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93-449; 88 Stat. 1364).

The financial statements present fairly the financial position of the Government National Mortgage Association at September 30, 1976, and June 30, 1975, and the results of its operations and the changes in its financial position for the periods then ended, in conformity with principles and standards of accounting prescribed by the Comptroller General.

Findings/Conclusions: The Association is involved in several programs to stimulate mortgage lending and home building. Through these programs, it: provides special assistance for financing mortgages; manages and liquidates federally owned mortgages; guarantees mortgage-backed securities; and acts as trustee for three trusts. The Association's major activities during fiscal year 1976 were under the special assistance functions tandem plan programs and the mortgage-backed securities guaranty program. Under the mortgage-backed securities guaranty program, the Association had \$28.7 billion in outstanding securities at September 30, 1976--\$27.1 billion on pass-through securities and \$1.6 billion on bond-type securities. The Association does not receive a direct appropriation to finance its operations, but borrows from the U.S. Treasury instead. The amount outstanding at September 30, 1976, was \$5,907 million. (Author/SC)

3374

REPORT TO THE CONGRESS

03107



*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

Examination Of The Government National Mortgage Association's Financial Statements For The 15-Month Period Ended September 30, 1976

Department of Housing and Urban Development

This report discusses the financial operations of the Government National Mortgage Association's special assistance functions, management and liquidating functions, and mortgage-backed securities guaranty program.

The financial statements present fairly the financial position of the Government National Mortgage Association at September 30, 1976, and June 30, 1975, and the results of its operations and the changes in its financial position for the periods then ended, in conformity with principles and standards of accounting prescribed by the Comptroller General.



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 report summarizes the results of our examination of the financial statements of the Government National Mortgage Association, Department of Housing and Urban Development, for the 15-month period ended September 30, 1976.

We made our examination pursuant to the Government Corporation Control Act (31 U.S.C. 841 (1970 + Supp. V, 1975)).

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.


Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

EXAMINATION OF THE GOVERNMENT
NATIONAL MORTGAGE ASSOCIATION'S
FINANCIAL STATEMENTS FOR THE
15-MONTH PERIOD ENDED
SEPTEMBER 30, 1976
Department of Housing and Urban
Development

D I G E S T

OPINION ON FINANCIAL STATEMENTS

The financial statements (schs. 1 through 3) present fairly the financial position of the Government National Mortgage Association at September 30, 1976, and June 30, 1975, and the results of its operations and the changes in its financial position for the periods then ended, in conformity with principles and standards of accounting prescribed by the Comptroller General.

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 1976 were under the special assistance functions tandem plan programs and the mortgage-backed securities guaranty program.

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Under the mortgage-backed securities guaranty program, the Association had \$28.7 billion in outstanding securities at September 30, 1976--\$27.1 billion on pass-through securities and \$1.6 billion on bond-type securities. (See pp. 8 and 9.)

The Association does not receive a direct appropriation to finance its operations but borrows from the U.S. Treasury instead. The amount outstanding at September 30, 1976, was \$5,907 million. (See p. 1.)

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ABBREVIATIONS

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

CHAPTER 1

INTRODUCTION

The Government National Mortgage Association, Department of Housing and Urban Development, is a Government-owned corporation. It was created by the Congress in 1968 with the division of the Federal National Mortgage Association (FNMA) into two corporations. As a Government-owned corporation, the Government National Mortgage Association (1) provides special assistance for financing mortgages, (2) manages and liquidates federally owned mortgages, and (3) guarantees mortgage-backed securities. These activities are discussed in later chapters of this report. The Association also acts as trustee for three trusts, which is discussed in appendix I.

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

The Emergency Home Purchase Assistance Act of 1974 (Public Law 93-449, 88 Stat. 1364, approved Oct. 18, 1974) was enacted to alleviate the national shortage of mortgage credit. The act expands the Association's mortgage purchase program by allowing it to purchase conventionally financed home mortgages, including individual units of condominiums and cooperatives. The Association is authorized to commit and spend \$17.8 billion for these purchases. Cumulative purchases by the Association, as of September 30, 1976, involve 178,000 housing units valued at \$6 billion.

The Association does not receive a direct appropriation to finance its operations but instead borrows from the Treasury. The September 30, 1976, balance of notes payable to the Treasury was \$5,907 million--\$5,849 million for special assistance functions and \$58 million for management and liquidation functions.

The President of the United States, with the approval of the Senate, appoints the President of the Association..

The Secretary of Housing and Urban Development directs the administration of the Association, determines general operating policies, and appoints the Vice President and other executive officers. The principal officials of the Association during fiscal year 1976 are listed in appendix II.

