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REPORT TO THE CONGRESS

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Examination Of Financial Statements  
Of The Government National Mortgage  
Association For Fiscal Year 1971 B-114828

Department of Housing and Urban Development

BY THE COMPTROLLER GENERAL  
OF THE UNITED STATES

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JUNE 20, 1972



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

BEST DOCUMENT AVAILABLE

B-114828

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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, 1971.

Our examination was made pursuant to the Government Corporation Control Act (31 U.S.C. 841).

Copies of this 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.

A handwritten signature in cursive script that reads "James B. Stacks".

Comptroller General  
of the United States

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ABBREVIATIONS

FAFT	Federal Assets Financing Trust
FALT	Federal Assets Liquidation Trust
FHA	Federal Housing Administration
FHDA	Farmers Home Administration, Department of Agriculture
FHLMC	Federal Home Loan Mortgage Corporation
FNMA	Federal National Mortgage Association
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
RFC	Reconstruction Finance Corporation
SBA	Small Business Administration
SBOT	Small Business Obligations Trust
VA	Veterans Administration

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 and of the trusts for which it is trustee.

OPINION ON FINANCIAL STATEMENTS

In the opinion of GAO, the financial statements present fairly the financial position of the Government National Mortgage Association at June 30, 1971, and the results of its operation 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. (See p. 20.)

In the opinion of GAO, the financial statements of the Government National Mortgage Association, as trustee for the Government Mortgage Liquidation Trust, the Small Business Obligations Trust, the Federal Assets Liquidation Trust, and the Federal Assets Financing Trust, present fairly the financial position of the respective trusts at June 30, 1971, and the results of their operations and the sources and application of their 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. (See p. 20.)

RECOMMENDATIONS OR SUGGESTIONS

This report contains no recommendations or suggestions.

AGENCY ACTIONS AND UNRESOLVED ISSUES

None.

MATTERS FOR CONSIDERATION BY THE CONGRESS

In addition to providing GAO's opinions regarding the financial statements, the report provides information to keep the Congress informed of the operations and financial conditions of the Government National Mortgage Association and the trusts for which it is trustee.

## CHAPTER 1

### INTRODUCTION

The Government National Mortgage Association (GNMA), a component of the Department of Housing and Urban Development (HUD), was created by the Congress in the Housing and Urban Development Act of 1968 (12 U.S.C. 1717)--the legislation which partitioned the Federal National Mortgage Association (FNMA) into two corporate entities. GNMA was established as a Government-owned corporation to (1) conduct the predecessor FNMA's special assistance and management and liquidating functions, (2) act as trustee for a number of trusts for which FNMA had been trustee, and (3) issue mortgage-backed securities and guarantee mortgage-backed securities issued by either the new Federal National Mortgage Association (new FNMA)--the second corporation created in the partitioning--or any other issuer approved by GNMA for such an activity. GNMA became operative on September 1, 1968, and its activities are discussed in subsequent chapters.

The new FNMA was established by the Congress as a Government-sponsored privately owned corporation to conduct the predecessor FNMA's secondary market operations. The new FNMA became operative on September 1, 1968, and, as a privately owned corporation, is not subject to audit by us except in the event that it incurs obligations which are guaranteed as to principal or interest by GNMA. At June 30, 1971, the new FNMA had outstanding \$850 million of mortgage-backed bonds which were guaranteed by GNMA. Consequently, under authority of the Housing and Urban Development Act of 1968 (12 U.S.C. 1716b note), we examined the records of the new FNMA relating to the guaranteed obligations.

All the powers and duties of GNMA are vested in the Secretary of HUD. He directs the administration of GNMA, and, within the limitations of law, he determines the general policies which govern the operations of GNMA. The Secretary is empowered to appoint the president, vice president, and all other executive officers of GNMA.

Under authority provided by the Housing and Urban Development Act of 1968, the new FNMA and GNMA entered into an Intercorporate Functional Agreement under which the new

FNMA conducts, in addition to its operations, a substantial portion of the operations related to the special assistance and management and liquidating functions of GNMA, subject to GNMA's direction. The new FNMA is reimbursed for its services on the basis of a memorandum agreement between the new FNMA and GNMA, dated March 4, 1970.

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; and Philadelphia, Pennsylvania, and through a fiscal agent office in New York, N.Y.

## CHAPTER 2

### SPECIAL ASSISTANCE FUNCTIONS

GNMA conducts its special assistance functions under authority of sections 301(b) and 305 of the FNMA Charter Act, as amended (12 U.S.C. 1716, 1720). These sections provide that, upon specific authorization by the President of the United States or by the Congress, GNMA 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, 1971, the combined statutory limitation for mortgage purchases and commitments, subject to specific authorizations by the President and by the Congress, amounted to \$7.7 billion. The statutory limitation for the Presidential authorization was \$5.5 billion and was for the purpose of conducting mortgage purchase programs related to (1) below-market-interest-rate housing, (2) rent supplement housing, and (3) miscellaneous other programs. The statutory limitation for the congressional authorization was \$2.2 billion and was for the purpose of conducting mortgage purchase programs related to low-cost 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 to sell, for financing purposes, participation certificates in pooled mortgages conveyed to the trusts by participating trustors. Funds were not obtained by this type of financing in fiscal year 1971. Financing through the sale of participation certificates is more fully discussed on pages 15 through 18.

During fiscal year 1971, borrowings from the Treasury totaled \$621.4 million and borrowings repaid to the Treasury totaled \$149.6 million. The interest rates on funds borrowed from the Treasury during fiscal year 1971 ranged from 3.875 to 7.875 percent. At June 30, 1971, notes payable to the Treasury totaled \$2.6 billion.

In fiscal year 1971, the special assistance functions sustained a loss of \$60.2 million from their own operations and from trust operations. The loss 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.

Significant data for the fiscal years ended June 30, 1971 and 1970, summarized from the special assistance functions mortgage records, follow.

	1971 unpaid <u>principal</u>	1970 unpaid <u>principal</u>
	(millions)	
Mortgages purchased under combined Presidential and congressional authorization	\$ 517.7	\$ 759.0
Mortgages repaid, foreclosed, and assigned	99.8	37.5
Mortgages (at cost) in the portfolio at June 30	2,453.9	2,036.0

At June 30, 1971, the unpaid principal of special assistance functions mortgages, which had been conveyed to the trust in which these functions participated, totaled \$1,093.1 million and the outstanding participation certificates related to these mortgages totaled \$969.3 million. On the special assistance functions balance sheet, the amount of the conveyed mortgages is shown as a deduction from the amount of mortgages on hand.

During fiscal year 1971, participation certificates totaling \$44.8 million matured and were redeemed by the trust. In addition to remitting the principal and interest

collected on mortgages conveyed to the trust, the special assistance functions, at the trustee's request, remitted \$11.5 million to the trustee during fiscal year 1971 to cover the difference between the interest collected on the mortgages conveyed to the trust and the interest paid on the participation certificates collateralized by the mortgages.

An additional activity was added to the special assistance functions by section 305(j) of the National Housing Act of 1969 (12 U.S.C. 1720). Section 305(j) enabled the special assistance functions to enter into commitments to purchase mortgages insured by the Federal Housing Administration (FHA) or guaranteed by the Veterans Administration (VA) under an arrangement which became known as the tandem plan. The purpose of the tandem plan is to (1) enable the Government to support and stimulate the financing of housing with a minimum purchase of mortgages and (2) provide a market in which FHA-insured or VA-guaranteed mortgages can be sold by mortgage originators at minimum discounts (points). With assurance that their discount costs will be low when selling FHA or VA mortgages, originators of such mortgages can set the sales prices of the properties covered by the mortgages to reflect the low discount costs.

