917	
	<b>Maturity</b>	<b>Int. Rate</b>	<b>Face Amount</b>	<b>Maturity</b>	<b>Int. Rate</b>	<b>Face Amount</b>	<b>Maturity</b>	<b>Int. Rate</b>	<b>Face Amount</b>
<b>Issues:</b>									
Series A—1965-1974	11-1-65	4-1/8	\$30,000,000 <sup>a</sup>	11-1-68	4-1/4	\$30,000,000 <sup>a</sup>	11-1-71	4-3/8	\$30,000,000
Issued November 2, 1964	11-1-66	4-1/8	30,000,000 <sup>d</sup>	11-1-69	4-1/4	30,000,000	11-1-72	4-3/8	30,000,000
	11-1-67	4-1/4	30,000,000 <sup>a</sup>	11-1-70	4-1/4	30,000,000	11-1-73	4-3/8	30,000,000
							11-1-74	4-3/8	30,000,000
Series B—1966-1980	7-1-66	4-3/8	35,000,000 <sup>a</sup>	7-1-71	4-1/2	35,000,000	7-1-76	4-1/2	35,000,000
Issued July 1, 1965	7-1-67	4-3/8	35,000,000 <sup>a</sup>	7-1-72	4-1/2	35,000,000	7-1-77	4-1/2	35,000,000
	7-1-68	4-1/2	35,000,000 <sup>a</sup>	7-1-73	4-1/2	35,000,000	7-1-78	4-1/2	35,000,000
	7-1-69	4-1/2	35,000,000	7-1-74	4-1/2	35,000,000	7-1-79	4-1/2	35,000,000
	7-1-70	4-1/2	35,000,000	7-1-75	4-1/2	35,000,000	7-1-80	4-1/2	35,000,000
Series C—1966-1980	12-1-66	4-5/8	25,000,000 <sup>a</sup>	12-1-71	4.70	25,000,000	12-1-76	4.70	25,000,000
Issued December 1, 1965	12-1-67	4-5/8	25,000,000 <sup>a</sup>	12-1-72	4.70	25,000,000	12-1-77	4.70	25,000,000
	12-1-68	4-5/8	25,000,000 <sup>a</sup>	12-1-73	4.70	25,000,000	12-1-78	4.70	25,000,000
	12-1-69	4.70	25,000,000	12-1-74	4.70	25,000,000	12-1-79	4.70	25,000,000
	12-1-70	4.70	25,000,000	12-1-75	4.70	25,000,000	12-1-80	4.70	25,000,000
Series D—1967-1981	4-1-67	5.40	20,000,000 <sup>a</sup>	4-1-72	5.50	20,000,000	4-1-77	5.45	42,000,000
Issued April 4, 1966	4-1-68	5.45	20,000,000 <sup>a</sup>	4-1-73	5.50	20,000,000	4-1-78	5.40	42,000,000
	4-1-69	5.50	20,000,000 <sup>a</sup>	4-1-74	5.50	20,000,000	4-1-79	5.35	42,000,000
	4-1-70	5.50	20,000,000	4-1-75	5.50	20,000,000	4-1-80	5.30	42,000,000
	4-1-71	5.50	20,000,000	4-1-76	5.45	20,000,000	4-1-81	5.25	42,000,000
Series E—1979-1981	6-23-79	5.40	60,000,000	6-23-80	5.40	60,000,000	6-23-81	5-3/8	60,000,000
Issued June 23, 1966									

<sup>a</sup>Retired at maturity.