CHAPTER 2

SPECIAL ASSISTANCE FUNCTIONS

The purposes of the Association's special assistance functions are (1) to support the financing of housing for people unable to obtain acceptable housing under established home financing programs and (2) to minimize the decline in home building or mortgage lending which helps to stabilize the home building and mortgage markets. 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 relending. The Association then sells the mortgages to mortgage investors or retains the mortgages in its portfolio.

MORTGAGE ACTIVITY

At September 30, 1976, the Association's special assistance functions mortgage portfolio was \$5,821 million. The cost and unamortized discount of this portfolio was \$5,072 million and \$149 million, respectively. About \$703 million of these mortgages was assigned to the trusts administered by the Association as trustee. (See sch. 1.) The average interest rate for the mortgages in the portfolio, including those assigned to the trusts, at September 30, 1976, was 6.06 percent, an increase from 5.62 percent at June 30, 1975. The interest rates for these mortgages range from 1 percent to 9-1/2 percent. The number of mortgages bearing interest rates of 7-1/2, 8, and 8-1/4 percent increased while mortgages bearing the other interest rates decreased. The number of mortgages in the portfolio at September 30, 1976, was 151,393--an increase of 19,456 mortgages over fiscal year 1975. The increase was attributable to mortgage purchases exceeding mortgage sales and other liquidations.

The mortgage portfolio at September 30, 1976, and June 30, 1975, is shown in the following table.

<u>Units</u>	<u>Portfolio (note a)</u> <u>September 30, 1976</u>		<u>Portfolio (note a)</u> <u>June 30, 1975</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
		(millions)		(millions)
FHA single-family	61,165	\$ 947	70,049	\$1,076
VA single-family	39,090	769	48,057	967
Conventional				
single-family	49,658	1,674	12,153	421
FHA multifamily	<u>1,480</u>	<u>2,431</u>	<u>1,678</u>	<u>2,763</u>
Gross mortgages	<u>151,393</u>	<u>\$5,821</u>	<u>131,937</u>	<u>\$5,227</u>

a/ Includes mortgages assigned to the trusts.

OPERATIONS

The Association finances its special assistance functions operations primarily with money borrowed from the Treasury. At September 30, 1976, notes payable to the Treasury were \$5,849 million--an increase of \$494 million over the previous fiscal year. The average interest rate on these notes increased in fiscal year 1976 to 7.8 percent from the previous fiscal year's 7.38 percent. The notes mature on July 1 of each year from 1978 to 1981.

In conducting its special assistance functions, the Association incurred a net loss of \$796 million for fiscal year 1976--an increase of \$483 million over fiscal year 1975. (See sch. 2.) The loss was attributable largely to (1) the difference between the average interest rate of 7.8 percent paid on money borrowed from the Treasury and the average interest rate of 6.06 percent earned on mortgages in the portfolio and (2) the \$599 million incurred in financing tandem plan programs.

Tandem plan programs

The purpose of tandem plan programs is to enable the Association to support and stimulate home financing without massive cash outlays needed to make direct mortgage purchases. These programs provide favorable financing for multifamily projects and single-family homes.

The Association issues commitments to mortgage lenders to purchase mortgages (1) at interest rates below the prevailing FHA, VA, or conventional rates and (2) at favorable

purchase prices to meet housing and economic stability goals. To the extent possible, the Association sells the commitments to the mortgage lenders and pays them the difference between the commitment price and the prevailing market price; the Association absorbs the difference as a subsidy. When it is unable to sell the commitments, the Association purchases the mortgages at the commitment price and sells the mortgages to mortgage investors.

Foreclosures

The following table shows the number and amount of foreclosures of the special assistance functions for the fiscal years indicated. The Association incurred losses on these foreclosures of \$1.4 million, .02 percent of the fiscal year 1976 portfolio of \$5,821 million, and \$300,000, .006 percent of the fiscal year 1975 portfolio of \$5,227 million. The losses represent interest the Association is unable to collect and foreclosure costs not allowed by FHA or VA.

<u>Units</u>	<u>Foreclosures (note a)</u> <u>Fiscal year 1976</u>		<u>Foreclosures (note a)</u> <u>Fiscal year 1975</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
		(millions)		(millions)
FHA single-family	658	\$ 12	774	\$ 12
VA single-family	522	13	273	5
Conventional				
single-family	25	-	-	-
FHA multifamily	<u>97</u>	<u>204</u>	<u>111</u>	<u>208</u>
Gross mortgages	<u>1,302</u>	<u>\$229</u>	<u>1,158</u>	<u>\$225</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. These mortgages were originally owned by the dissolved Reconstruction Finance Corporation and by the Department of Housing and Urban Development.

MORTGAGE ACTIVITY

Regular principal repayments, sales of mortgages to private investors, and prepayments and foreclosures liquidate the mortgages. The Association did not purchase any mortgages under this program during fiscal years 1976 or 1975. In fiscal year 1976, mortgage liquidations were \$13.3 million and net earnings were \$6.8 million. (See schs. 2 and 3.)