The procedures that are followed in the operation of the tandem plan depend upon whether the GNMA commitment involves a mortgage which finances a Government-subsidized property or an unsubsidized property. If a Government-subsidized property is involved, GNMA's commitment to the mortgage originator is to purchase the mortgage generally at the unpaid principal balance. The commitment is made by GNMA in contemplation of assigning the commitment to FNMA which, under an agreement with GNMA, will purchase the mortgage at market price. However, for convenience in operation, FNMA pays the seller the GNMA commitment price and is reimbursed by GNMA for the difference between the commitment price and the market price.

In the case of mortgages financing unsubsidized properties, GNMA issues commitments to the mortgage originators to purchase their mortgages for fixed prices, generally in excess of the market prices for such mortgages. The GNMA commitments are made in contemplation of buy-backs by the mortgage originators at market prices established by periodic

auctions of commitments. If the mortgage originators buy back the commitments, GNMA pays them the difference between the buy-back prices and the prices it had committed itself to pay if the mortgages had been delivered. If market conditions are such that the mortgage originators do not buy back the commitments, GNMA will buy the mortgages and thereafter will immediately offer them for sale.

In fiscal year 1971, through issuance of commitments to purchase over \$1 billion of FHA-insured or VA-guaranteed mortgages, GNMA gave aid in the financing of mortgages on properties which provided more than 60,000 living units. The cost to GNMA in providing the aid under the tandem plan was \$2.9 million.

## CHAPTER 3

### MANAGEMENT AND LIQUIDATING FUNCTIONS

GNMA conducts its management and liquidating functions under authority of sections 301(c) and 306 of the FNMA Charter Act, as amended (12 U.S.C. 1716, 1721). These sections authorize GNMA to manage and liquidate federally owned mortgage portfolios in an orderly manner with a minimum adverse effect on the home mortgage market. The management and liquidation functions are authorized to purchase, service, or sell any obligations 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. The Congress did not authorize this type of financing in fiscal year 1971. Financing through the sale of participating certificates is more fully discussed on pages 15 through 18.

During fiscal year 1971, borrowings from the Treasury totaled \$531.3 million and borrowings repaid to the Treasury totaled \$584 million. The interest rate on funds borrowed during fiscal year 1971 ranged from 5.125 to 7.875 percent. At June 30, 1971, outstanding borrowings totaled \$949.8 million.

In fiscal year 1971, the management and liquidating functions had net earnings of \$3.8 million from their own operations and from trust operations.

Significant data for the fiscal years ended June 30, 1971 and 1970, summarized from the management and liquidating functions mortgage records, follow.

	1971 unpaid <u>principal</u>	1970 unpaid <u>principal</u>
	(millions)	
FHA mortgages purchased	\$ 18.5	\$ 58.3
Mortgages repaid, foreclosed, and assigned	57.6	66.8
FHA and VA mortgages (at cost) in portfolio at June 30	1,046.2	1,085.3
HUD mortgages in portfolio at June 30 (note a)	18.3	26.3
Defense Homes Corporation notes in portfolio at June 30 (note b)	13.5	15.2

<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, approved September 23, 1959 (12 U.S.C. 1721).

<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, 1971, the unpaid principal of management and liquidating function mortgages which had been conveyed to the trusts in which these functions participated totaled \$635.3 million. Outstanding participation certificates totaling \$656.5 million are collateralized by these mortgages and other trust assets. On the management and liquidating functions balance sheet, the amount of the conveyed mortgages is shown as a deduction from the amount of mortgages on hand.

During fiscal year 1971, participation certificates totaling \$35.9 million matured and were redeemed by the trusts. In addition to remitting the principal and interest

collected on mortgages conveyed to the trusts, the management and liquidating functions, at the request of the trustee, remitted \$5.5 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 4

### MORTGAGE-BACKED SECURITIES GUARANTY PROGRAM

Section 306(g) of the National Housing Act (12 U.S.C. 1721) authorizes GNMA, for a reasonable fee, to guarantee mortgage-backed securities issued to the public by the new FNMA or by any other issuer that is approved by GNMA for such an activity.

To obtain approval to become an issuer, an applicant must be an FHA-approved mortgagee in good standing and must have a net worth in assets acceptable to GNMA of (1) not less than 3 percent of the first \$5 million of guaranteed securities outstanding after such issue, (2) not less than 2 percent on the succeeding \$5 million, and (3) not less than 1 percent on all over \$10 million, but in no case need such net worth exceed \$500,000.

An applicant is also required to submit copies of its most recent financial statements certified by an independent certified public accountant, and, if the last certified statements are more than 6 months old, a copy of the most recent financial statement prepared by the applicant must be submitted. The applicants' files examined by us on a test basis showed that the applicants that were approved to become issuers had complied with GNMA's requirements.

Under regulations promulgated by the Secretary of HUD on May 18, 1970 (24 F.R. 1665), the securities may be issued, at the option of the issuer, as a pass-through type or a bond type but must be backed by pools of mortgages consisting of (1) mortgages insured by FHA, (2) mortgages guaranteed by VA, or (3) mortgages guaranteed by the Farmers Home Administration, Department of Agriculture (FHDA). The issuer is responsible for administering the mortgage pools backing the securities, including the collection of the principal and interest on the mortgages. In the event that the issuer defaults in making timely payment of principal and/or interest to the owner of the guaranteed security, GNMA may make the payment and takes title to the mortgages backing the security.

The regulations provide that two types of pass-through securities may be issued--straight pass-through type or modified pass-through type. Securities are designated as pass through because principal and interest are passed through monthly to the security owners. Under a straight pass-through security, the owner is paid a proportionate share, less a service charge, of the principal and interest collected by the issuer on the mortgages in the pool no later than 15 days after the close of the month in which the collections are made. Under a modified pass-through security, the owner is paid a specified amount of principal and interest no later than 15 days after the close of the month in which payment of principal and interest on the mortgages backing the securities is due, whether or not collected by the issuer. In addition, a proportionate share of prepayments of mortgage principal is also passed through to the security owners.

The regulations require issuers of pass-through securities to deliver to custodians, satisfactory to GNMA, the mortgage notes and other principal documents representing the mortgages in the pool, for safekeeping as collateral for the GNMA guarantee.

At June 30, 1971, 566 issues of pass-through-type securities having principal amounts of \$2,043.5 million and accrued interest of \$13.3 million were outstanding. Thus GNMA's guaranty outstanding on these pass-through securities amounted to \$2,056.8 million. According to the GNMA records examined by us on a test basis, the principal of mortgages in the pools held by custodians and the interest collections on deposit in custodial accounts at June 30, 1971, amounted to \$2,061.7 million.

Insofar as we could determine, GNMA in fiscal year 1971, for the most part, confined its audits of the records maintained by issuers or custodians relative to the guaranteed mortgage-backed securities to limited reviews of the reports submitted by issuers or custodians. In the main, GNMA considered the FHA insurance and the VA guarantee of the mortgages backing the outstanding securities as providing resources that would, if circumstances required, support and safeguard its guarantee.

