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# REPORT TO THE CONGRESS

UNITED STATES  
GENERAL ACCOUNTING OFFICE  
MAY 12 1976



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## Examination Of The Government National Mortgage Association's Financial Statetments For Fiscal Year 1975

Department of Housing and Urban Development

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MAY 10, 1976



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

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

This report summarizes the results of our examination of the financial statements of the Government National Mortgage Association, Department of Housing and Urban Development, for fiscal year 1975.

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

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

*James B. Stacks*

Comptroller General  
of the United States

C o n t e n t s

	<u>Page</u>
DIGEST	i
CHAPTER	
1 INTRODUCTION	1
2 SPECIAL ASSISTANCE FUNCTIONS	3
Mortgage activity	3
Operations	3
3 MANAGEMENT AND LIQUIDATING FUNCTIONS	6
4 MORTGAGE-BACKED SECURITIES GUARANTY PROGRAM	7
Pass-through securities	7
Bond-type securities	7
5 SCOPE OF EXAMINATION AND OPINION ON FINANCIAL STATEMENTS	8
Scope of examination	8
Opinion on financial statements	8
FINANCIAL STATEMENTS	
Schedule	
1 Comparative statement of financial condition at June 30, 1975 and 1974	10
2 Comparative statement of income, expense, and retained earnings for the fiscal years ended June 30, 1975 and 1974	12
3 Comparative statement of changes in financial position for fiscal years ended June 30, 1975 and 1974	14
Notes to the Association's financial statements	16
APPENDIX	
I Trustee operations	18
FINANCIAL STATEMENTS	

## APPENDIX

Page

## Schedule

	Trustee for Government Obligations Participation Sales Trust	
4	Unaudited comparative statement of financial condition at June 30, 1975 and 1974	20
5	Unaudited comparative statement of income and expense for the fiscal years ended June 30, 1975 and 1974	22
6	Unaudited comparative statement of changes in financial position for the fiscal years ended June 30, 1975 and 1974	24
	Notes to the Trust's financial statements	26
II	Principal officials responsible for the activities discussed in this report	27

ABBREVIATIONS

FHA	Federal Housing Administration
FNMA	Federal National Mortgage Association
GAO	General Accounting Office
VA	Veterans Administration

COMPTROLLER GENERAL'S  
REPORT TO THE CONGRESS

EXAMINATION OF THE GOVERNMENT  
NATIONAL MORTGAGE ASSOCIATION'S  
FINANCIAL STATEMENTS FOR  
FISCAL YEAR 1975  
Department of Housing and  
Urban Development

D I G E S T

OPINION ON FINANCIAL STATEMENTS

The financial statements (sch. 1 through 3) present fairly the financial position of the Government National Mortgage Association at June 30, 1975 and 1974, and the results of its operations and the changes in financial position for the years then ended, in conformity with principles and standards of accounting prescribed by the Comptroller General of the United States.

OTHER MATTERS

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

- provides special assistance for financing mortgages (see ch. 2),
- manages and liquidates federally owned mortgages (see ch. 3),
- guarantees mortgage-backed securities (see ch. 4), and
- acts as trustee for three trusts. (See app. I.)

The Association's major activities during fiscal year 1975 were under the special assistance functions tandem plans and the mortgage-backed securities guaranty program.

Under special assistance functions tandem plans, the Association issued commitments to purchase \$11.8 billion in mortgages. These commitments included, for the first time, commitments to purchase conventionally

financed home mortgages. Previously, the Association was authorized to purchase only mortgages insured by the Federal Housing Administration or guaranteed by the Veterans Administration. Costs to the Association for the tandem plans decreased to \$198 million in fiscal year 1975 from \$210 million in fiscal year 1974. (See p. 5.)

Under the mortgage-backed securities guaranty program, the Association had \$17.7 billion in outstanding guarantees at June 30, 1975-- \$15.7 billion on pass-through securities and \$2.0 billion on bond-type securities. (See pp. 7 and 8.)

The Association does not receive appropriated funds but instead borrows funds from the U.S. Treasury to carry out its operations. The amount outstanding at June 30, 1975, was \$5,413 million. (See p. 1.)

CHAPTER 1

INTRODUCTION

1 The Government National Mortgage Association, Department <sup>2601142</sup>  
of Housing and Urban Development, is a Government-owned cor-  
poration. It was created by the Congress in 1968 through  
2 the division of the Federal National Mortgage Association <sup>DLA 00422</sup>  
(FNMA) into two corporations. As a Government-owned corpora-  
tion, the Government National Mortgage Association (1) pro-  
vides special assistance for financing mortgages, (2) manages  
and liquidates federally owned mortgages, and (3) guarantees  
mortgage-backed securities. These activities are discussed  
in subsequent chapters of this report. The Association also  
acts as trustee for three trusts, which are discussed in ap-  
pendix I of this report.

FNMA, which inherited the name of the predecessor  
corporation, is a Government-sponsored, privately owned cor-  
poration engaged in mortgage activities. Under the Govern-  
ment National Mortgage Association's direction, FNMA buys  
and sells mortgages for the Association and manages the As-  
sociation's mortgage portfolio. Before the Emergency Home  
Purchase Assistance Act of 1974, only mortgages insured by  
3 the Federal Housing Administration (FHA) or guaranteed by  
4 the Veterans Administration (VA) were purchased for the  
Association. The Association reimburses FNMA for its serv-  
ices according to a services agreement between the two  
entities. 227  
16

The Emergency Home Purchase Assistance Act of 1974  
(Public Law 93-449, 88 Stat. 1364, approved October 18,  
1974) expands the Association's mortgage purchase program  
by allowing it to purchase conventionally financed home  
mortgages, including individual units of condominiums and  
cooperatives. The provisions of this act are performed  
under the Association's special assistance functions. In  
fiscal year 1975, the Association issued commitments under  
this authority to purchase \$4,936 million of mortgages in-  
volving 140,000 housing units. Of these commitments,  
12,000 units valued at \$422 million were purchased.