The management and liquidating functions mortgage portfolio at September 30, 1976, and June 30, 1975, is shown in the following table.

<u>Units</u>	Portfolio (note a) September 30, 1976		Portfolio (note a) June 30, 1975	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
	(millions)		(millions)	
FHA single-family	39,885	\$226	44,933	\$266
VA single-family	17,302	41	23,759	56
FHA multifamily	56	49	58	53
Other	<u>570</u>	<u>6</u>	<u>1,152</u>	<u>8</u>
Gross mortgages	<u>57,813</u>	<u>\$322</u>	<u>69,902</u>	<u>\$383</u>

a/ Includes mortgages assigned to the trusts.

FORECLOSURES

The following table shows the number and amount of foreclosures for the management and liquidating functions for the fiscal years indicated. The Association incurred losses on these foreclosures of \$43,000, .01 percent of the fiscal year 1976 portfolio of \$322 million, and \$111,000, .03 percent of the fiscal year 1975 portfolio of \$383 million. The losses represent interest the Association is unable to collect and foreclosure costs not allowed by FHA or VA.

<u>Units</u>	Foreclosures (note a)		Foreclosures (note a)	
	<u>Fiscal year 1976</u>		<u>Fiscal year 1975</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
		(millions)		(millions)
FHA single-family	176	\$1	253	\$2
VA single-family	13	-	9	-
FHA multifamily	-	-	1	-
Other	-	-	-	-
Gross mortgages	<u>189</u>	<u>\$1</u>	<u>263</u>	<u>\$2</u>

a/ Includes mortgages assigned to the trusts.

CHAPTER 4

MORTGAGE-BACKED SECURITIES GUARANTY PROGRAM

The mortgage-backed securities guaranty program channels 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.

PASS-THROUGH SECURITIES

Securities on which principal and interest are paid monthly to the security owners are designated "fully modified 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.

If issuers default in making the required monthly payments, the Association's guarantee provides immediate and direct payment to security holders of any defaulted payments. The Association may also make the payments to the security holders through the defaulted issuer or through a new issuer to which the pooled mortgages of the defaulted issuer had been transferred. The Association considers its risk minimal since the pooled mortgages are insured by FHA or guaranteed by VA.

In fiscal year 1976, four issuers defaulted on their payments to security holders and their pooled mortgages were later transferred to new issuers. The new issuers received advances from the Association totaling about \$872,000 to make the payments to the security holders and for other expenses incurred by virtue of the transfers. They were required to repay the advances if the financial condition of the pooled mortgages permits. The Association may sustain a loss on a portion of the advance if any of the pooled mortgages are placed in foreclosure. The loss represents interest and other foreclosure costs not allowed by FHA or VA.

During fiscal year 1976, \$12.9 billion in securities was issued, an increase of \$7 billion over the previous year. The securities outstanding at September 30, 1976, totaled \$27.1 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 selectively reviews these reports. It also makes selected

visits to the issuers and to the custodians of mortgage documents. The purposes of these visits are to (1) review their records, (2) verify that the mortgage documents are held by the proper custodian, and (3) 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 1976, no securities were issued. Securities outstanding at September 30, 1976, totaled \$1,622 million--a reduction of \$404 million from the previous year.

CHAPTER 5

SCOPE OF EXAMINATION AND

OPINION ON FINANCIAL STATEMENTS

SCOPE OF EXAMINATION

We examined the Association's statement of financial condition as of September 30, 1976, and its related statements of income, expenses, and retained earnings and changes in financial position for the 15-month period ended September 30, 1976. 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; the trusts' unaudited statement of financial condition as of September 30, 1976, and June 30, 1975; and the trusts' related statement of income and expense and a statement of changes in financial position for the years then ended are 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. We previously made a similar examination of the financial statements for the year ended June 30, 1975.

Our examination was conducted at the Association's office 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 Dallas, Texas, and at FNMA's office in Washington, D.C. In addition, we reviewed a report of the Federal Home Loan Mortgage Corporation in Washington, D.C., that pertained to mortgage-backed securities guaranteed by the Association. We also reviewed and tested the work of the Mortgage Corporation's audit staff in their review of Association accounts.

OPINION ON FINANCIAL STATEMENTS

In our opinion, the accompanying financial statements (schs. 1 through 3) present fairly the financial position of the Association at September 30, 1976, and June 30, 1975, and the results of its operations and the changes in financial position for the periods then ended, in conformity with principles and standards of accounting prescribed by the Comptroller General.