Bond-type mortgage-backed securities may be issued in registered or coupon form, bearing a fixed interest rate, payable on specified dates, and maturing on specified dates. The regulations require the issuer of a bond-type mortgage-backed security to enter into an agreement with a corporate trustee that is subject to Federal or State regulation. The agreement must provide for the trustee to (1) hold the pool of mortgages backing the securities, (2) hold the collections of principal and interest remitted by the issuer, and (3) make timely payments of principal and interest to holders of the bonds from the proceeds of the collections.

Mortgage-backed bonds guaranteed by GNMA have been issued by FNMA and by the Federal Home Loan Mortgage Corporation (FHLMC). FHLMC, established under the Emergency Home Finance Act of 1970, is authorized to buy and sell conventional and guaranteed or insured mortgages. FHLMC is owned by the Federal Home Loan Banks, and the members of the Federal Home Loan Bank Board serve as the Board of Directors of FHLMC.

At June 30, 1971, GNMA had guaranteed \$850 million of outstanding mortgage-backed bonds for FNMA and \$315 million for FHLMC. The accrued interest on the FNMA and FHLMC bonds amounted to \$13.4 million and \$2.2 million, respectively. Thus GNMA's guaranty on bond-type securities at June 30, 1971, amounted to \$1,180.6 million.

Because the mortgage-backed bonds that FNMA and FHLMC had issued were guaranteed by GNMA, we, on a test basis, examined the records pertaining to the guaranteed bonds of both corporations. These records showed that the principal of mortgages and other assets deposited in trust accounts as collateral backing the \$1,180.6 million of outstanding bonds and accrued interest amounted to \$1,187.8 million. The records showed also that the corporations were complying with the regulations promulgated by the Secretary. We concluded that the GNMA guaranty was adequately protected at June 30, 1971.

## CHAPTER 5

### 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) FHDA, (2) the Office of Education, Department of Health, Education, and Welfare (HEW), (3) HUD (except for secondary market operations of FNMA), (4) VA, (5) the Export-Import Bank, and (6) the Small Business Administration (SBA).

The Housing and Urban Development Act of 1968 further amended the FNMA Charter Act. The changes included the designation of GNMA to replace FNMA as trustee of the trusts. Consequently GNMA began to function as trustee on September 1, 1968, and as of that date assumed responsibility for the assets and liabilities of the respective trusts. As did its predecessor, GNMA administered the fiduciary acts of a trustee under its management and liquidating functions. As of June 30, 1971, 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. In accordance with the FNMA Charter Act, the agencies retained custody, control, and administration of these 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 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 mortgages and loans. These funds are used to pay interest on the participation certificates, to pay trust expenses, and to retire participation certificates on maturity. Pending disbursement of the funds, the trustee invested them 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 complied with the provisions of the trust indentures which had set limits on the amount of participation certificates that may be issued against the pool of mortgages and loans held as collateral for the participation certificates. A discussion of the four trusts follows.

#### GOVERNMENT MORTGAGE LIQUIDATION TRUST

On October 1, 1964, FNMA and VA 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, 1971, participation certificates totaling \$580 million had been redeemed at maturity, of which \$110 million was redeemed in fiscal year 1971. At June 30, 1971, participation certificates outstanding totaled \$1,210 million, had maturity dates ranging from July 1971 to June 1981, and had interest rates ranging from 4.375 to 5.5 percent.

#### SMALL BUSINESS OBLIGATIONS TRUST

On June 1, 1966, FNMA and SBA 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 SBA.

One issue of participation certificates, aggregating \$350 million, was sold by the trust on June 23, 1966. As of June 30, 1971, all participation certificates had been redeemed at maturity. Participation certificates totaling \$70 million were redeemed in fiscal year 1971.

#### 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) FHDA, (2) the Office of Education, (3) HUD, (4) VA, and (5) SBA.

Four issues of participation certificates aggregating \$3,230 million have been sold since the trust was established. In fiscal year 1971 no participation certificates matured. At June 30, 1971, participation certificates outstanding totaled \$2,330 million, had maturity dates ranging from January 1972 to April 1987, and had interest rates ranging from 5 to 6.45 percent.

During fiscal year 1971 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 \$22.8 million from the trustors to cover the insufficiency. As stated previously, funds were appropriated to 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 the 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) FHDA, (2) the Office of Education, (3) HUD, (4) VA, and (5) SBA.

Four issues of participation certificates aggregating \$4,250 million have been sold since the trust was established. In fiscal year 1971 participation certificates totaling \$1,135 million were redeemed at maturity. At June 30, 1971, participation certificates outstanding totaled \$2,465 million, had maturity dates ranging from August 1978 to August 1988, and had interest rates ranging from 6.05 to 6.45 percent.

During the fiscal year the interest remitted by the trustors on the mortgages backing the participation certificates was insufficient to cover the interest due on the participation certificates. The trustee requested and obtained \$59.8 million from the trustors to cover the insufficiency.

## CHAPTER 6

### SCOPE OF EXAMINATION

Our examination of GNMA's financial statements for fiscal year 1971 included an examination of the balance sheets as of June 30, 1971, the statements of earnings, and the statements 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, the management and liquidating functions, and the mortgage-backed securities guaranty program.

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, 1971, for the four trusts and statements of income and expense and of sources and application of funds for the fiscal year ended June 30, 1971. We examined FNMA's and FHLMC's records pertaining to the outstanding mortgage-backed securities guaranteed by GNMA.

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, the new FNMA, and FHLMC; at two of FNMA's five regional offices (Atlanta and Philadelphia); and at the offices of selected servicers across the country.

Our work included an examination of the legal documents related to a number of mortgages in the custody of the regional offices and in the custody of selected servicers and a comparison of a number of FNMA's mortgage records with the records of selected servicers. We also examined the records of each of the seven trustors related to the activities of the four trusts. In addition, we reviewed the audit made by HUD internal auditors of the GNMA accounting records. Although the quality of their work was satisfactory, their audit was not completed in time for use in our examination.

## CHAPTER 7

### OPINION ON FINANCIAL STATEMENTS

The financial statements presented in this report as schedules 1 through 8 are the statements of GNMA. GNMA made certain minor revisions to its fiscal year 1970 statements to conform to its fiscal year 1971 presentation. In our opinion, the accompanying financial statements present fairly the financial position of GNMA at June 30, 1971, 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 9 through 12.

In our opinion, the accompanying financial statements of the trusts--schedules 9 through 12--present fairly their financial position at June 30, 1971, and the results of their operations and the sources and application of their 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.