The Association does not receive appropriated funds  
to finance its operations but instead borrows from the  
U.S. Treasury. The June 30, 1975, balance of notes pay-  
able to the Treasury was \$5.413 million--\$5,355 million  
for special assistance functions and \$58 million for man-  
agement and liquidating functions. 38

The Secretary of Housing and Urban Development directs the administration of the Association and determines general operating policies. The Secretary appoints the President and other executive officers. The principal officials of the Association during fiscal year 1975 are listed in appendix II.



## CHAPTER 2

### SPECIAL ASSISTANCE FUNCTIONS

The purpose of the Association's special assistance functions is to support the financing of housing for people unable to obtain acceptable housing under established home-financing programs. The Association provides this support by establishing a market for selected types of FHA-insured, VA-guaranteed, or conventional mortgages which are insured by private insurers or have outstanding principal balances which do not exceed 80 percent of the values of the property securing the mortgages. When authorized by the President or the Congress, the Association buys these mortgages from mortgage lenders thereby providing them with cash for re-lending. The Association then sells the mortgages to mortgage investors or retains the mortgages in its portfolio.

### MORTGAGE ACTIVITY

At June 30, 1975, the Association's mortgage portfolio was \$5,227 million. The cost and unamortized discount of this portfolio was \$5.080 million and \$147 million, respectively. About \$805 million of these mortgages was assigned to the trusts administered by the Association as trustee. (See sch. 1.) The average interest rate for mortgages in the portfolio, including those assigned to the trusts, at June 30, 1975, was 5.62 percent--an increase from 3.99 percent at June 30, 1974.

The graph on the following page shows that the downward trend of mortgages in the Association's portfolio was reversed in fiscal year 1975. The graph also shows that in fiscal year 1975 the portfolio of mortgages bearing interest rates from 7 to 9-1/2 percent increased while mortgages of the other interest categories decreased.

### OPERATIONS

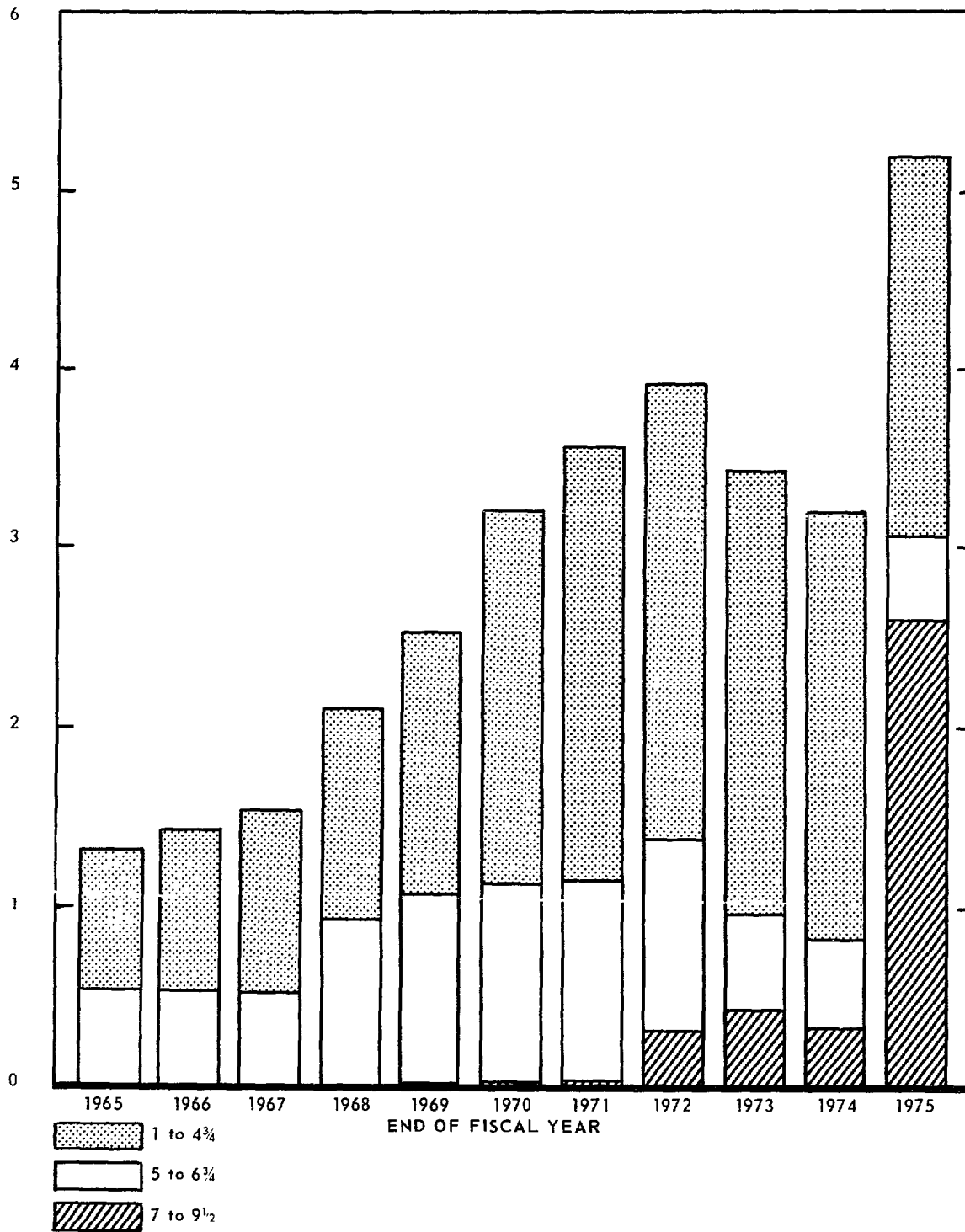
The Association finances its operations primarily with funds borrowed from the U.S. Treasury. At June 30, 1975, notes payable to the Treasury were \$5,355 million--an increase of \$2,296 million over the previous year. The average interest rate on these notes increased in fiscal year 1975 to 7.38 percent from the previous year's 6.46 percent. The notes mature on July 1 of each year from 1975 to 1979.