**Government National Mortgage Association  
SMALL BUSINESS OBLIGATIONS TRUST**

STATEMENT OF CONDITION June 30, 1969	STATEMENT OF INCOME AND EXPENSE Fiscal Year Ended June 30, 1969
<b>ASSETS</b>	<b>INCOME</b>
Obligations subject to trust: Principal ..... \$ 266,654,676 Accrued interest receivable net ..... <u>1,061,431</u> Receivable from Small Business Administration ..... 6,965,849 Investments at cost plus unamortized net earnings ..... 77,430,398 Cash on deposit with the United States Treasury ..... <u>29,790</u> <span style="float:right;">352,142,144</span>	Interest earned on obligations subject to trust ..... \$ 12,778,345 Less service fees retained by trustor ..... <u>588,253</u> Income from investments ..... <u>6,552,369</u> <span style="float:right;">18,742,461</span>
<b>LIABILITIES AND EQUITIES</b>	<b>EXPENSE</b>
Participation certificates: Principal ..... 140,000,000 Accrued interest ..... <u>178,889</u> Trustor's subordinated reversionary interest: Beginning balance at July 1, 1968 ..... 202,922,208 Net increase of obligations subject to trust ..... 2,356,091 Allocation of net income ..... <u>6,669,730</u> Accounts payable ..... <u>15,226</u> <span style="float:right;">352,142,144</span>	Premiums on investments - amortized portion ..... 24,348 Service charges - Federal Reserve Bank ..... 51,481 Administrative trustee ..... 10,208 Printing and publication ..... <u>1,138</u> <span style="float:right;">87,175</span> Net income from operations ..... 18,655,286 Less increase in preferred equity of participation certificates - accrued interest ..... <u>11,985,556</u> Balance allocated to trustor's subordinated reversionary interest ..... <u>6,669,730</u>
Note: Financial data in substantial part represents information provided by the trustor who, under the trust indenture, has custody, control and administration of the obligations which are subject to the trust.	

STATEMENT OF SOURCES AND APPLICATION OF FUNDS Fiscal Year Ended June 30, 1969	
SOURCE OF FUNDS	APPLICATION OF FUNDS
Net income from operations ..... \$ 18,655,286 Liquidation of obligations subject to trust - principal and interest - net ..... \$ 73,258,406 Receivable from trustor ..... <u>1,633,244</u> Liquidation of investments ..... <u>219,650,275</u> <span style="float:right;">313,197,211</span>	Purchase of investments ..... \$231,123,180 Retirement of participation certificates ..... 70,000,000 Interest paid - participation certificates ..... 12,075,000 Net change in miscellaneous assets and liabilities ..... (969) <span style="float:right;"><u>313,197,211</u></span>

SUMMARY OF OBLIGATIONS SUBJECT TO TRUST AND RELATED PARTICIPATION CERTIFICATES				
	Fiscal Year Ended June 30, 1969	May 1, 1966- June 30, 1969		
Small Business Administration loans:			Participation certificates (continued)	
Unpaid principal at beginning of period	\$337,005,989	\$531,656,148	Interest payable:	
Additions	18,987,052	48,056,662	Outstanding at beginning of period	\$ 268,333
Withdrawals	16,630,961	37,547,756	Accrued during period	11,985,556
Repayments	72,707,404	275,510,378	Liquidated during period	12,075,000
Outstanding June 30, 1969	<u>266,654,676</u>	<u>266,654,676</u>	Outstanding June 30, 1969	178,889
Participation certificates (issued June 23, 1966):			Issues - Series A - 1967-1971:	
Principal at face value:			Maturity June 23, 1967 - 5.70%	70,000,000 <sup>a</sup>
Outstanding at beginning of period	210,000,000		June 23, 1968 - 5.75%	70,000,000 <sup>a</sup>
Issued during period (net proceeds to trustor \$349,160,000)		350,000,000	June 23, 1969 - 5.75%	70,000,000 <sup>a</sup>
Liquidated during period	<u>70,000,000</u>	<u>210,000,000</u>	June 23, 1970 - 5.75%	70,000,000
Outstanding June 30, 1969	<u>140,000,000</u>	<u>140,000,000</u>	June 23, 1971 - 5.75%	70,000,000

<sup>a</sup>Retired at maturity.