SCHEDULES

SCHEDULE 1

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION

STATEMENT OF FINANCIAL CONDITION AT SEPTEMBER 30, 1976, AND JUNE 30, 1975

	<u>Combined</u>	
	<u>9/30/76</u>	<u>6/30/75</u>
	<u>(in thousands)</u>	
<u>Assets</u>		
Mortgages less unamortized discounts of \$154,803,284 in 1976 and \$153,509,851 in 1975 (Notes 1 and 2)	\$ 5,988,749	\$ 5,456,580
Less mortgages subject to participation sales trust	<u>962,233</u>	<u>1,110,833</u>
Net mortgages	5,026,516	4,345,747
Equity in trusts	412,531	413,037
Accrued interest receivable	28,791	23,686
Other receivables	42,179	11,649
Claims against FHA and VA (net of allowance for losses)	13,848	43,587
Cash	1,397	42,543
Federal securities at cost plus accrued interest	86,641	41,685
Deferred charges	<u> </u>	<u>1,103</u>
Total assets	<u>\$ 5,611,903</u>	<u>\$ 4,923,037</u>
<u>Liabilities</u>		
Accrued interest payable to U.S. Treasury	\$ 108,261	\$ 167,660
Trust and deposit liabilities (Note 3)	84,754	84,860
Accounts payable	30,353	14,456
Advance for mortgage purchases	<u>998,750</u>	<u> </u>
Total liabilities	<u>1,222,118</u>	<u>266,983</u>
<u>Investment of the U.S. Government</u>		
Notes payable to U.S. Treasury	5,907,331	5,412,865
Retained earnings or (deficit)	(1,569,141)	(799,083)
Appropriations for Trust Fund insufficiency	<u>51,595</u>	<u>42,272</u>
Total investment	<u>4,389,785</u>	<u>4,656,054</u>
Total liabilities and investment	<u>\$ 5,611,903</u>	<u>\$ 4,923,037</u>

The notes on pp. 20 and 21 are an integral part of this schedule.

SCHEDULE 1

Special Assistance Functions		Management and Liquidating Functions		Mortgage-Backed Securities Program	
<u>9/30/76</u>	<u>6/30/75</u>	<u>9/30/76</u>	<u>6/30/75</u>	<u>9/30/76</u>	<u>6/30/75</u>
(in thousands)					
\$ 5,671,896	\$ 5,079,699	\$ 316,853	\$ 376,881	\$	\$
<u>702,797</u>	<u>804,697</u>	<u>259,436</u>	<u>306,136</u>		
4,969,099	4,275,002	57,417	70,745		
309,348	312,742	103,183	100,295		
28,463	23,296	328	390		
14,405	5,106	24,569	5,045	3,205	1,498
13,406	42,583	442	1,004		
1,033	42,430	171	88	193	25
43,012	15,535	377	141	43,252	26,009
<u>549</u>			<u>554</u>		
<u>\$ 5,378,766</u>	<u>\$ 4,717,243</u>	<u>\$ 186,487</u>	<u>\$ 178,262</u>	<u>\$ 46,650</u>	<u>\$ 27,532</u>
\$ 107,357	\$ 165,860	\$ 904	\$ 1,807	\$	\$
65,961	68,801	18,793	16,059		
25,538	9,193	4,781	5,246	34	17
<u>998,750</u>					
<u>1,197,605</u>	<u>243,854</u>	<u>24,478</u>	<u>23,112</u>	<u>34</u>	<u>17</u>
5,849,141	5,354,675	58,190	58,190		
(1,719,575)	(923,558)	103,819	95,960	46,616	27,515
<u>51,595</u>	<u>42,212</u>				
<u>4,181,160</u>	<u>4,473,389</u>	<u>162,009</u>	<u>155,150</u>	<u>46,616</u>	<u>27,515</u>
<u>\$ 5,378,766</u>	<u>\$ 4,717,243</u>	<u>\$ 186,487</u>	<u>\$ 178,262</u>	<u>\$ 46,650</u>	<u>\$ 27,532</u>

SCHEDULE 2

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION

STATEMENT OF INCOME, EXPENSE, AND RETAINED EARNINGS FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 1976, AND JUNE 30, 1975