In conducting its special assistance functions, the Association incurred a net loss of \$314 million for fiscal year 1975. (See sch. 2.) The loss was attributable

## SPECIAL ASSISTANCE FUNCTIONS MORTGAGES BY INTEREST RATES

(note a)

BILLIONS OF DOLLARS



a Gross mortgages including those assigned to the trusts.

largely to (1) the difference between the average interest rate of 7.38 percent paid on funds borrowed from the Treasury and the average interest rate of 5.62 percent earned on mortgages in the portfolio and (2) the costs of \$198 million incurred in tandem plan financing. During fiscal year 1975, most mortgages were purchased and sold under tandem plans.

Under tandem plans the Association subsidizes and stimulates the financing of housing without massive cash outlays required by direct mortgage purchasing programs. To provide an outlet for qualified mortgages, the Association purchases them at higher than market prices and then sells them to investors at prevailing market prices, absorbing the difference between market prices and purchase prices as a subsidy. Tandem plan costs, which were principally the subsidy, amounted to \$198 million for fiscal year 1975 compared with \$210 million for fiscal year 1974.

The following table shows the number and amount of foreclosures for fiscal years 1975 and 1974 and the portfolios at fiscal yearend. Except for a relatively nominal amount of \$300,000, the Association did not suffer any loss on foreclosures during fiscal year 1975 since the mortgages are either insured or guaranteed.

Units	Fiscal year 1975 (note a)				Fiscal year 1974 (note a)			
	Foreclosures		Portfolio		Foreclosures		Portfolio	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
	(millions)		(millions)		(millions)		(millions)	
FHA single-family	774	\$ 12	70,049	\$1,076	1,288	\$ 21	51,084	\$ 516
VA single-family	273	5	48,057	967	134	2	24,364	248
Conventional single-family	-	-	12,153	421	-	-	-	-
FHA multifamily	<u>111</u>	<u>208</u>	<u>1,678</u>	<u>2,763</u>	<u>88</u>	<u>135</u>	<u>1,492</u>	<u>2,416</u>
Gross mortgages	<u>1,158</u>	<u>\$225</u>	<u>131,937</u>	<u>\$5,227</u>	<u>1,510</u>	<u>\$158</u>	<u>76,940</u>	<u>\$3,180</u>

a/Includes mortgages assigned to the trusts.

### CHAPTER 3

#### MANAGEMENT AND LIQUIDATING FUNCTIONS

The Association is responsible for managing and liquidating federally owned mortgages with a minimum adverse effect on the home mortgage market and a minimum loss to the Government.

Liquidation of the mortgages is accomplished through regular principal repayments, by sales of mortgages to private investors, and by prepayments and foreclosures. The Association did not purchase any mortgages under this program during fiscal years 1975 or 1974. In fiscal year 1975, mortgage liquidations and net earnings provided \$4.1 million each. (See sch. 2.) These funds helped finance repayments to the U.S. Treasury of \$16.7 million. No borrowings from the U.S. Treasury were made during the year.

The following table shows the number and amount of foreclosures for fiscal years 1975 and 1974 and the portfolios at fiscal yearend. Most mortgages are insured by FHA or guaranteed by VA.

<u>Units</u>	<u>Fiscal year 1975</u>				<u>Fiscal year 1974</u>			
	<u>(note a)</u>				<u>(note a)</u>			
	<u>Foreclosures</u>		<u>Portfolio</u>		<u>Foreclosures</u>		<u>Portfolio</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
		(millions)		(millions)		(millions)		(millions)
FHA single-family	253	\$2	44,933	\$266	548	\$5	48,223	\$296
VA single-family	9	-	23,759	56	18	-	32,828	72
FHA multifamily	1	-	58	53	1	2	61	57
Other	--	-	<u>1,152</u>	<u>8</u>	<u>2</u>	-	<u>1,776</u>	<u>11</u>
Gross mortgages	<u>263</u>	<u>\$2</u>	<u>69,902</u>	<u>\$383</u>	<u>569</u>	<u>\$7</u>	<u>82,888</u>	<u>\$436</u>

a/Includes mortgages assigned to the trusts.

BEST DOCUMENT AVAILABLE

## CHAPTER 4

### MORTGAGE-BACKED SECURITIES GUARANTY PROGRAM

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

#### PASS-THROUGH SECURITIES

Securities on which principal and interest are paid monthly to the security owners are designated "pass-through." The issuers administer the mortgage pools backing the securities, collect principal and interest on the mortgages, and make payments to the security owners.