**Government National Mortgage Association  
FEDERAL ASSETS LIQUIDATION TRUST**

STATEMENT OF CONDITION June 30, 1969	STATEMENT OF INCOME AND EXPENSE Fiscal Year Ended June 30, 1969																																																																																																																							
<p align="center"><b>ASSETS</b></p> <p>Obligations subject to trust:</p> <table style="width:100%; border-collapse: collapse;"> <tr> <td style="width:30%;">Principal .....</td> <td style="width:15%; text-align:right;">\$2,573,739,949</td> <td style="width:15%;"></td> <td style="width:15%;"></td> <td style="width:25%;"></td> </tr> <tr> <td>Accrued interest receivable—net .....</td> <td style="text-align:right;">30,391,385</td> <td style="text-align:right;">\$2,604,131,334</td> <td></td> <td></td> </tr> <tr> <td>Receivable from trustors .....</td> <td></td> <td style="text-align:right;">27,526,131</td> <td></td> <td></td> </tr> <tr> <td>Investments at cost plus unmatured net earnings ...</td> <td></td> <td style="text-align:right;">325,115,100</td> <td></td> <td></td> </tr> <tr> <td>Cash on deposit with the United States Treasury ...</td> <td></td> <td style="text-align:right;">1,112,659</td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align:right; border-top: 1px solid black;"><u>2,957,885,224</u></td> <td></td> <td></td> </tr> </table> <p align="center"><b>LIABILITIES AND EQUITIES</b></p> <table style="width:100%; border-collapse: collapse;"> <tr> <td colspan="5">Participation certificates outstanding:</td> </tr> <tr> <td style="width:30%;">Principal .....</td> <td style="width:15%; text-align:right;">2,780,000,000</td> <td style="width:15%;"></td> <td style="width:15%;"></td> <td style="width:25%;"></td> </tr> <tr> <td>Accrued interest .....</td> <td style="text-align:right;">44,796,583</td> <td style="text-align:right;">2,824,796,583</td> <td></td> <td></td> </tr> <tr> <td colspan="5">Trustors' subordinated reversionary interest:</td> </tr> <tr> <td>Beginning balance at July 1, 1968 .....</td> <td style="text-align:right;">149,460,566</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Net reduction in obligations subject to trust .....</td> <td style="text-align:right;">(7,905,194)</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Allocation of net loss .....</td> <td style="text-align:right;">(36,440,323)</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Deficiency collections—interest .....</td> <td style="text-align:right;">27,956,429</td> <td style="text-align:right;">133,071,478</td> <td></td> <td></td> </tr> <tr> <td>Accounts payable .....</td> <td></td> <td style="text-align:right;">17,163</td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align:right; border-top: 1px solid black;"><u>2,957,885,224</u></td> <td></td> <td></td> </tr> </table> <p>Notes: An indefinite appropriation without fiscal year limitation has been enacted by the United States Congress to provide additional funds, if necessary, to meet the interest and principal requirements of the participation certificates.</p> <p>Financial data in substantial part represent information provided by trustors who, under the trust indenture, have custody, control and administration of the obligations which are subject to the trust.</p> <p>Financial details by trustors are contained in the schedule below.</p>	Principal .....	\$2,573,739,949				Accrued interest receivable—net .....	30,391,385	\$2,604,131,334			Receivable from trustors .....		27,526,131			Investments at cost plus unmatured net earnings ...		325,115,100			Cash on deposit with the United States Treasury ...		1,112,659					<u>2,957,885,224</u>			Participation certificates outstanding:					Principal .....	2,780,000,000				Accrued interest .....	44,796,583	2,824,796,583			Trustors' subordinated reversionary interest:					Beginning balance at July 1, 1968 .....	149,460,566				Net reduction in obligations subject to trust .....	(7,905,194)				Allocation of net loss .....	(36,440,323)				Deficiency collections—interest .....	27,956,429	133,071,478			Accounts payable .....		17,163					<u>2,957,885,224</u>			<p align="center"><b>INCOME</b></p> <table style="width:100%; border-collapse: collapse;"> <tr> <td style="width:50%;">Interest earned on obligations subject to trust .....</td> <td style="width:10%; text-align:right;">\$104,511,377</td> <td style="width:40%;"></td> </tr> <tr> <td>Less servicing fees retained by trustors .....</td> <td style="text-align:right;">3,986,097</td> <td style="text-align:right;">\$100,525,280</td> </tr> <tr> <td>Income from investments .....</td> <td></td> <td style="text-align:right;">29,722,602</td> </tr> <tr> <td>Miscellaneous .....</td> <td></td> <td style="text-align:right;">159</td> </tr> <tr> <td></td> <td></td> <td style="text-align:right; border-top: 1px solid black;"><u>130,248,041</u></td> </tr> </table> <p align="center"><b>EXPENSE</b></p> <table style="width:100%; border-collapse: collapse;"> <tr> <td style="width:50%;">Premiums on investments—amortization portion ....</td> <td style="width:10%;"></td> <td style="width:40%; text-align:right;">525,778</td> </tr> <tr> <td>Service charges—Federal Reserve Bank .....</td> <td></td> <td style="text-align:right;">47,170</td> </tr> <tr> <td>Administrative—trustee .....</td> <td></td> <td style="text-align:right;">155,875</td> </tr> <tr> <td>Printing and publication .....</td> <td></td> <td style="text-align:right;">12,356</td> </tr> <tr> <td></td> <td></td> <td style="text-align:right; border-top: 1px solid black;"><u>741,179</u></td> </tr> <tr> <td>Net income from operations .....</td> <td></td> <td style="text-align:right;">129,506,862</td> </tr> <tr> <td>Less increase in preferred equity of participation certificates—accrued interest .....</td> <td></td> <td style="text-align:right;">165,947,185</td> </tr> <tr> <td>Balance allocated to trustors' subordinated reversionary interest .....</td> <td></td> <td style="text-align:right; border-top: 1px solid black;"><u>(36,440,323)</u></td> </tr> </table>	Interest earned on obligations subject to trust .....	\$104,511,377		Less servicing fees retained by trustors .....	3,986,097	\$100,525,280	Income from investments .....		29,722,602	Miscellaneous .....		159			<u>130,248,041</u>	Premiums on investments—amortization portion ....		525,778	Service charges—Federal Reserve Bank .....		47,170	Administrative—trustee .....		155,875	Printing and publication .....		12,356			<u>741,179</u>	Net income from operations .....		129,506,862	Less increase in preferred equity of participation certificates—accrued interest .....		165,947,185	Balance allocated to trustors' subordinated reversionary interest .....		<u>(36,440,323)</u>
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STATEMENT OF SOURCES AND APPLICATION OF FUNDS Fiscal Year Ended June 30, 1969			
SOURCE OF FUNDS			APPLICATION OF FUNDS
Net income from operations .....		\$ 129,506,862	Purchase of investments .....
Liquidation of obligations subject to trust —			Interest paid—participation certificates .....
principal and interest net .....	\$303,463,175		Retirement of participation certificates .....
Receivable from trustors .....	937,630	304,400,805	Net change in miscellaneous assets and liabilities ....
Liquidation of investments .....		1,142,237,114	
Deficiency collections (interest) .....		27,956,429	
		<u>1,604,101,210</u>	
			<u>\$ 970,572,825</u>
			183,368,810
			450,000,000
			<u>159,575</u>
			<u>1,604,101,210</u>