Government National Mortgage Association

COMBINED BALANCE SHEET

ASSETS	June 30, 1971	June 30, 1970
FHA-insured and VA-guaranteed mortgages at cost .....	\$ 5,230,429,000	\$ 4,986,859,000
Less principal subject to:		
Government participation sales trust .....	1,728,389,000	1,863,546,000
Other participation equities .....	1,979,000	1,993,000
	<u>3,500,061,000</u>	<u>3,121,320,000</u>
Direct mortgage loans transferred from HUD:		
Unpaid principal .....	\$ 18,287,000	
Less allowance for losses .....	5,744,000	
	12,543,000	20,548,000
DHC purchase money notes transferred from RFC:		
Unpaid principal .....	13,483,000	
Less unrealized equity .....	13,483,000	
	-0-	752,000
	<u>3,512,604,000</u>	<u>3,142,620,000</u>
Equity in Government participation sales trust .....	382,062,000	366,110,000
Participation in construction loan advances .....	2,097,000	
Accrued interest receivable .....	13,595,000	12,846,000
Other receivables .....	4,514,000	4,550,000
Assets acquired through liquidation and claims in process against FHA and VA (Net of allowance for losses) .....	13,284,000	8,546,000
Property held for sale .....	34,000	20,000
Cash .....	344,000	658,000
FHA debentures - principal and accrued interest .....	2,621,000	208,000
U.S. Treasury obligations - principal and accrued interest .....	654,000	
Deferred charges and miscellaneous .....	2,157,000	2,829,000
Accrued guaranty fees receivable - Mortgage Backed Securities .....	142,000	10,000
Furniture and equipment, less accumulated depreciation .....		32,000
	<u>\$ 3,934,108,000</u>	<u>\$ 3,538,429,000</u>

LIABILITIES

Liabilities:		
Accrued interest payable on notes to the U. S. Treasury .....	\$ 103,051,000	\$ 84,115,000
Accounts payable and accrued liabilities .....	18,888,000	25,280,000
Trust and deposit liabilities .....	97,556,000	84,063,000
Deferred credits .....		15,000
Employees' accrued annual leave .....	78,000	81,000
	<u>219,573,000</u>	<u>193,554,000</u>
Investment of the United States Government:		
Notes payable to the U. S. Treasury .....	\$ 3,551,694,000	3,132,611,000
Retained earnings .....	156,762,000	212,264,000
Appropriation for Participation Sales Fund Insufficiencies .....	6,079,000	
	<u>3,714,535,000</u>	<u>3,344,875,000</u>
	<u>\$ 3,934,108,000</u>	<u>\$ 3,538,429,000</u>

# SCHEDULE 2

## Government National Mortgage Association

### COMBINED STATEMENT OF EARNINGS

INCOME	Fiscal Year Ended <u>June 30, 1971</u>	Fiscal Year Ended <u>June 30, 1970</u>
Interest .....	\$ 161,483,000	\$ 146,542,000
Commitment fees .....	5,325,000	7,042,000
Purchase and marketing fees .....	226,000	516,000
Purchase discounts realized .....	2,509,000	2,444,000
Fees under Mortgage Backed Securities Program .....	1,260,000	57,000
Other .....	783,000	650,000
	<u>171,586,000</u>	<u>157,251,000</u>
EXPENSE		
Interest on notes to the U. S. Treasury .....	209,904,000	156,356,000
Discounts paid under Tandem Plans .....	2,887,000	215,000
Fees for servicing mortgages .....	8,129,000	8,241,000
Provision for losses .....	789,000	867,000
Administrative .....	4,287,000	3,551,000
Other .....	385,000	308,000
	<u>226,381,000</u>	<u>169,538,000</u>
Loss from operations .....	(54,795,000)	(12,287,000)
Gain or (loss) from operations of Government Obligation Participation Sales Trusts .....	(977,000)	(3,993,000)
Amortization of deferred charges and credits on sale of assets (net) through Government Obligation Participation Sales Trust .....	(657,000)	(944,000)
Realization of deferred credit acquired from RFC (Reorganization Plan No. 2, 1954) .....	927,000	
Net loss .....	<u>\$ (55,502,000)</u>	<u>\$ (17,224,000)</u>
Retained earnings at beginning of year .....	\$ 212,264,000	\$ 229,488,000
Net loss for the twelve months' period .....	(55,502,000)	(17,224,000)
Retained earnings at end of year .....	<u>\$ 156,762,000</u>	<u>\$ 212,264,000</u>

BEST DOCUMENT AVAILABLE

Government National Mortgage Association

Special Assistance Functions

BALANCE SHEET

ASSETS	<u>June 30, 1971</u>	<u>June 30, 1970</u>
FHA-insured and VA-guaranteed mortgages at cost .....	\$ 3,548,989,000	\$ 3,195,312,000
Less principal subject to:		
Government participation sales trusts .....	1,093,128,000	1,157,313,000
Other participation equities .....	1,979,000	1,993,000
	<u>2,453,882,000</u>	<u>2,036,006,000</u>
Equity in Government participation sales trusts .....	292,272,000	277,857,000
Participation in construction loan advances .....	2,097,000	
Accrued interest receivable .....	8,822,000	7,505,000
Other receivables .....	5,847,000	7,858,000
Assets acquired through liquidation and claims in process against FHA and VA (Net of allowance for losses) .....	8,506,000	2,586,000
Property held for sale .....	16,000	
Cash .....	103,000	104,000
FHA debentures - principal and accrued interest .....	2,621,000	208,000
Deferred charges and miscellaneous .....	1,170,000	1,559,000
	<u>\$ 2,775,336,000</u>	<u>\$ 2,333,683,000</u>
LIABILITIES		
Liabilities:		
Accrued interest payable on notes to the U. S. Treasury .....	\$ 77,004,000	\$ 60,844,000
Accounts payable and accrued liabilities .....	9,391,000	14,530,000
Trust and deposit liabilities .....	66,988,000	53,944,000
Deferred credits .....		15,000
	<u>153,383,000</u>	<u>129,333,000</u>
Investment of the United States Government:		
Notes payable to the U. S. Treasury .....	2,601,934,000	2,130,161,000
Retained earnings .....	13,940,000	74,189,000
Appropriations for Participation Sales Fund Insufficiencies .....	6,079,000	
	<u>2,621,953,000</u>	<u>2,204,350,000</u>
	<u>\$ 2,775,336,000</u>	<u>\$ 2,333,683,000</u>

Government National Mortgage Association

Special Assistance Functions

STATEMENT OF EARNINGS

SCHEDULE 4

INCOME	Fiscal Year Ended June 30, 1971	Fiscal Year Ended June 30, 1970
Interest .....	\$ 90,351,000	\$ 74,419,000
Commitment and other fees .....	5,324,000	7,041,000
Purchase and marketing fees .....	226,000	516,000
Purchase discounts realized .....	193,000	150,000
Other .....	246,000	196,000
	<u>96,340,000</u>	<u>82,322,000</u>
EXPENSE		
Interest on notes to the U. S. Treasury .....	150,708,000	107,723,000
Discounts paid under Tandem Plans .....	2,887,000	215,000
Fees for servicing mortgages .....	2,648,000	2,657,000
Provision for losses .....	364,000	137,000
Administrative .....	2,545,000	2,216,000
Other .....	4,000	1,000
	<u>159,156,000</u>	<u>112,979,000</u>
Loss from operations .....	(62,816,000)	(30,657,000)
Gain or (loss) from operations of Government Obligation Participation		
Sales Trusts .....	2,940,000	448,000
Amortization of deferred charges and credits on sale of assets (net)		
through Government Obligation Participation Sales Trust .....	(373,000)	(601,000)
Net loss .....	<u>\$ (60,249,000)</u>	<u>\$ (30,810,000)</u>
Retained earnings at beginning of year .....	\$ 74,189,000	\$ 104,999,000
Net loss for the twelve months' period .....	(60,249,000)	(30,810,000)
Retained earnings at end of year .....	<u>\$ 13,940,000</u>	<u>\$ 74,189,000</u>

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Government National Mortgage Association  
 Management and Liquidating Functions  
 BALANCE SHEET