Should the issuers default in making the required monthly payments, the Association will take such steps as are required or deemed necessary to fulfill the terms of the guaranty agreement. The Association considers the FHA insurance and VA guaranty of the mortgages as providing sufficient resources to support and safeguard its guaranty. No issuers have defaulted in making the required monthly payments.

During fiscal year 1975, \$5.9 billion in securities was issued, an increase of \$1.8 billion over the previous year. The securities outstanding at June 30, 1975, totaled \$15.7 billion.

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

#### BOND-TYPE SECURITIES

On bond-type securities, interest is paid semiannually and principal is paid at maturity, which is generally 2 to 25 years after issue. FNMA and the Federal Home Loan Mortgage Corporation have issued securities of this type. However, in fiscal year 1975 no securities were issued. Securities outstanding at June 30, 1975, totaled \$2.0 billion.

## CHAPTER 5

### SCOPE OF EXAMINATION AND

### OPINION ON FINANCIAL STATEMENTS

#### SCOPE OF EXAMINATION

We examined the Association's comparative statement of financial condition as of June 30, 1975 and 1974; its related statements of income, expense, and retained earnings; and changes in financial position for the years then ended. The statements are presented on a combined basis and separately for the special assistance functions, the management and liquidating functions, and the mortgage-backed securities guaranty program.

We did not examine the financial statements of the Government Mortgage Liquidation Trust, the Federal Assets Liquidation Trust, and the Federal Assets Financing Trust. We did, however, examine the Association's interest as trustor in these trusts. An explanation of the trust operations and the trusts' unaudited comparative statement of financial condition as of June 30, 1975 and 1974, and its related statements of income and expense and a statement of changes in financial position for the years then ended are presented in appendix I.

We made our examination in accordance with generally accepted auditing standards and included such tests of the accounting records and such auditing procedures as we considered necessary in view of the effectiveness of the system of internal control.

Our examination was conducted at the Association offices in Washington, D.C. We also observed and tested the work of the FNMA audit staff in their review of Association accounts at the FNMA regional office in Los Angeles and at FNMA's office in Washington, D.C. In addition, we reviewed reports of the Federal Home Loan Mortgage Corporation in Washington, D.C., as they pertained to mortgage-backed securities guaranteed by the Association.

#### OPINION ON FINANCIAL STATEMENTS

In our opinion, the accompanying financial statements (sch. 1 through 3) present fairly the financial position of the Association at June 30, 1975 and 1974, and the results of its operations and the changes in financial position for the years then ended, in conformity with principles and standards of accounting prescribed by the Comptroller General of the United States.

FINANCIAL STATEMENTS

SCHEDULE 1

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION  
 COMPARATIVE STATEMENT OF FINANCIAL CONDITION  
 AT JUNE 30, 1975 AND 1974

	Combined	
	6/30/75	6/30/74
	(in thousands)	
<u>Assets</u>		
Mortgages less unamortized discounts of \$153,509,851 in 1975 and \$18,062,123 in 1974 (Notes 1 and 5)	\$ 5,456,580	\$ 3,598,265
Less mortgages subject to participation sales trust	<u>1,110,833</u>	<u>1,235,259</u>
Net mortgages	4,345,747	2,363,006
Equity in trusts	413,037	416,574
Accrued interest receivable	23,686	9,176
Other receivables	11,649	8,596
Claims against FHA and VA (net of allowance for losses)	43,587	41,410
Cash	42,543	247
Federal securities at cost plus accrued interest	41,685	19,422
Deferred charges	<u>1,103</u>	<u>1,320</u>
Total assets	<u>\$ 4,923,037</u>	<u>\$ 2,859,751</u>
<u>Liabilities</u>		
Accrued interest payable to U.S. Treasury	\$ 167,667	\$ 94,740
Trust and deposit liabilities	84,860	72,387
Accounts payable	<u>14,456</u>	<u>26,144</u>
Total liabilities	<u>266,983</u>	<u>193,271</u>
<u>Investment of the U.S. Government</u>		
Notes payable to U.S. Treasury	5,412,865	3,133,335
Retained earnings or (deficit)	(799,083)	(501,050)
Appropriations for Trust Fund insufficiencies	<u>42,272</u>	<u>34,195</u>
Total investment	<u>4,656,054</u>	<u>2,666,480</u>
Total liabilities and investment	<u>\$ 4,923,037</u>	<u>\$ 2,859,751</u>

The notes following schedule 3 are an integral part of this schedule.



SCHEDULE 1

Special Assistance Functions		Management and Liquidating Functions		Mortgage-Backed Securities Program	
<u>6/30/75</u>	<u>6/30/74</u>	<u>6/30/75</u>	<u>6/30/74</u>	<u>6/30/75</u>	<u>6/30/74</u>
(in thousands)					
\$ 5,079,699	\$ 3,168,096	\$ 376,981	\$ 430,169	\$	\$
<u>804,697</u>	<u>879,922</u>	<u>306,136</u>	<u>355,337</u>		
4,275,002	2,288,174	70,745	74,832		
312,742	317,921	100,295	98,653		
23,296	8,759	390	417		
5,106	212	5,045	7,738	1,498	646
42,583	39,982	1,004	1,428		
42,430	79	88	143	25	25
15,535	1,785	141	1,860	26,009	15,777
<u>549</u>	<u>671</u>	<u>554</u>	<u>649</u>		
<u>\$ 4,717,243</u>	<u>\$ 2,657,583</u>	<u>\$ 178,262</u>	<u>\$ 185,720</u>	<u>\$ 27,532</u>	<u>\$ 16,448</u>
\$ 165,860	\$ 92,442	\$ 1,807	\$ 2,298	\$	\$
68,801	61,322	16,059	11,065		
<u>9,193</u>	<u>21,274</u>	<u>5,246</u>	<u>4,658</u>	<u>17</u>	<u>212</u>
<u>243,854</u>	<u>175,038</u>	<u>23,112</u>	<u>18,021</u>	<u>17</u>	<u>212</u>
5,354,675	3,058,435	58,190	74,900		
(923,558)	(610,085)	96,960	92,799	27,515	16,236
<u>42,272</u>	<u>34,195</u>				
<u>4,473,389</u>	<u>2,482,545</u>	<u>155,150</u>	<u>167,699</u>	<u>27,515</u>	<u>16,236</u>
<u>\$ 4,717,243</u>	<u>\$ 2,657,583</u>	<u>\$ 178,262</u>	<u>\$ 185,720</u>	<u>\$ 27,532</u>	<u>\$ 16,448</u>