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SCHEDULE 10  
Page 1



**Government National Mortgage Association  
FEDERAL ASSETS FINANCING TRUST**

STATEMENT OF CONDITION June 30, 1969			STATEMENT OF INCOME AND EXPENSE Fiscal Year Ended June 30, 1969		
<b>ASSETS</b>			<b>INCOME</b>		
Obligations subject to trust:			Interest earned on obligations subject to trust .....	\$189,821,725	
Principal .....	\$3,925,871,584		Less servicing fees retained by trustors .....	6,982,593	\$182,839,132
Accrued interest receivable—net .....	40,685,989	\$3,966,557,573	Income from investments .....		13,759,128
Receivable from trustors .....		30,361,242	Miscellaneous .....		504
Investments at cost plus unmatrued net earnings ..		394,537,148			<u>196,598,764</u>
Cash on deposit with the United States Treasury ..		18,025			
		<u>4,391,473,988</u>			
<b>LIABILITIES AND EQUITIES</b>			<b>EXPENSE</b>		
Participation certificates outstanding:			Premiums on investments—amortized portion .....		47,835
Principal .....	4,250,000,000		Service charges—Federal Reserve Bank .....		35,024
Accrued interest .....	90,010,979	4,340,010,979	Administrative—trustee .....		212,500
Trustors' subordinated reversionary interests:			Printing and publication .....		48,875
Beginning balance at July 1, 1968 .....	38,346,189		Legal fees .....		68
Preferred equity sold—participation certificates ..	(1,330,000,000)		Travel .....		249
Net increase in obligations subject to trust .....	1,338,462,489				<u>344,551</u>
Allocation of net loss .....	(58,095,041)		Net income from operations .....		196,254,213
Deficiency collections—interest .....	62,736,928	51,450,565	Less increase in preferred equity of participation certificates—accrued interest .....		<u>254,349,254</u>
Accounts payable .....		12,444	Balance allocated to trustors' subordinated reversionary interest .....		<u>(58,095,041)</u>
		<u>4,391,473,988</u>			
Notes: A definite annual appropriation has been enacted by the United States Congress to provide additional funds, if necessary, to meet the interest and principal requirements of the participation certificates.					
Financial data in substantial part represent information provided by trustors who, under the trust indenture, have custody, control and administration of the obligations which are subject to the trust.					
STATEMENT OF SOURCES AND APPLICATION OF FUNDS Fiscal Year Ended June 30, 1969					
<b>SOURCE OF FUNDS</b>			<b>APPLICATION OF FUNDS</b>		
Net income from operations .....		\$ 196,254,213	Purchase of investments .....		\$ 765,601,566
Liquidation of obligations subject to trust—principal and interest—net .....	\$ 262,407,881		Proceeds from the sale of participation certificates paid to trustors .....		1,326,300,000
Less receivable from trustors .....	12,056,582	250,351,299	Interest paid—participation certificates .....		223,034,421
Liquidation of investments .....		479,075,700	Net change in miscellaneous assets and liabilities .....		(217,847)
Deficiency collections—interest .....		62,736,928			<u>2,314,718,140</u>
Sale of participation certificates:					
Principal .....	1,330,000,000				
Less commission and discounts .....	3,700,000	1,326,300,000			
		<u>2,314,718,140</u>			