ASSETS	<u>June 30, 1971</u>	<u>June 30, 1970</u>
FHA-insured and VA-guaranteed mortgages at cost .....	\$ 1,681,440,000	\$ 1,791,547,000
Less principal subject to:		
Government participation sales trust .....	635,261,000	706,232,000
	<u>1,046,179,000</u>	<u>1,085,315,000</u>
Direct mortgage loans transferred from HUD:		
Unpaid principal .....	\$ 18,287,000	
Less allowance for losses .....	<u>5,744,000</u>	
DHC purchase money notes transferred from RFC:		
Unpaid principal .....	13,483,000	
Less unrealized equity .....	<u>13,483,000</u>	
	-0-	752,000
	<u>1,058,722,000</u>	<u>1,106,615,000</u>
Equity in Government participation sales trusts .....	89,790,000	88,252,000
Accrued interest receivable .....	4,773,000	5,341,000
Other receivables .....	4,290,000	3,562,000
Assets acquired through liquidation and claims in process against FHA and VA (Net of allowance for losses) .....	4,778,000	5,960,000
Property held for sale .....	18,000	19,000
Cash .....	100,000	554,000
Deferred charges and miscellaneous .....	987,000	1,271,000
Furniture and equipment, less accumulated depreciation .....		32,000
	<u>\$ 1,163,458,000</u>	<u>\$ 1,211,606,000</u>
LIABILITIES		
Liabilities:		
Accrued interest payable on notes to the U. S. Treasury .....	\$ 26,047,000	\$ 23,271,000
Accounts payable and accrued liabilities .....	15,101,000	17,578,000
Trust and deposit liabilities .....	30,568,000	30,119,000
Employees' accrued annual leave .....	78,000	81,000
	<u>71,794,000</u>	<u>71,049,000</u>
Investment of the United States Government:		
Notes payable to the U. S. Treasury .....	949,760,000	1,002,450,000
Retained earnings .....	141,904,000	138,107,000
	<u>1,091,664,000</u>	<u>1,140,557,000</u>
	<u>\$ 1,163,458,000</u>	<u>\$ 1,211,606,000</u>

BEST DOCUMENT AVAILABLE

Government National Mortgage Association  
 Management and Liquidating Functions  
 STATEMENT OF EARNINGS

	Fiscal Year Ended June 30, 1971	Fiscal Year Ended June 30, 1970
INCOME		
Interest .....	\$ 71,125,000	\$ 72,122,000
Commitment and other fees .....	1,000	1,000
Purchase discounts realized .....	2,316,000	2,294,000
Other .....	536,000	455,000
	<u>73,981,000</u>	<u>74,872,000</u>
EXPENSE		
Interest on notes to the U. S. Treasury .....	59,196,000	48,634,000
Fees for servicing mortgages .....	5,481,000	5,584,000
Provision for losses .....	425,000	730,000
Administrative .....	1,427,000	1,216,000
Other .....	381,000	306,000
	<u>66,910,000</u>	<u>56,470,000</u>
Earnings from operations .....	7,071,000	18,402,000
Gain or (loss) from operations of Government Obligation Participation Sales Trusts .....	(3,917,000)	(4,441,000)
Amortization of deferred charges and credits on sale of assets (net) through Government Obligation Participation Sales Trust .....	(284,000)	(343,000)
Realization of deferred credit acquired from RFC (Reorganization Plan No. 2, 1954) .....	927,000	
Net earnings .....	<u>\$ 3,797,000</u>	<u>\$ 13,618,000</u>
Retained earnings at beginning of year .....	\$ 138,107,000	\$ 124,489,000
Net earnings for the twelve months' period .....	3,797,000	13,618,000
Retained earnings at end of year .....	<u>\$ 141,904,000</u>	<u>\$ 138,107,000</u>

Government National Mortgage Association  
STATEMENT OF SOURCES AND APPLICATION OF FUNDS  
Fiscal Year 1971

	<u>Combined</u>	<u>Special Assistance Functions</u>	<u>Management and Liquidating Functions</u>	<u>Mortgage-Backed Securities Program</u>
<b>Funds Provided</b>				
Mortgage liquidations.....	\$ 166,231,000	\$ 99,821,000	\$ 66,410,000	\$
Appropriations for Participation Certificate insufficiencies.....	6,079,000	6,079,000		
<b>Income:</b>				
Interest.....	161,483,000	90,351,000	71,128,000	4,000
Commitment and other fees.....	6,811,000	5,550,000	1,000	1,260,000
Purchase discount realized.....	2,509,000	193,000	2,316,000	
Realization of deferred credits acquired from RFC (Reorganization Plan No. 2, 1954).....	927,000		927,000	
Other.....	783,000	246,000	536,000	1,000
<b>Borrowings:</b>				
From the U. S. Treasury.....	<u>1,152,690,000</u>	<u>621,370,000</u>	<u>531,320,000</u>	<u>                    </u>
	<u>1,497,513,000</u>	<u>823,610,000</u>	<u>672,638,000</u>	<u>1,265,000</u>
<b>Funds Applied</b>				
Purchase of mortgages.....	536,214,000	517,697,000	18,517,000	
<b>Expense:</b>				
Interest on notes.....	209,904,000	150,708,000	59,196,000	
Fees for servicing mortgages.....	8,129,000	2,648,000	5,481,000	
Discounts paid under Tandem Plans.....	2,887,000	2,887,000		
Administrative.....	4,287,000	2,545,000	1,427,000	315,000
Other.....	1,174,000	368,000	806,000	
Loss or (gain) on trust operations.....	1,634,000	(2,567,000)	4,201,000	
<b>Repayments of borrowings:</b>				
To the U. S. Treasury.....	733,607,000	149,597,000	584,010,000	
Net change in other assets and liabilities.....	<u>(323,000)</u>	<u>(273,000)</u>	<u>(1,000,000)</u>	<u>950,000</u>
	<u>1,497,513,000</u>	<u>823,610,000</u>	<u>672,638,000</u>	<u>1,265,000</u>

SCHEDULE 8

BEST DOCUMENT AVAILABLE

Government National Mortgage Association  
Mortgage Backed Securities Guaranty Program

BALANCE SHEET

ASSETS	<u>June 30, 1971</u>	<u>June 30, 1970</u>
Cash .....	\$ 141,000	\$
U. S. Treasury securities (at cost) principal and accrued interest .....	654,000	
Accrued guaranty fees receivable .....	142,000	10,000
	<u>937,000</u>	<u>10,000</u>
LIABILITIES		
Accounts payable .....	19,000	42,000
Retained earnings reserved for losses and contingencies .....	918,000	(32,000)
	<u>\$ 937,000</u>	<u>\$ 10,000</u>

STATEMENT OF EARNINGS

INCOME	<u>Fiscal Year Ended June 30, 1971</u>	<u>Fiscal Year Ended June 30, 1970</u>
Application fees .....	\$ 431,000	\$ 45,000
Guaranty fees .....	829,000	12,000
Income from investments .....	4,000	
Miscellaneous .....	1,000	
	<u>1,265,000</u>	<u>57,000</u>
EXPENSE		
Administrative .....	315,000	69,000
Earnings (loss) from operations .....	\$ 950,000	\$ (32,000)
Retained earnings at beginning of year .....	\$ (32,000)	\$
Net earnings (loss) for the twelve months' period .....	<u>950,000</u>	<u>(32,000)</u>
Retained earnings at end of year .....	<u>\$ 918,000</u>	<u>\$ (32,000)</u>