SCHEDULE 2

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION

COMPARATIVE STATEMENT OF INCOME, EXPENSE, AND RETAINED EARNINGS  
FOR THE FISCAL YEARS ENDED JUNE 30, 1975 AND 1974

	<u>Combined</u>	
	<u>6/30/75</u>	<u>6/30/74</u>
	____(in thousands)____	
<u>Income</u>		
Interest and discount on mortgages	\$ 194,493	\$ 115,853
Fees:		
Mortgage-backed securities	11,303	7,870
Commitment and other	3,811	1,051
Processing	944	
Purchase and marketing		27
Income from investments	1,518	814
Other	<u>2,237</u>	<u>1,835</u>
Total income	<u>214,306</u>	<u>127,450</u>
 <u>Expense</u>		
Interest on notes payable to U.S. Treasury	312,115	212,956
Tandem plan costs: (Note 4)		
Subsidized	132,594	147,966
Unsubsidized	65,538	62,246
Fees:		
Servicing mortgages	5,093	2,600
Processing	699	
Administrative	7,586	6,657
MBS guaranty costs	709	378
Provision for possible losses	175	
Other	<u>9</u>	<u>20</u>
Total expense	<u>524,518</u>	<u>432,323</u>
Earnings or (loss) from operations	(310,212)	(305,373)
Gain or (loss) from trust operations	<u>11,966</u>	<u>10,086</u>
Net earnings or (loss)	(298,246)	(295,287)
Retained earnings or (deficit) at beginning of year	(501,050)	(205,846)
Adjustments affecting prior years	<u>213</u>	<u>83</u>
Retained earnings or (deficit) at end of year	<u>\$ (799,083)</u>	<u>\$ (501,050)</u>

The notes following schedule 3 are an integral part of this schedule.

SCHEDULE 2

<u>Special Assistance Functions</u>		<u>Management and Liquidating Functions</u>		<u>Mortgage-Backed Securities Program</u>	
<u>6/30/75</u>	<u>6/30/74</u>	<u>6/30/75</u>	<u>6/30/74</u>	<u>6/30/75</u>	<u>6/30/74</u>
(in thousands)					
\$ 188,715	\$ 109,583	\$ 5,778	\$ 6,270	\$	\$
				11,303	7,870
3,811	1,051				
944	27				
<u>2,058</u>	<u>1,787</u>	<u>179</u>	<u>48</u>	<u>1,518</u>	<u>814</u>
<u>195,528</u>	<u>112,448</u>	<u>5,957</u>	<u>6,318</u>	<u>12,821</u>	<u>8,684</u>
307,601	208,218	4,514	4,738		
132,594	147,966				
65,538	62,246				
4,770	2,278	323	322		
699					
6,079	5,291	674	790	833	576
				709	378
90		85			
<u>517,371</u>	<u>426,001</u>	<u>5,605</u>	<u>5,868</u>	<u>1,542</u>	<u>954</u>
(321,843)	(313,553)	352	450	11,279	7,730
<u>8,185</u>	<u>7,962</u>	<u>3,781</u>	<u>2,124</u>		
(313,658)	(305,591)	4,133	2,574	11,279	7,730
(610,085)	(304,447)	92,799	90,095	16,236	8,506
<u>185</u>	<u>(47)</u>	<u>28</u>	<u>130</u>		
<u>(923,558)</u>	<u>\$ (610,085)</u>	<u>\$ 96,960</u>	<u>\$ 92,799</u>	<u>\$ 27,515</u>	<u>\$ 16,236</u>

SCHEDULE 3

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION

COMPARATIVE STATEMENT OF CHANGES IN FINANCIAL POSITION  
FOR THE FISCAL YEARS ENDED JUNE 30, 1975 AND 1974

	<u>Combined</u>	
	<u>6/30/75</u>	<u>6/30/74</u>
	<u>(in thousands)</u>	
<b>Funds Provided</b>		
Income from operations	\$ 214,306	\$ 127,450
Mortgage liquidations	1,491,659	1,718,081
Appropriations for participation certificate insufficiencies	8,077	8,544
Borrowings from the U.S. Treasury	3,285,830	1,174,270
Net changes in other assets and liabilities	3,399	37,555
Gain from trust operations	11,966	10,086
Adjustments applicable to prior year:		
FNMA services	212	
Reversal of sales discounts on repurchased mortgage loans		151
	<u>\$ 5,015,449</u>	<u>\$ 3,076,137</u>
<b>Funds Applied</b>		
Expense of operations	\$ 524,518	\$ 432,823
Mortgages purchased	3,474,399	1,542,075
Repayment of borrowings to the U.S. Treasury	1,006,300	1,093,570
Investments at cost plus unmatured net earnings	10,232	7,601
Adjustments applicable to prior year:		
FNMA services		68
	<u>\$ 5,015,449</u>	<u>\$ 3,076,137</u>

The notes following schedule 3 are an integral part of this schedule.