**Government National Mortgage Association  
FEDERAL ASSETS FINANCING TRUST**

SUMMARY OF OBLIGATIONS SUBJECT TO TRUST AND RELATED PARTICIPATION CERTIFICATES								
	Trustors							
	GNMA-SAF	GNMA-M&L	VA	SBA	FHDA	HEW	HUD	Total
<b>Fiscal Year Ended June 30, 1969</b>								
Obligations subject to trust								
Unpaid principal at beginning of period	\$246,880,011	\$208,499,111	\$602,996,871	\$ 93,411,899	\$478,422,029	1 99,851,558	\$1,137,772,540	\$2,866,856,041
Additions		140,077,364	299,010,129	64,029,249	226,342,110	15,012,000	652,602,716	1,197,023,888
Withdrawals		10,000	17,692,322	8,508,423	1,522,818		10,822,816	58,561,399
Repayments	5,925,676	28,459,650	29,990,313	21,898,494	168,820,023	875,379	16,401,121	272,370,658
Other credits	3,972,008	1,104,280						7,076,288
Unpaid principal at June 30, 1969	236,982,397	116,952,547	814,119,565	126,054,211	534,421,398	113,990,179	1,763,151,767	3,925,871,584
<b>Cumulative November 1, 1967 through June 30, 1969</b>								
Unpaid principal at beginning of period	125,026,545		191,719,360	100,495,027	175,500,540	25,000,000	401,397,704	1,009,119,276
Additions	125,749,449	356,335,245	746,220,452	72,576,093	578,409,273	90,017,141	1,197,513,280	3,166,315,941
Withdrawals		10,000	54,355,277	16,738,085	1,988,412		13,306,816	86,498,540
Repayments	8,716,822	75,911,184	39,265,170	30,278,804	217,500,003	1,921,964	22,452,907	355,147,004
Other credits	5,076,775	3,461,114						8,537,889
Unpaid principal at June 30, 1969	236,982,397	116,952,547	814,119,565	126,054,211	534,421,398	113,990,179	1,763,151,767	3,925,871,584
<b>Participation certificates</b>								
Principal at face value								
Issued December 11, 1967	125,000,000		175,000,000	100,000,000	175,000,000	25,000,000	400,000,000	1,000,000,000
Issued January 30, 1968	125,000,000	90,000,000	250,000,000		250,000,000	50,000,000	500,000,000	1,750,000,000
Issued April 8, 1968		125,000,000	165,000,000		125,000,000	45,000,000	210,000,000	670,000,000
Issued August 17, 1968		140,000,000	260,000,000	50,000,000	225,000,000	15,000,000	640,000,000	1,330,000,000
Paid or retired								
Outstanding at June 30, 1969	250,000,000	355,000,000	850,000,000	150,000,000	750,000,000	115,000,000	1,780,000,000	4,250,000,000
<b>Fiscal Year Ended June 30, 1969</b>								
Interest payable								
Outstanding at beginning of period	5,317,250	4,109,035	11,762,164	1,729,583	10,543,498	1,851,067	23,383,244	58,696,146
Accrued	15,486,832	21,041,647	50,923,762	9,077,546	44,956,799	7,075,974	105,785,793	254,349,254
Liquidated	14,761,594	18,673,758	45,085,373	7,192,140	39,678,581	6,758,925	90,884,070	221,034,421
Outstanding at June 30, 1969	6,042,488	6,476,924	17,600,878	3,614,989	15,821,707	2,169,116	38,264,877	90,010,979
<b>Cumulative November 1, 1967 through June 30, 1969</b>								
Accrued	23,063,978	25,150,682	65,850,085	12,515,046	58,664,143	9,380,020	136,400,613	331,124,567
Liquidated	17,021,490	18,673,758	48,249,207	9,000,957	42,842,436	7,210,904	98,115,736	241,115,588
Outstanding at June 30, 1969	6,042,488	6,476,924	17,600,878	3,614,989	15,821,707	2,169,116	38,264,877	90,010,979
Maturity			Int. Rate			Face Amount		
<b>Issues:</b>								
Series A 1970-1987 - 12-11-67	2-11-70	6.35	\$650,000,000	12-11-87	6.40	\$350,000,000		
Series B 1971-1988 - 1-30-68	2- 1-71	6.00	800,000,000	2- 1-88	6.05	450,000,000		
Series C - 1971 1988 4- 8-68	4- 8-71	6.30	350,000,000	4- 8-88	6.45	335,000,000		
Series D - 1978-1988 - 8-12-68	8-14-78	6.125	500,000,000	8-12-88	6.20	830,000,000		