	<u>Combined</u>	
	<u>9/30/76</u>	<u>6/30/75</u>
	<u>(in thousands)</u>	
<u>Income</u>		
Interest and discounts on mortgages	\$ 448,131	\$ 194,493
Fees:		
Mortgage-backed securities	21,903	11,303
Commitment and other	21,396	3,811
Processing	1,286	944
Purchase and marketing	709	
Income from investments	2,996	1,518
Other	<u>1,445</u>	<u>2,237</u>
Total income	<u>497,866</u>	<u>214,306</u>
<u>Expense</u>		
Interest on notes payable to U.S. Treasury	654,303	312,115
Tandem plan costs	598,730	193,132
Fees:		
Servicing mortgages	11,744	5,093
Processing	1,187	699
Administrative	14,358	7,586
MBS guaranty costs	4,846	709
Provision for possible losses	1,107	175
Other	<u>47</u>	<u>9</u>
Total expense	<u>1,286,322</u>	<u>524,518</u>
Earnings or (loss) from operations	(788,456)	(310,212)
Gain or (loss) from trust operations	<u>17,992</u>	<u>11,966</u>
Net earnings or (loss)	(770,464)	(293,246)
Retained earnings or (deficit) at beginning of year	(799,083)	(501,050)
Adjustments affecting prior years	<u>406</u>	<u>213</u>
Retained earnings or (deficit) at end of year	<u>\$ (1,559,141)</u>	<u>\$ (799,033)</u>

The notes on pp. 20 and 21 are an integral part of this schedule.

SCHEDULE 2

Special Assistance Functions		Management and Liquidating Functions		Mortgage-Backed Securities Program	
<u>9/30/76</u>	<u>6/30/75</u>	<u>9/30/76</u>	<u>6/30/75</u>	<u>9/30/76</u>	<u>6/30/75</u>
<hr/> (in thousands) <hr/>					
\$ 441,511	\$ 188,715	\$ 6,620	\$ 5,778	\$	\$
21,396	3,811			21,903	11,303
1,286	944				
709					
<u>1,230</u>	<u>2,058</u>	<u>215</u>	<u>179</u>	<u>2,996</u>	<u>1,518</u>
466,132	195,528	6,835	5,957	24,899	12,821
649,786	307,601	4,517	4,514		
598,730	198,132				
11,377	4,770	367	323		
1,187	699				
12,368	6,079	798	674	1,192	833
				4,846	709
1,069	90	38	85		
<u>7</u>		<u>40</u>	<u>9</u>		
1,274,524	517,371	5,760	5,605	6,033	1,542
(808,392)	(321,843)	1,075	352	18,861	11,279
<u>12,226</u>	<u>8,185</u>	<u>5,766</u>	<u>3,781</u>		
(796,166)	(313,558)	6,841	4,133	18,861	11,279
(923,558)	(610,035)	95,950	92,799	27,515	16,236
<u>148</u>	<u>185</u>	<u>18</u>	<u>28</u>	<u>240</u>	
\$ (1,719,576)	\$ (923,558)	\$ 103,819	\$ 96,960	\$ 46,616	\$ 27,515

SCHEDULE 3

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 1976, AND JUNE 30, 1975

	<u>Combined</u>	
	<u>9/30/76</u>	<u>6/30/75</u>
	<u>(in thousands)</u>	
Funds Provided:		
Income from operations	\$ 497,866	\$ 214,306
Mortgage liquidations	7,867,147	1,491,659
Appropriations for participation certificate insufficiencies	9,323	8,077
Borrowings from the U.S. Treasury	4,938,511	3,285,830
Net changes in other assets and liabilities	964,281	3,399
Gain from trust operations	17,992	11,966
Adjustments applicable to prior year	<u>406</u>	<u>212</u>
Total funds provided	<u>\$ 14,295,526</u>	<u>\$ 5,015,449</u>
Funds Applied:		
Expense of operations	\$ 1,286,322	\$ 524,518
Mortgages purchased	8,547,916	3,474,399
Repayment of borrowings to the U.S. Treasury	4,444,045	1,006,300
Investments at cost plus unmatured net earnings	<u>17,243</u>	<u>10,232</u>
Total funds applied	<u>\$ 14,295,526</u>	<u>\$ 5,015,449</u>

The notes on pp. 20 and 21 are an integral part of this schedule.

SCHEDULE 3

Special Assistance Functions		Management and Liquidating Functions		Mortgage-Backed Securities Program	
<u>9/30/76</u>	<u>6/30/75</u>	<u>9/30/76</u>	<u>6/30/75</u>	<u>9/30/76</u>	<u>6/30/75</u>
(in thousands)					
\$ 466,132	\$ 195,528	\$ 6,835	\$ 5,958	\$ 24,899	\$ 12,820
7,853,819	1,487,571	13,328	4,088		
9,323	8,077				
4,938,511	3,285,830				
986,326	(4,016)	(20,187)	8,461	(1,858)	(1,046)
12,226	8,185	5,766	3,781		
148	185	18	27	240	
<u>\$ 14,266,485</u>	<u>\$ 4,981,360</u>	<u>\$ 5,760</u>	<u>\$ 22,315</u>	<u>\$ 23,281</u>	<u>\$ 11,774</u>
\$ 1,274,524	\$ 517,371	\$ 5,760	\$ 5,605	\$ 6,038	\$ 1,542
8,547,916	3,474,399				
4,444,045	989,590		16,710		
				17,243	10,232
<u>\$ 14,266,485</u>	<u>\$ 4,981,360</u>	<u>\$ 5,760</u>	<u>\$ 22,315</u>	<u>\$ 23,281</u>	<u>\$ 11,774</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 Association's activity as trustee for the Government obligations participation sales trusts; data is furnished on the Association's activity as trustee 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 at cost based on unpaid principal less unamortized purchase discount, participation equities, and deferred tandem plan discounts. The following amounts of unpaid principal are due to the Association from the mortgage debtors.