SCHEDULE 3

<u>Special Assistance Functions</u>		<u>Management and Liquidating Functions</u>		<u>Mortgage-Backed Securities Program</u>	
<u>6/30/75</u>	<u>6/30/74</u>	<u>6/30/75</u>	<u>6/30/74</u>	<u>6/30/75</u>	<u>6/30/74</u>
(in thousands)					
\$ 195,528	\$ 112,448	\$ 5,958	\$ 6,318	\$ 12,820	\$ 8,684
1,487,571	1,707,424	4,088	10,657		
8,077	8,544				
3,285,830	1,165,350		8,920		
(4,016)	45,725	8,461	(8,041)	(1,046)	(129)
8,185	7,962	3,781	2,124		
185		27			
			151		
<u>\$ 4,981,360</u>	<u>\$ 3,047,453</u>	<u>\$ 22,315</u>	<u>\$ 20,129</u>	<u>\$ 11,774</u>	<u>\$ 8,555</u>
\$ 517,371	\$ 426,001	\$ 5,605	\$ 5,868	\$ 1,542	\$ 954
3,474,399	1,542,075				
989,590	1,079,330	16,710	14,240		
	47		21	10,232	7,601
<u>\$ 4,981,360</u>	<u>\$ 3,047,453</u>	<u>\$ 22,315</u>	<u>\$ 20,129</u>	<u>\$ 11,774</u>	<u>\$ 8,555</u>

NOTES TO THE ASSOCIATION'S FINANCIAL STATEMENTS

GENERAL

The combined statements of financial condition, income, expense, and retained earnings, and changes in financial position exclude the activity of the Association as trustee for the Government obligations participation sales trusts, for which data is furnished in appendix I.

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

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

	<u>Combined</u>	<u>Special assistance functions</u>	<u>Management and liquidat- ing functions</u>
Gross mortgage portfolio	\$5,610,090,227	\$5,227,475,129	\$382,615,098
Less unamortized discount	<u>153,509,851</u>	<u>147,775,671</u>	<u>5,734,180</u>
Mortgages less unamortized discount	<u>\$5,456,580,376</u>	<u>\$5,079,699,458</u>	<u>\$376,880,918</u>

NOTE 2:  
TRUST AND DEPOSIT  
LIABILITIES (sch. 1)

The balances identified as trust and deposit liabilities include only the portion of mortgage tax and insurance payment deposits held directly by the Association. It is also responsible for payments by servicing contractors of taxes and insurance from mortgagors' funds held in escrow in banks insured by the Federal Deposit Insurance Corporation: \$24,325,776 at June 30, 1975, and \$14,166,484 at June 30, 1974.

NOTE 3:  
CONTINGENT LIABILITY AS GUARANTOR  
OF MORTGAGE-BACKED SECURITIES

The Association is contingently liable for about \$17.7 billion pursuant to its guaranty of timely payment of principal and interest to holders of mortgage-backed securities. These securities are issued by financial organizations and are based upon, and backed by, pools of FHA-insured and VA-guaranteed mortgage loans.

NOTE 4:  
TANDEM PLAN (sch. 2)

As a means of holding down the cash outlays needed for a direct purchasing program, the Association has developed a so-called tandem plan, which provides for paying differentials between required investment yield prices and prices appropriate for meeting housing and economic stability goals. The Association issues advance commitments to purchase mortgages. To the extent possible, it then transfers these commitments to private investors for completion of the mortgage financing transactions, making such transfers at prices based upon market requirements for mortgage investment yields. When the mortgage transactions are completed, the Association pays to the transferee-investor the difference between the advance commitment purchase price and the agreed-upon transfer price. When the Association is unable to dispose of an advance commitment before delivery of the final mortgage loans, it completes the purchase at the commitment price and places the mortgage loan for sale at auction. Tandem plan commitments totaled \$11,778.8 million in fiscal year 1975. Tandem plan expenses were \$198.1 million.

NOTE 5:  
COMMITMENTS TO PURCHASE MORTGAGE  
LOANS AT FUTURE DELIVERY DATES (sch. 1)

In addition to the mortgage principal presently included in the accounts, the Association has advance commitments to purchase mortgage principal totaling \$3.7 billion including commitments subject to tandem arrangements.

TRUSTEE OPERATIONS

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

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

These participating agencies conveyed title to assets (mortgages and housing-related debt instruments) to the three trusts for which the Association is trustee; however, the agencies retained control and administration of these assets. Then the trustee issued and sold to private investors participation certificates backed by these assets. The last sales were in 1968. The agencies used the proceeds from these sales to reduce funds borrowed from the Treasury and to reduce the use of Government funds for their programs. Certificates outstanding at June 30, 1975, totaled \$4.2 billion.

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

In the Government Mortgage Liquidation Trust, five issues of participation certificates, totaling \$1.8 billion, have been sold since the trust was established. The last issue was sold in 1966. During fiscal year 1975, certificates totaling \$110 million were redeemed. The outstanding balance of the certificates was \$770 million at June 30, 1975. The certificates will mature at various times through 1981. Collections received during the fiscal year were sufficient to cover interest due on the certificates.