  

SCHEDULE OF FINANCIAL DETAILS								
	Trustors							
	GNMA-SAF	GNMA-M&L	VA	SBA	FHDA	HEW	HUD	Total
Dollars in thousands								
Obligations subject to trust:								
Unpaid principal	\$236,982	\$316,953	\$834,320	\$126,054	\$534,421	\$113,990	\$1,763,151	\$3,925,871
Accrued interest - net	47	964	1,670	652	21,296	1,780	14,277	40,686
	237,029	317,917	835,990	126,796	555,717	115,770	1,777,428	3,966,557
Receivable from trustors:								
Principal collections	2,117	3,088	2,689	2,116	8,937	61	512	19,520
Interest collections	676	1,304	3,501	506	2,364	262	2,228	10,841
	2,793	4,392	6,190	2,622	11,301	323	2,740	30,361
Participation certificates outstanding								
Principal	250,000	355,000	850,000	150,000	750,000	115,000	1,780,000	4,250,000
Accrued interest	6,042	6,477	17,601	3,615	15,822	2,169	38,285	90,011
	256,042	361,477	867,601	153,615	765,822	117,169	1,818,285	4,340,011
Trustors' subordinated reversionary interest:								
Balance July 1, 1968	(1,037)	946	23,969	1,013	16,845	(139)	(3,251)	38,346
Net increase in obligations subject to trust		140,017	261,313	55,521	224,819	15,012	641,780	1,338,462
Allocation of net loss	(5,866)	(4,840)	(5,807)	(515)	(5,414)	(3,548)	(32,105)	(58,095)
Deficiency collections (interest)	6,386	3,949	3,421	443	8,432	4,343	35,763	62,737
Participation certificates sold		(140,000)	(260,000)	(50,000)	(225,000)	(15,000)	(640,000)	(1,330,000)
	(517)	72	22,896	6,462	19,682	668	2,187	51,450
Distribution of income and expense:								
Net income on obligations subject to trust	9,082	14,845	43,490	7,475	31,965	3,494	72,488	182,839
Interest accrued on participation certificates	15,487	21,041	50,924	9,077	44,957	7,077	105,786	254,349
	(6,405)	(6,196)	(7,434)	(1,602)	(12,992)	(3,583)	(33,298)	(71,510)
Income from investments	557	1,386	1,692	1,102	7,656	43	1,323	13,759
Expense of trust operations	18	30	65	15	78	8	130	344
	(5,866)	(4,840)	(5,807)	(515)	(5,414)	(3,548)	(32,105)	(58,095)

## FEDERAL NATIONAL MORTGAGE ASSOCIATION

## SECONDARY MARKET OPERATIONS

## BALANCE SHEET

A S S E T S	<u>August 31, 1968</u>	<u>June 30, 1968</u>
MORTGAGES AND RELATED RECEIVABLES:		
FHA-insured and VA-guaranteed mortgages at cost:		
Insured by Federal Housing Administration (note b)	\$4,703,563,614	\$4,609,652,735
Guaranteed by Veterans Administration (note b)	<u>1,831,354,055</u>	<u>1,777,576,199</u>
Total mortgages	6,534,917,669	6,387,228,934
Less unamortized purchase and marketing fees (note a)	<u>32,953,758</u>	
	6,501,963,911	
Loans secured by mortgages	3,239,937	1,269,137
Accrued interest receivable (note b)	34,055,130	27,285,547
Other receivables arising from mortgages (note a)	<u>545,443</u>	<u>7,524,667</u>
	<u>6,539,804,421</u>	<u>6,423,308,285</u>
ASSETS ACQUIRED THROUGH FORECLOSURE AND CLAIMS IN PROCESS:		
Property held pending transfer to:		
Federal Housing Administration	8,218,085	8,293,163
Veterans Administration	37,060	34,703
Claims in process against:		
Federal Housing Administration	3,598,299	6,153,704
Veterans Administration	<u>3,500,181</u>	<u>4,175,134</u>
	15,353,625	18,656,704
Less allowance for losses	<u>316,972</u>	<u>445,190</u>
	15,036,653	18,211,514
Property held for sale	<u>139,844</u>	<u>127,419</u>
	<u>15,176,497</u>	<u>18,338,933</u>
OTHER ASSETS:		
Cash on hand and on deposit with the U.S.		
Treasury (note c)	1,451,821	507,857
Deferred charges and miscellaneous	<u>30,203,332</u>	<u>35,881,101</u>
	<u>31,655,153</u>	<u>36,388,958</u>
Total assets	<u>\$6,586,636,071</u>	<u>\$6,478,036,176</u>