	<u>Combined</u>	<u>Special assistance functions</u>	<u>Management and liquidating functions</u>
Gross mortgage portfolio	\$6,143,551,920	\$5,821,485,034	\$322,066,886
Less unamortized discount	<u>154,803,284</u>	<u>149,589,104</u>	<u>5,214,180</u>
Mortgages less unamortized discount	<u>\$5,988,748,636</u>	<u>\$5,671,895,930</u>	<u>\$316,852,706</u>

NOTE 2:

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 commitments outstanding at September 30, 1976, to purchase mortgage principal totaling \$19,074 million.

NOTE 3:

TRUST AND DEPOSIT LIABILITIES (sch. 1)

The balances identified as trust and deposit liabilities include only the portion of mortgage tax and insurance pay-

ment 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--\$25,272,134 at September 30, 1976, and \$24,325,776 at June 30, 1975.

NOTE 4:

**CONTINGENT LIABILITY AS GUARANTOR
OF MORTGAGE-BACKED SECURITIES**

The Association is contingently liable for about \$28.7 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 on, and backed by, pools of FHA-insured and VA-guaranteed mortgage loans.

APPENDIXES

TRUSTEE OPERATIONS

The Association manages the assets and liabilities of three trusts and guarantees the payment of principal and interest on the participation certificates issued by the trusts. 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 trusts are the (1) Farmers Home Administration, (2) Department of Health, Education, and Welfare, (3) Department of Housing and Urban Development, (4) Veterans Administration, and (5) Small Business Administration.

These agencies conveyed title to assets (mortgages and housing-related debt instruments) to the trusts for which the Association is trustee. However, the agencies retained control and administration of these assets. The trustee issued and sold participation certificates to private and Government investors. The certificates are backed by these assets. The last certificate 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 September 30, 1976, totaled \$4.1 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 1976, certificates totaling \$115 million were redeemed. The outstanding certificate balance was \$655 million at September 30, 1976. The certificates mature at various times through 1981. Collections received during the fiscal year were sufficient to cover interest due on the certificates.

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

sold since it was established. The last issue was sold in 1968. During fiscal year 1976, no certificate redemptions were made. The outstanding certificate balance was \$1 billion at September 30, 1976. 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 \$8.4 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, and the certificates mature at various times through 1988. During fiscal year 1976, no certificate redemptions were made. The outstanding certificate balance was \$2.4 billion at September 30, 1976. Because net interest earned on the assets and cash deposits held for the trustors was less than the interest expense incurred on the certificates, additional contributions of \$42 million were made to the trust by the trustors.

We did not examine the following unaudited financial statements (schs. 1 through 3).

APPENDIX I

SCHEDULE 1

UNAUDITED

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION

TRUSTEE FOR GOVERNMENT OBLIGATIONS PARTICIPATION SALES TRUSTS

Statement of Financial Condition At September 30, 1976 and June 30, 1975

	<u>Combined Trusts</u>	
	<u>9/30/76</u>	<u>6/30/75</u>
	<u>(in thousands)</u>	
<u>Assets</u>		
Obligations subject to trust:		
Principal	\$3,101,450	\$3,528,956
Accrued interest receivable - net	<u>27,635</u>	<u>24,872</u>
Total subject to trust	3,129,085	3,553,828
Collections due from trustors	21,926	27,372
Investments at cost plus unmatured net earnings	1,618,179	1,331,521
Cash	<u>4,544</u>	<u>8</u>
Total assets	<u>\$4,773,734</u>	<u>\$4,912,729</u>
<u>Liabilities</u>		
Participation certificates: (note 1)		
Principal	\$4,058,255	\$4,173,255
Accrued interest payable	<u>57,262</u>	<u>77,639</u>
Total due certificate holders (note 2)	4,115,517	4,250,894
Accounts payable	14	25
Trustors' equity	<u>658,203</u>	<u>661,810</u>
Total liabilities	<u>\$4,773,734</u>	<u>\$4,912,729</u>

The notes on p. 32 are an integral part of this schedule.