In the Federal Assets Liquidation Trust, four issues of participation certificates, totaling \$3.2 billion, have been



sold since it was established. The last issue was sold in 1968. During fiscal year 1975, no certificate redemptions were made. The outstanding balance of the certificates was \$1 billion at June 30, 1975. The certificates mature at various times through 1987. Because net interest earned on the assets and cash deposits held for the trustors were less than the interest expense incurred on the certificates, additional contributions of \$7.6 million were made to the trust by the trustors.

In the Federal Assets Financing Trust, four issues of participation certificates, totaling \$4.3 billion, have been sold since the trust was established. The last issue was sold in 1968. The certificates will mature at various times through 1988. During fiscal year 1975, certificates totaling \$12.4 million were reacquired. The outstanding balance of the certificates was \$2.4 billion at June 30, 1975. Because net interest earned on the assets and cash deposits held for the trustors were less than the interest expense incurred on the certificates, additional contributions of \$31.1 million were made to the trust by the trustors.

We did not examine the following unaudited financial statements (sch. 4 through 6).

APPENDIX I  
SCHEDULE 4

UNAUDITED

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION

TRUSTEE FOR GOVERNMENT OBLIGATIONS PARTICIPATION SALES TRUSTS

Comparative Statement of Financial Condition  
At June 30, 1975 and 1974

	<u>Combined Trusts</u>	
	<u>6/30/75</u>	<u>6/30/74</u>
	____(in thousands)____	
<u>Assets</u>		
Obligations subject to trust:		
Principal	\$3,528,956	\$3,869,519
Accrued interest receivable - net	<u>24,872</u>	<u>31,271</u>
Total subject to trust	3,553,828	3,900,790
Collections due from trustors	27,372	24,761
Investments at cost plus unmatured net earnings	1,331,521	1,117,452
Cash	<u>8</u>	<u>23</u>
Total assets	<u>\$4,912,729</u>	<u>\$5,043,026</u>
 <u>Liabilities</u>		
Participation certificates: (note 1)		
Principal	\$4,173,255	\$4,295,635
Accrued interest payable	<u>77,639</u>	<u>79,063</u>
Total due certificate holders (note 2)	4,250,894	4,374,698
Accounts payable	25	29
Trustors' equity	<u>661,810</u>	<u>668,299</u>
Total liabilities	<u>\$4,912,729</u>	<u>\$5,043,026</u>

The notes following schedule 3 of Appendix I are an integral part of this schedule.

APPENDIX I  
SCHEDULE 4

Government Mortgage Liquidation Trust		Federal Assets Liquidation Trust		Federal Assets Financing Trust	
<u>6/30/75</u>	<u>6/30/74</u>	<u>6/30/75</u>	<u>6/30/74</u>	<u>6/30/75</u>	<u>6/30/74</u>
(in thousands)					
\$ 987,551	\$1,096,138	\$ 815,588	\$ 914,785	\$1,725,817	\$1,858,596
<u>2,680</u>	<u>2,962</u>	<u>8,467</u>	<u>9,631</u>	<u>13,725</u>	<u>18,678</u>
990,231	1,099,100	824,055	924,416	1,739,542	1,877,274
7,086	-0-	8,471	11,195	11,815	13,566
312,864	319,704	289,666	186,268	728,991	611,480
<u>1</u>	<u>16</u>	<u>6</u>	<u>5</u>	<u>1</u>	<u>2</u>
<u>\$1,310,182</u>	<u>\$1,418,820</u>	<u>\$1,122,198</u>	<u>\$1,121,884</u>	<u>\$2,480,349</u>	<u>\$2,502,322</u>
\$ 770,000	\$ 880,000	\$1,025,000	\$1,025,000	\$2,378,255	\$2,390,635
<u>8,609</u>	<u>9,989</u>	<u>21,713</u>	<u>21,713</u>	<u>47,317</u>	<u>47,361</u>
778,609	889,989	1,046,713	1,046,713	2,425,572	2,437,996
14	18	5	5	6	6
<u>531,559</u>	<u>528,813</u>	<u>75,480</u>	<u>75,166</u>	<u>54,771</u>	<u>64,320</u>
<u>\$1,310,182</u>	<u>\$1,418,820</u>	<u>\$1,122,198</u>	<u>\$1,121,884</u>	<u>\$2,480,349</u>	<u>\$2,502,322</u>

APPENDIX I  
SCHEDULE 5

UNAUDITED

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION

TRUSTEE FOR GOVERNMENT OBLIGATIONS PARTICIPATION SALES TRUST

Comparative Statement of Income and Expense  
For the Fiscal Years ended June 30, 1975 and 1974

	<u>Combined Trusts</u>	
	<u>6/30/75</u>	<u>6/30/74</u>
	____(in thousands)____	
<u>Income</u>		
Interest earned on obligations		
Subject to trust - net of allowance for servicing expense	\$ 154,849	\$ 164,621
Investment income	<u>80,569</u>	<u>66,187</u>
Total income	\$ <u>235,418</u>	\$ <u>230,808</u>
<u>Expense</u>		
Interest on participation certificates	\$ 241,419	\$ 247,307
Administration	<u>253</u>	<u>358</u>
Total expense	<u>241,672</u>	<u>247,665</u>
Net income or (loss) from operations	(6,254)	(16,857)
Interest contributions by trustors	38,694	40,986
Interest retained by trustors	(29,595)	(57,422)
Net Allocation to trustors	\$ <u>2,845</u>	\$ <u>(33,293)</u>

The notes following schedule 3 of Appendix I are an integral part of this schedule.