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION  
MORTGAGE BACKED SECURITIES GUARANTY PROGRAM  
ANALYSIS OF GUARANTIES AT JUNE 30, 1971

Pass through securities - Principal of mortgage pools	\$ 2,042,757,000
Collections on deposit	18,976,000
Held by custodians	2,061,733,000
Principal due security holders	2,043,502,000
Interest due security holders	13,271,000
GNMA's outstanding guarantee	2,056,773,000
Excess of resources over obligations	\$ 4,960,000

BEST DOCUMENT AVAILABLE

Bond securities - Principal of mortgage pools	\$ 1,163,408,000
Accrued mortgage interest	8,503,000
Cash and investments	15,987,000
Held by custodians	1,187,898,000
Principal due security holders	1,165,000,000
Accrued bond interest	15,659,000
Accounts payable	23,000
GNMA's outstanding guarantee	1,180,682,000
Excess of resources over obligations	\$ 7,216,000

Government National Mortgage Association  
GOVERNMENT MORTGAGE LIQUIDATION TRUST

STATEMENT OF CONDITION  
June 30, 1971

ASSETS			
Obligations subject to trust:			
Principal.....	\$1,500,626,716	\$1,500,225,002	
Accrued interest receivable-net.....	<u>3,398,887</u>	<u>16,355,011</u>	
		317,721,656	
		<u>12,582</u>	
		<u>1,868,314,851</u>	
LIABILITIES AND EQUITIES			
Participation certificates:			
Principal.....	1,210,000,000		
Accrued interest.....	<u>14,125,683</u>	1,224,126,083	
Trustor's subordinated revisionary interest:			
Beginning balance at July 1, 1971.....	610,200,390		
Net increase of obligations subject to trust....	705,951	644,169,968	
Allocation of net income.....	<u>33,263,627</u>	<u>18,800</u>	
Accounts payable .....		<u>1,868,314,851</u>	

STATEMENT OF INCOME AND EXPENSE  
Fiscal Year Ended June 30, 1971

INCOME			
Interest earned on obligations subject to trust....	\$30,169,738		
Less service fees retained by trustors.....	<u>830,661</u>	\$72,339,077	
Income from investments.....		<u>22,365,164</u>	
		<u>94,704,241</u>	
EXPENSE			
Premium on investments - amortized portion .....		419,785	
Service charges - Federal Reserve Bank.....		73,184	
Administrative - Trustee.....		25,092	
Printing and publication.....		2,968	
Interest on participation certificates.....		<u>60,919,587</u>	
		<u>61,440,614</u>	
Net income from operations allocated to trustor....		<u>33,263,627</u>	

STATEMENT OF SOURCES AND APPLICATION OF FUNDS  
Fiscal Year Ended June 30, 1971

SOURCE OF FUNDS				APPLICATION OF FUNDS	
Net income from operations.....		\$ 33,263,627		Purchase of investments.....	\$497,589,875
Liquidation of obligations subject to trust -				Retirement of participation certificates.....	110,000,000
principal and interest-net.....	\$113,954,468			Net change in accrued interest payable.....	1,372,917
Receivable from trustors.....	<u>296,829</u>	114,251,297		Net change in miscellaneous assets and liabilities.	<u>1,974</u>
Liquidation of investments.....		<u>461,449,842</u>			<u>608,964,766</u>
		<u>608,964,766</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 revisionary interest:				
Unpaid principal.....	\$611,907	\$112,134	\$776,585	\$1,500,626	Beginning balance July 1, 1970.....	\$278,224	\$57,787	\$274,189	\$610,200
Accrued interest-net.....	<u>2,322</u>	<u>457</u>	<u>820</u>	<u>3,599</u>	Allocation of net income.....	15,161	3,221	14,882	33,264
	<u>614,229</u>	<u>112,591</u>	<u>777,405</u>	<u>1,504,225</u>	Net increase of obligations subject to trust.....			<u>706</u>	<u>706</u>
Receivable from trustors:					Distribution of income and expense:				
Principal collections.....	2,700	700	6,818	10,218	Net income on obligations subject to trust.....	29,416	5,419	37,504	72,339
Interest collections.....	<u>2,400</u>	<u>500</u>	<u>3,237</u>	<u>6,137</u>	Interest accrued on participation certificates.....	<u>22,903</u>	<u>4,205</u>	<u>33,811</u>	<u>60,919</u>
	<u>5,100</u>	<u>1,200</u>	<u>10,055</u>	<u>16,355</u>		6,513	1,214	7,697	11,420
Participation certificates outstanding:					Income from investments.....	8,852	2,053	11,460	22,365
Principal.....	456,010	82,829	671,161	1,210,000	Expense of trust operations.....	<u>204</u>	<u>46</u>	<u>271</u>	<u>521</u>
Accrued interest.....	<u>5,317</u>	<u>971</u>	<u>7,838</u>	<u>14,126</u>		<u>15,161</u>	<u>3,221</u>	<u>14,882</u>	<u>33,264</u>
	<u>461,327</u>	<u>83,800</u>	<u>678,999</u>	<u>1,224,126</u>					

(Dollars in thousands)

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Government National Mortgage Association  
Government Mortgage Liquidation Trust

SUMMARY OF OBLIGATIONS SUBJECT TO TRUST AND RELATED PARTICIPATION CERTIFICATES

Fiscal Year Ended June 30, 1971

October 1, 1964 through June 30, 1971

	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.....	\$648,282,965	\$120,709,128	\$844,452,700	\$1,613,444,793	\$428,115,729	\$	\$ 204,646,817	632,762,546	
Additions.....			10,547,754	10,547,754	472,073,962	175,866,754	1,094,428,819	1,742,769,535	
Withdrawals.....			9,841,803	9,841,803			89,176,557	89,176,557	
Liquidations.....	36,375,945	8,574,814	68,573,270	113,524,029	288,282,671	63,732,440	433,313,698	785,328,809	
Outstanding at June 30, 1971.....	611,907,020	112,134,314	776,585,381	1,500,626,715	611,907,020	112,134,314	776,585,381	1,500,626,715	
<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		180,000,000	300,000,000	
Paid or retired during period.....	38,105,000	9,959,000	61,936,000	110,000,000	218,990,000	47,171,000	313,839,000	580,000,000	
Outstanding at June 30, 1971.....	456,010,000	82,829,000	671,161,000	1,210,000,000	456,010,000	82,829,000	671,161,000	1,210,000,000	
<b>Interest payable:</b>									
Outstanding at beginning of period.....	5,791,362	1,095,648	8,611,990	15,499,000					
Accrued.....	22,903,349	4,205,075	33,811,161	60,919,585	157,139,344	29,988,844	228,431,073	415,559,261	
Liquidated.....	23,377,149	4,330,044	34,585,309	62,292,502	151,821,782	29,018,165	220,593,231	401,433,178	
Outstanding at June 30, 1971.....	5,317,562	970,679	7,837,842	14,126,083	5,317,562	970,679	7,837,842	14,126,083	
	<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	11-1-68	4-1/4	\$30,000,000	11-1-71	4-3/8	\$30,000,000
Issued November 2, 1964	11-1-66	4-1/8	30,000,000	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	11-1-70	4-1/4	30,000,000	11-1-73	4-7/8	30,000,000
							11-1-74	4-7/8	30,000,000
Series B-1966-1980	7-1-66	4-3/8	35,000,000	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	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	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-1965-1980	12-1-66	4-5/8	25,000,000	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	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	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	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	4-1-73	5.50	20,000,000	4-1-78	5.40	42,000,000
	4-1-69	5.50	20,000,000	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									