APPENDIX I

<u>Government Mortgage Liquidation Trust</u>		<u>Federal Assets Liquidation Trust</u>		<u>Federal Assets Financing Trust</u>	
<u>9/30/76</u>	<u>6/30/75</u>	<u>9/30/76</u>	<u>6/30/75</u>	<u>9/30/76</u>	<u>6/30/75</u>
<u>(in thousands)</u>					
\$ 859,603	\$ 987,551	\$ 670,862	\$ 815,588	\$1,570,985	\$1,725,817
<u>2.352</u>	<u>2.680</u>	<u>7.733</u>	<u>8.467</u>	<u>17.550</u>	<u>13.725</u>
861,955	990,231	678,595	824,055	1,588,535	1,739,542
6,603	7,086	5,053	8,471	10,270	11,815
336,435	312,864	416,755	289,666	864,989	728,991
<u>2</u>	<u>1</u>	<u>6</u>	<u>6</u>	<u>4.536</u>	<u>1</u>
<u>\$1,204,995</u>	<u>\$1,310,182</u>	<u>\$1,100,409</u>	<u>\$1,122,198</u>	<u>\$2,468,330</u>	<u>\$2,480,349</u>
\$ 655,000	\$ 770,000	\$1,025,000	\$1,025,000	\$2,378,255	\$2,378,255
<u>11.793</u>	<u>8.609</u>	<u>13.538</u>	<u>21.713</u>	<u>31.931</u>	<u>47.317</u>
666,793	778,609	1,038,538	1,046,713	2,410,186	2,425,572
9	14	3	5	2	6
<u>538.193</u>	<u>531.559</u>	<u>61.868</u>	<u>75.480</u>	<u>58.142</u>	<u>54.771</u>
<u>\$1,204,995</u>	<u>\$1,310,182</u>	<u>\$1,100,409</u>	<u>\$1,122,198</u>	<u>\$2,468,330</u>	<u>\$2,480,349</u>

APPENDIX I

SCHEDULE 2

UNAUDITED

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION

TRUSTEE FOR GOVERNMENT OBLIGATIONS PARTICIPATION SALES TRUSTS

Statement of Income and Expense

For the Fiscal Years Ended September 30, 1976 and June 30, 1975

	<u>Combined Trusts</u>	
	<u>9/30/76</u>	<u>6/30/75</u>
	<u>(in thousands)</u>	
<u>Income</u>		
Interest earned on obligations		
Subject to trust - net of allowance for servicing expense	\$ 173,589	\$ 154,849
Investment income	<u>124,140</u>	<u>80,569</u>
Total income	\$ <u>297,729</u>	\$ <u>235,418</u>
<u>Expense</u>		
Interest on participation certificates	\$ 295,612	\$ 241,419
Administration	<u>270</u>	<u>253</u>
Total expense	\$ <u>295,882</u>	\$ <u>241,672</u>
Net income or (loss) from operations	\$ 1,847	\$ (6,254)
Interest contributions by trustors	51,482	38,694
Interest retained by trustors	(54,479)	(29,595)
Net allocation to trustors	\$ <u>(1,150)</u>	\$ <u>2,845</u>

The notes on p. 32 are an integral part of this schedule.

APPENDIX I

Government Mortgage Liquidation Trust		Federal Assets Liquidation Trust		Federal Assets Financing Trust	
<u>9/30/76</u>	<u>6/30/75</u>	<u>9/30/76</u>	<u>6/30/75</u>	<u>9/30/76</u>	<u>6/30/75</u>
(in thousands)					
\$ 54,287	\$ 48,881	\$ 35,345	\$ 32,762	\$ 83,957	\$ 73,206
<u>24,968</u>	<u>19,378</u>	<u>30,684</u>	<u>16,864</u>	<u>68,488</u>	<u>44,327</u>
\$ <u>79,255</u>	\$ <u>68,259</u>	\$ <u>66,029</u>	\$ <u>49,626</u>	\$ <u>152,445</u>	\$ <u>117,533</u>
\$ 44,276	\$ 40,282	\$ 66,375	\$ 53,100	\$ 184,961	148,037
<u>96</u>	<u>82</u>	<u>60</u>	<u>58</u>	<u>114</u>	<u>113</u>
\$ <u>44,372</u>	\$ <u>40,364</u>	\$ <u>66,435</u>	\$ <u>53,158</u>	\$ <u>185,075</u>	\$ <u>148,150</u>
\$ 34,883	\$ 27,895	\$ (406)	\$ (3,532)	\$ (32,630)	\$ (30,617)
-0-	-0-	8,685	7,607	42,797	31,087
(49,935)	(24,967)	(3,632)	(966)	(912)	(3,662)
\$ <u>(15,052)</u>	\$ <u>2,928</u>	\$ <u>4,647</u>	\$ <u>3,109</u>	\$ <u>9,255</u>	\$ <u>(3,192)</u>