APPENDIX I  
SCHEDULE 5

Government Mortgage Liquidation Trust		Federal Assets Liquidation Trust		Federal Assets Financing Trust	
<u>6/30/75</u>	<u>6/30/74</u>	<u>6/30/75</u>	<u>6/30/74</u>	<u>6/30/75</u>	<u>6/30/74</u>
(in thousands)					
\$ 48,881	\$ 53,848	\$ 32,762	\$ 37,928	\$ 73,206	\$ 72,845
<u>19,378</u>	<u>22,354</u>	<u>16,864</u>	<u>9,335</u>	<u>44,327</u>	<u>34,498</u>
\$ <u>68,259</u>	\$ <u>76,202</u>	\$ <u>49,626</u>	\$ <u>47,263</u>	\$ <u>117,533</u>	\$ <u>107,343</u>
\$ 40,282	\$ 45,444	\$ 53,100	53,100	\$ 148,037	\$ 148,763
<u>82</u>	<u>133</u>	<u>58</u>	<u>78</u>	<u>113</u>	<u>147</u>
<u>40,364</u>	<u>45,577</u>	<u>53,158</u>	<u>53,178</u>	<u>148,150</u>	<u>148,910</u>
27,895	30,625	(3,532)	(5,915)	(30,617)	(41,567)
-0-	-0-	7,607	9,258	31,087	31,728
(24,967)	(53,823)	(966)	(3,400)	(3,662)	(199)
\$ <u>2,928</u>	\$ <u>(23,198)</u>	\$ <u>3,109</u>	\$ <u>(57)</u>	\$ <u>(3,192)</u>	\$ <u>(10,038)</u>

APPENDIX I  
SCHEDULE 6

UNAUDITED

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION

TRUSTEE FOR GOVERNMENT OBLIGATIONS PARTICIPATION SALES TRUSTS

Comparative Statement of Changes in Financial Position  
For the Fiscal Years Ended June 30, 1975 and 1974

	<u>Combined Trusts</u>	
	<u>6/30/75</u>	<u>6/30/74</u>
	____(in thousands)____	
<u>Funds Provided</u>		
Income from operations	\$ 235,418	\$ 230,808
Obligations subject to trust:		
Principal deposits	340,562	381,526
Accrued interest receivable	6,398	11,513
Collections due from trustors	(2,611)	14,833
Additional interest contributed by trustors	9,099	(16,437)
Increase or (decrease) in cash	<u>15</u>	<u>(16)</u>
Total funds provided	\$ <u>588,881</u>	\$ <u>622,227</u>
<u>Funds Applied</u>		
Expense of operations	\$ 241,672	\$ 247,665
Retirement of participation certificates	110,000	110,000
Accrued interest payable	1,377	1,379
Investments acquired	224,756	190,877
Additional principal retained by trustors	11,072	72,306
Miscellaneous accounts payable	<u>4</u>	<u>          </u>
Total funds applied	\$ <u>588,881</u>	\$ <u>622,227</u>

The notes following schedule 3 of Appendix I are an integral part of this schedule.

BEST DOCUMENT AVAILABLE

APPENDIX I  
SCHEDULE 6

<u>Government Mortgage Liquidation Trust</u>		<u>Federal Assets Liquidation Trust</u>		<u>Federal Assets Financing Trust</u>	
<u>6/30/75</u>	<u>6/30/74</u>	<u>6/30/75</u>	<u>6/30/74</u>	<u>6/30/75</u>	<u>6/30/74</u>
(in thousands)					
\$ 68,259	\$ 76,202	\$ 49,626	\$ 47,263	\$ 117,533	\$ 107,343
108,586	117,698	99,197	105,827	132,779	158,001
281	(25)	1,164	2,192	4,953	9,346
(7,086)	4,001	2,724	2,018	1,751	8,814
(24,967)	(53,823)	6,641	5,858	27,425	31,528
<u>14</u>	<u>(14)</u>		<u>(1)</u>	<u>1</u>	<u>(1)</u>
\$ <u>145,087</u>	\$ <u>144,039</u>	\$ <u>159,352</u>	\$ <u>163,157</u>	\$ <u>284,442</u>	\$ <u>315,031</u>
\$ 40,364	\$ 45,577	\$ 53,158	\$ 53,178	\$ 148,150	\$ 148,910
110,000	110,000				
1,377	1,379				
(6,839)	(83,613)	103,398	105,792	128,197	168,698
181	70,698	2,796	4,185	8,095	(2,577)
<u>4</u>	<u>(2)</u>		<u>2</u>		
\$ <u>145,087</u>	\$ <u>144,039</u>	\$ <u>159,352</u>	\$ <u>163,157</u>	\$ <u>284,442</u>	\$ <u>315,031</u>

NOTES TO THE TRUST'S FINANCIAL STATEMENTNOTE 1:PARTICIPATION CERTIFICATES (sch. 4)

The participation certificates of \$2.4 billion in the Federal Assets Financing Trust do not include \$84.7 million held by the trust as Treasury certificates. The certificates were purchased by the trust and are subject to reissue.

NOTE 2:CONTINGENT LIABILITY AS GUARANTOR  
OF TRUST LIABILITIES (sch. 4)

As trustee, the Association has legal title to all trust assets. Additionally, by virtue of a separate guaranty in its regular corporate capacity, the Association is contingently liable for the timely payment of principal and interest due the trust beneficiaries.

The Congress has authorized appropriations to meet trust obligations, as may be necessary. The trustor Federal agencies having control and administration of the obligations subject to the trusts have provided much of the financial data in schedules 4 through 6 of appendix I.



PRINCIPAL OFFICIALS  
RESPONSIBLE FOR THE ACTIVITIES  
DISCUSSED IN THIS REPORT

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

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