The notes on pages 50 and 51 are an integral part of this statement.

Note: On August 31, 1968, the unpaid principal balance of FHA mortgages was \$4,867,195,400 and VA \$1,913,075,527 and on that date, under contracts previously executed, FNMA was committed to purchase FHA-insured and VA-guaranteed mortgages, aggregating \$1,014,080,746 upon delivery of eligible mortgages.

FEDERAL NATIONAL MORTGAGE ASSOCIATION

SECONDARY MARKET OPERATIONS

BALANCE SHEET

L I A B I L I T I E S	<u>August 31, 1968</u>	<u>June 30, 1968</u>
LIABILITIES:		
Accrued interest payable on notes to the U.S.		
Treasury	\$ 402,432	\$ 226,708
Accrued interest payable on debentures (note c)	62,593,326	41,825,711
Dividends on preferred stock	1,310,749	3,037,915
Dividends on common stock	441,449	427,164
Accounts payable and accrued liabilities	3,053,413	3,491,913
Trust and deposit liabilities	79,951,324	63,410,638
Notes payable to the U.S. Treasury	217,690,000	56,540,000
Debentures payable (note c)	3,899,800,000	3,899,800,000
Short-term discount notes	1,922,580,000	1,986,800,000
Accrued Federal income tax equivalent	7,873,844	4,787,567
Deferred credits	<u>707,761</u>	<u>781,324</u>
	<u>6,196,409,298</u>	<u>6,061,128,940</u>
DEFERRED FEDERAL INCOME TAX EQUIVALENT (notes a and d)	<u>-</u>	<u>16,402,799</u>
INVESTMENT OF THE UNITED STATES GOVERNMENT:		
Preferred stock authorized	317,820,305	317,820,305
Less unissued preferred stock	<u>154,000,000</u>	<u>155,000,000</u>
Preferred stock held by the Secretary of the Treasury	163,820,305	162,820,305
Retained earnings--undistributed (note c)	<u>42,861,401</u>	<u>52,190,693</u>
	<u>206,681,706</u>	<u>215,010,998</u>
INVESTMENT OF THE PUBLIC:		
Common stock issued	137,952,800	133,488,800
Common stock subscribed but not yet issued	1,713,000	2,657,826
Capital surplus paid in by subscribers to common stock	13,521,767	12,466,015
Retained earnings--undistributed (note c)	<u>30,357,500</u>	<u>36,880,798</u>
	<u>183,545,067</u>	<u>185,493,439</u>
Total liabilities	<u>\$6,586,636,071</u>	<u>\$6,478,036,176</u>

The notes on pages 50 and 51 are an integral part of this statement.

## FEDERAL NATIONAL MORTGAGE ASSOCIATION

## SECONDARY MARKET OPERATIONS

## STATEMENT OF EARNINGS

	For the 2-month period ended <u>August 31, 1968</u>	For the year ended June 30, <u>1968</u>
INCOME:		
Interest	\$62,671,890	\$306,719,542
Free market system fees	4,626,655	3,597,072
Commitment and other fees	49,266	225,983
Purchase and marketing fees	243,514	11,534,662
Option contract fees	52,494	684,302
Purchase discounts realized	1,593,714	8,598,346
Net gains on sales	-	281
Service fees	7,668	48,709
Other	<u>13,604</u>	<u>50,300</u>
Total income	<u>69,258,805</u>	<u>331,459,197</u>
EXPENSE:		
Interest on notes to the U.S. Treasury	1,459,463	8,025,078
Interest on debentures	35,536,112	181,795,714
Interest on short-term discount notes	19,162,480	68,079,855
Issuing and servicing securities	393,743	2,276,872
Administrative	1,143,463	6,299,385
Fees for servicing mortgages	5,525,052	27,467,620
Provision for losses	178,863	1,314,139
Other	<u>867</u>	<u>16,374</u>
Total expense	<u>63,400,043</u>	<u>295,275,037</u>
EARNINGS PRIOR TO PROVISION FOR TAX EQUIVALENT	5,858,762	36,184,160
PROVISION FOR FEDERAL INCOME TAX EQUIVALENT	<u>3,086,277</u>	<u>18,212,924</u>
NET EARNINGS	<u>\$ 2,772,487</u>	<u>\$ 17,971,236</u>