APPENDIX I

SCHEDULE 3

UNAUDITED

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION

TRUSTEE FOR GOVERNMENT OBLIGATIONS PARTICIPATION SALES TRUSTS

Statement of Changes in Financial Position
For the Fiscal Years Ended September 30, 1976 and June 30, 1975

	<u>Combined Trusts</u>	
	<u>9/30/76</u>	<u>6/30/75</u>
	<u>(in thousands)</u>	
<u>Funds Provided</u>		
Income from operations	\$ 297,729	\$ 235,418
Obligations subject to trust:		
Principal deposits	427,506	340,562
Accrued interest receivable	(4,542)	6,398
Collections due from trustors	5,446	(2,611)
Additional interest contributed by trustors	(2,997)	9,099
Increase or (decrease) in cash	<u>(4,536)</u>	<u>15</u>
Total funds provided	\$ <u>718,606</u>	\$ <u>588,881</u>
<u>Funds Applied</u>		
Expense of operations	\$ 295,882	\$ 241,672
Retirement of participation certificates	115,000	110,000
Accrued interest payable	20,377	1,377
Investments acquired	284,879	224,756
Additional principal retained by trustors	2,458	11,072
Miscellaneous accounts payable	<u>10</u>	<u>4</u>
Total funds applied	\$ <u>718,606</u>	\$ <u>588,881</u>

The notes on p. 32 are an integral part of this schedule.

APPENDIX I

Government Mortgage Liquidation Trust		Federal Assets Liquidation Trust		Federal Assets Financing Trust	
<u>9/30/76</u>	<u>6/30/75</u>	<u>9/30/76</u>	<u>6/30/75</u>	<u>9/30/76</u>	<u>6/30/75</u>
(in thousands)					
\$ 79,255	\$ 68,259	\$ 66,029	\$ 49,626	\$ 152,445	\$ 117,533
127,949	108,586	144,726	99,197	154,831	132,779
328	281	733	1,164	(5,603)	4,953
482	(7,086)	3,419	2,724	1,545	1,751
(49,935)	(24,967)	5,052	6,641	41,886	27,425
<u>0</u>	<u>14</u>			<u>(4,536)</u>	<u>1</u>
\$ <u>158.079</u>	\$ <u>145.087</u>	\$ <u>219.959</u>	\$ <u>159.352</u>	\$ <u>340.568</u>	\$ <u>284.442</u>
\$ 44,372	\$ 40,364	\$ 66,435	\$ 53,158	\$ 185,075	\$ 148,150
115,000	110,000				
(3,183)	1,377	8,175		15,385	
23,570	(6,839)	127,089	103,398	134,220	128,197
(21,685)	181	18,258	2,796	5,885	8,095
<u>5</u>	<u>4</u>	<u>2</u>		<u>3</u>	
\$ <u>158.079</u>	\$ <u>145.087</u>	\$ <u>219.959</u>	\$ <u>159.352</u>	\$ <u>340.568</u>	\$ <u>284.442</u>

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

The participation certificates of \$2.4 billion in the Federal Assets Financing Trust do not include \$85 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. 1)

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 trustor Federal agencies to meet trust obligations, as may be necessary. These agencies, having control and administration of the obligations subject to the trusts, have provided much of the financial data in schedules 1 through 3 of appendix I.

PRINCIPAL OFFICIALS
RESPONSIBLE FOR THE ACTIVITIES
DISCUSSED IN THIS REPORT

Tenure of office
From To

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

**SECRETARY OF HOUSING AND
URBAN DEVELOPMENT:**

Patricia R. Harris	Jan. 1977	Present
Carla A. Hills	Mar. 1975	Jan. 1977

**ASSISTANT SECRETARY FOR HOUSING
(FHA COMMISSIONER):**

Lawrence B. Simons	Mar. 1977	Present
John T. Howley (acting)	Dec. 1976	Jan. 1977
James L. Young	June 1976	Dec. 1976
David S. Cook	Sept. 1975	June 1976
David M. DeWilde (acting)	Dec. 1974	Sept. 1975

**GOVERNMENT NATIONAL MORTGAGE
ASSOCIATION:**

PRESIDENT:

John H. Dalton (designated)		
David M. DeWilde	Apr. 1976	Present
Daniel P. Kearney	July 1974	Mar. 1976

EXECUTIVE VICE PRESIDENT:

Vacant	Apr. 1976	Present
Richard C. Dyas	Apr. 1970	Apr. 1976

SECRETARY-TREASURER:

Vilmer N. Nelson (Assistant Secretary-Treasurer)	Nov. 1976	Present
Albert J. Fulner, Jr.	Nov. 1969	Nov. 1976

CONTROLLER:

Vacant	Mar. 1977	Present
Robert C. Goetz (acting)	Jan. 1977	Feb. 1977
Raymond J. Seitz	June 1972	Dec. 1976