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SCHEDULE 9

Government National Mortgage Association  
SMALL BUSINESS OBLIGATIONS TRUST

STATEMENT OF CONDITION  
June 30, 1971

ASSETS	
Cash on deposit with the United States Treasury..	<u>\$33,546</u>
<b>LIABILITIES AND EQUITIES</b>	
Deposit for contingent liabilities.....	\$25,546
Accounts payable.....	<u>8,000</u>
	<u>33,546</u>

STATEMENT OF INCOME AND EXPENSE  
Fiscal Year Ended June 30, 1971

INCOME	
Interest earned on obligations subject to trust.....	\$7,935,411
Less service fees retained by trustor.....	<u>344,469</u>
Income from investments.....	<u>\$7,590,942</u>
	<u>5,504,265</u>
	<u>13,095,207</u>
<b>EXPENSE</b>	
Premium on investment - amortized portion.....	136,284
Service charges - Federal Reserve Bank.....	31,150
Administrative - Trustee.....	1,400
Printing and publication.....	390
Interest on participation certificates.....	<u>3,935,555</u>
	<u>4,104,779</u>
Net income from operations allocated to trustors..	<u>8,990,428</u>

STATEMENT OF SOURCES AND APPLICATION OF FUNDS  
Fiscal Year Ended June 30, 1971

SOURCE OF FUNDS	
Net income from operations.....	\$ 8,990,428
Liquidation of obligations subject to trust-principal and interest-net.....	\$ 46,330,954
Receivable from trustor.....	<u>(31,619,845)</u>
Liquidation of investments.....	14,711,109
	<u>179,262,616</u>
	<u>202,964,153</u>

APPLICATION OF FUNDS	
Purchase of investments.....	\$103,638,231
Retirement of participation certificates.....	70,000,000
Net change in accrued interest payable.....	89,445
Net change in miscellaneous assets and liabilities..	(574)
Surplus funds remitted to trustor.....	<u>29,237,051</u>
	<u>202,964,153</u>

SUMMARY OF OBLIGATIONS SUBJECT TO TRUST AND RELATED PARTICIPATION CERTIFICATES

	Fiscal Year Ended June 30, 1971	May 1, 1966- June 30, 1971		Fiscal Year Ended June 30, 1971	May 1, 1966- June 30, 1971
<b>Small Business Administration loans:</b>			<b>Participation certificates(continued):</b>		
Unpaid principal at beginning of period.....	\$211,744,867	\$531,656,148	Interest payable:		
Additions.....	547,363	62,453,914	Outstanding at beginning of period....	\$ 89,445	
Withdrawals.....	3,443,642	54,622,153	Accrued during period.....	3,935,555	\$60,340,000
Repayments.....	46,287,594	376,926,915	Liquidated during period.....	4,025,000	60,340,000
Outstanding balance.....	<u>162,560,994</u>	<u>162,560,994</u>	Outstanding June 30, 1971.....		
<b>Participation certificates (issued June 23, 1966):</b>			<b>Issues-Series A-1967-1971:</b>		
Principal at face value:			Maturity June 23, 1967-5.70%.....		70,000,000
Outstanding at beginning of period.....	70,000,000		June 23, 1968-5.75%.....		70,000,000
Issued during period (net proceeds to trustor \$349,160,000).....		350,000,000	June 23, 1969-5.75%.....		70,000,000
Liquidated during period.....	<u>70,000,000</u>	<u>350,000,000</u>	June 23, 1970-5.75%.....		70,000,000
Outstanding June 30, 1971.....	<u>-</u>	<u>-</u>	June 23, 1971-5.75%.....		70,000,000
			Retired at maturity		<u>\$350,000,000</u>

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Government National Mortgage Association  
FEDERAL ASSETS LIQUIDATION TRUST

STATEMENT OF CONDITION  
June 30, 1971

ASSETS		
Obligations subject to trust:		
Principal.....	\$1,937,492,109	
Accrued interest receivable-net.....	<u>26,080,163</u>	\$1,963,572,272
Receivable from trustors.....		23,507,545
Investments at cost plus unmatured net earnings..		<u>472,858,006</u>
Cash on deposit with the United States Treasury..		30,167
		<u>2,462,968,000</u>
LIABILITIES AND EQUITIES		
Participation certificates outstanding:		
Principal.....	2,330,000,000	
Accrued interest.....	<u>38,759,083</u>	2,368,759,083
Trustors' subordinate reversionary interest:		
Beginning balance at July 1, 1970.....	108,802,262	
Net reduction in obligations subject to trust..	(13,360,581)	
Allocation.....	(24,075,906)	
Deficiency collections-interest.....	<u>22,831,742</u>	94,197,517
Accounts payable.....		<u>11,400</u>
		<u>2,462,968,000</u>

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.

STATEMENT OF INCOME AND EXPENSE  
Fiscal Year Ended June 30, 1971

INCOME		
Interest earned on obligations subject to trust.....	\$80,039,128	
Less service fees retained by trustors.....	<u>7,120,213</u>	\$72,918,915
Income from investments.....		<u>23,908,844</u>
		<u>102,917,753</u>
EXPENSE		
Premiums on investments - amortized portion.....		357,118
Service charges - Federal Reserve Bank.....		52,664
Administrative - Trustee.....		46,600
Printing and publication.....		2,283
Interest on participation certificates.....		<u>125,437,004</u>
		<u>173,735,669</u>
Net income from operations allocated to trustors....		<u>(21,075,706)</u>

STATEMENT OF SOURCES AND APPLICATION OF FUNDS  
Fiscal Year Ended June 30, 1971

SOURCES OF FUNDS			APPLICATION OF FUNDS	
Liquidation of obligation subject to trust- principal and interest net.....	\$245,893,300		Purchase of investments.....	\$157,621,053
Receivable from trustors.....	<u>3,113,640</u>	\$249,006,940	Net change in accrued interest payable.....	
Liquidation of investments.....		208,789,574	Retirement of participation certificates.....	
Deficiency collections (interest).....		<u>22,831,742</u>	Net change in miscellaneous assets and liabilities.....	(1,068,703)
		<u>480,628,256</u>	Net loss from operation.....	<u>24,075,906</u>
				<u>180,628,256</u>

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Government National Mortgage Association  
FEDERAL ASSETS LIQUIDATION TRUST

SCHEDULE OF FINANCIAL DETAILS

(Dollars in thousands)