## SECONDARY MARKET OPERATIONS

### NOTES TO BALANCE SHEET

- <sup>a</sup> Effective August 31, 1968, an estimated amount of un-amortized purchase and marketing fees was capitalized on the basis that these fees were discounts charged by FNMA when purchasing mortgages and should be taken into income over the life of the related mortgages. In recording the unamortized purchase and marketing fees of \$32,953,758, the liability for Federal income tax equivalent amounting to \$16,515,939 at August 31, 1968, was eliminated and the "Retained earnings--undistributed" accounts applicable to the investment of the United States Government, and to the investment of the public were reduced by \$16,437,819.
- <sup>b</sup> At August 31, 1968, approximately \$7,100,000 was in process of transmission to FNMA from servicers. If this transaction had been handled as was a similar transaction at June 30, 1968, then "Other receivable arising from mortgages" would have been increased by \$7,100,000, with offsetting reductions of \$6,200,000 in "Accrued interest receivable" and \$600,000 in "Mortgages insured by Federal Housing Administration and \$300,000 in "Mortgages guaranteed by Veterans Administration."
- <sup>c</sup> Excludes \$8,447,291.41 (\$8,254,291.41 interest and \$193,000 principal) at August 31, 1968, as reported by the U.S. Treasury on September 4, 1968, and \$4,601,007 (\$4,139,007 interest and \$462,000 principal) at June 30, 1968, reported by the U.S. Treasury on August 23, 1968, as being on deposit for payment of matured interest and principal on notes and debentures.
- <sup>d</sup> The deferred Federal income tax equivalent of \$16,402,799 was established at June 30, 1968, in connection with the revised accounting handling of the purchase and marketing fees. The foregoing amount is the deferred portion of the Federal income tax equivalent due for fiscal year 1968.
- <sup>e</sup> Entries in the "Retained earnings--undistributed" accounts from July 1, 1968, to August 31, 1968, are as follows:

	<u>Preferred stockholder</u>	<u>Common stockholders</u>
Retained earnings--undistrib- uted June 30, 1968--sched- ule 12	\$52,190,693	\$36,880,798
Net earnings for 2 months ended August 31, 1968--schedule 13	<u>1,482,516</u>	<u>1,289,971</u>
	<u>53,673,209</u>	<u>38,170,769</u>
Less:		
Dividends payable for July and August 1968	1,310,749	876,509
Adjustment to remove earn- ings added to accounts during period when purchase and marketing fees were in- cluded in income as col- lected--see p. 17	<u>9,501,059</u>	<u>6,936,760</u>
	<u>10,811,808</u>	<u>7,813,269</u>
Retained earnings--undistrib- uted at August 31, 1968-- schedule 12	<u>\$42,861,401</u>	<u>\$30,357,500</u>



APPENDIX



PRINCIPAL OFFICIALS  
RESPONSIBLE FOR THE ACTIVITIES  
DISCUSSED IN THIS REPORT

<u>Tenure of office</u>	
<u>From</u>	<u>To</u>

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

DEPARTMENT OF HOUSING AND URBAN  
DEVELOPMENT SECRETARY:

George W. Romney	Jan. 1969	Present
Robert C. Wood	Jan. 1969	Jan. 1969
Robert C. Weaver	Jan. 1966	Dec. 1968

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION

PRESIDENT:

Woodward Kingman	July 1969	Present
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EXECUTIVE VICE PRESIDENT:

Harry M. Gilbert (note a)	Sept. 1968	May 1969
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VICE PRESIDENT, FISCAL MANAGEMENT:

James W. Considine (note b)	Sept. 1968	Oct. 1969
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<sup>a</sup> Served as Chief Executive Officer of the Government National Mortgage Association from September 1, 1968, to May 31, 1969.

<sup>b</sup> Served as Chief Executive Officer of the Government National Mortgage Association from June 1, 1969, to July 21, 1969.