	GNMA-SAF	GNMA-M&L	VA	SRA	FHDA	HFV	HUD	TOTAL
<b>Obligations subject to trust:</b>								
Unpaid principal.....	\$257,085	\$246,605	\$207,748	\$65,620	\$177,850	\$97,610	\$478,374	\$1,937,492
Accrued interest-net.....	725	1,110	254	2,801	16,436	741	7,813	26,080
	<u>258,010</u>	<u>257,715</u>	<u>208,002</u>	<u>468,421</u>	<u>194,286</u>	<u>24,351</u>	<u>482,787</u>	<u>1,963,572</u>
<b>Receivable from trustors:</b>								
Principal collections.....	500	3,000	1,468	7,692	3,811	137	1,252	17,670
Interest collections.....	600	900	937	1,751	777	120	743	4,538
	<u>900</u>	<u>3,900</u>	<u>2,405</u>	<u>9,443</u>	<u>4,588</u>	<u>257</u>	<u>2,005</u>	<u>23,508</u>
<b>Participation certificates outstanding:</b>								
Principal.....	287,211	299,343	223,978	603,875	293,032	94,305	528,256	2,330,000
Accrued interest.....	4,778	4,979	3,726	10,045	4,875	1,569	8,787	38,732
	<u>291,989</u>	<u>304,322</u>	<u>227,704</u>	<u>613,920</u>	<u>297,907</u>	<u>95,874</u>	<u>537,043</u>	<u>2,468,732</u>
<b>Trustors' subordinated reversionary interest:</b>								
Balance July 1, 1970.....	(166)	28,622	7,235	22,117	43,005	3,476	2,573	108,802
Net reduction in obligations subject to trust.....			319	(7,693)	(4,720)		(1,267)	(13,361)
Allocation of net loss.....	(5,322)	(1,488)	(232)	(2,416)	(1,508)	(2,041)	(10,539)	(24,076)
Deficiency collections (interest).....	5,935	1,695		3,209		1,660	10,332	22,832
	<u>(53)</u>	<u>28,830</u>	<u>9,322</u>	<u>15,187</u>	<u>36,777</u>	<u>3,095</u>	<u>1,309</u>	<u>94,197</u>
<b>Distribution of income and expense:</b>								
Net income on obligations subject to trust.....	8,439	11,184	10,636	22,791	7,665	2,860	15,344	78,912
Interest accrued on participation certificates.....	15,524	16,179	12,106	32,639	15,838	5,097	28,552	125,935
	<u>(7,085)</u>	<u>(4,995)</u>	<u>(1,470)</u>	<u>(9,848)</u>	<u>(8,173)</u>	<u>(2,237)</u>	<u>(13,208)</u>	<u>(47,016)</u>
Income from investments.....	1,329	3,667	1,300	7,737	6,955	208	2,803	23,999
Expense of trust operations.....	66	160	62	335	290	12	134	1,059
	<u>(5,822)</u>	<u>(1,488)</u>	<u>(232)</u>	<u>(2,446)</u>	<u>(1,508)</u>	<u>(2,041)</u>	<u>(10,539)</u>	<u>(24,076)</u>

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Government National Mortgage Association  
FEDERAL ASSETS LIQUIDATION TRUST

SUMMARY OF OBLIGATIONS SUBJECT TO TRUST AND RELATED PARTICIPATION CERTIFICATES

	GNMA-SAF	GNMA-M&L	VA	SBA	FHDA	HEW	HUD	TOTAL	
Obligations subject to trust:									
Unpaid principal at beginning of period.....	\$276,927,317	\$293,595,251	\$221,514,769	\$553,869,466	\$246,827,360	\$95,813,000	\$501,649,000	\$2,190,136,163	
Additions.....			3,177,967	11,921,546	(843,404)		2,785,000	17,011,109	
Withdrawals.....			2,859,349	19,614,221	3,876,320		4,051,800	30,401,670	
Liquidations.....	19,842,876	36,989,833	14,085,491	80,557,222	64,257,451	2,202,600	21,408,000	239,343,473	
Unpaid principal at June 30, 1971.....	257,084,441	256,605,418	207,747,896	465,619,569	177,850,185	93,610,400	478,974,200	1,937,492,109	
Cumulative December 1, 1966 through June 30, 1971									
Unpaid principal at beginning of period.....	256,837,705	467,580,181	157,472,057	162,921,913	179,052,368	63,073,000	158,642,000	1,145,539,226	
Additions.....	45,026,369	13,300	136,452,319	874,560,466	450,910,913	40,030,000	548,613,600	2,095,606,967	
Withdrawals.....	237,010		25,087,350	175,535,484	16,662,233		25,385,800	242,907,877	
Liquidations.....	44,542,623	210,988,063	61,089,132	396,327,326	435,450,863	9,452,600	202,895,600	1,360,746,207	
Unpaid principal at June 30, 1971.....	257,084,441	256,605,418	207,747,896	465,619,569	177,850,185	93,610,400	478,974,200	1,937,492,109	
Participation certificates:									
Principal at face value:									
Issued January 19, 1967 .....	100,000,000	365,000,000	100,000,000	155,000,000	170,000,000	60,000,000	150,000,000	1,100,000,000	
Issued April 5, 1967 .....	100,000,000	50,000,000	75,000,000	175,000,000	220,000,000	15,000,000	265,000,000	900,000,000	
Issued June 29, 1967 .....	100,000,000	25,000,000	85,000,000	190,000,000	210,000,000	25,000,000	265,000,000	900,000,000	
Issued April 8, 1968 .....				330,000,000				330,000,000	
Paid or retired .....	12,789,000	140,657,000	36,022,000	246,125,000	306,968,000	5,675,000	151,744,000	900,000,000	
Outstanding at June 30, 1971 .....	287,211,000	299,343,000	223,978,000	603,875,000	293,032,000	94,325,000	528,256,000	2,330,000,000	
Interest payable:									
Fiscal Year Ended June 30, 1971									
Outstanding at beginning of period .....	4,768,435	4,982,798	3,721,058	10,041,482	4,888,510	1,566,001	8,790,799	38,759,083	
Accrued .....	15,523,569	16,179,297	12,105,867	32,639,055	15,838,191	5,097,124	28,551,897	125,935,000	
Liquidated .....	15,514,321	16,182,579	12,101,103	32,635,203	15,852,151	5,094,385	28,555,258	125,935,000	
Outstanding at June 30, 1971 .....	4,777,683	4,979,516	3,725,822	10,045,334	4,874,550	1,568,740	8,787,438	38,759,083	
Cumulative December 1, 1966 through June 30, 1971									
Accrued .....	65,692,467	87,055,107	64,433,545	150,119,043	99,706,698	22,202,698	125,177,791	614,687,349	
Liquidated .....	60,914,784	82,075,531	50,707,723	140,073,709	94,832,148	20,633,952	126,690,353	575,928,266	
Outstanding at June 30, 1971 .....	4,777,683	4,979,516	3,725,822	10,045,334	4,874,550	1,568,740	8,787,438	38,759,083	
Issues:									
	Maturity	Int. Rate	Face Amount	Maturity	Int. Rate	Face Amount	Maturity	Int. Rate	Face Amount
Series A-1972 - 1982-Issued 1-19-67	1-19-72	5.20	\$275,000,000	1-19-77	5.20	\$275,000,000	1-1-82	5.20	\$550,000,000
Series B-1969 - 1987-issued 4-5-67	4-7-69	4.75	450,000,000	1-19-72	5.00	250,000,000	4-6-87	5.10	200,000,000
Series C-1969 - 1972-issued 6-29-67	9-29-69	5.25	450,000,000	6-29-72	5.50	450,000,000			
Series D-1973-issued 4-8-68	4-9-73	6.45	300,000,000						

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Government National Mortgage Association  
FEDERAL ASSETS FINANCING TRUST

STATEMENT OF CONDITION  
June 30, 1971

STATEMENT OF INCOME AND EXPENSE  
Fiscal Year Ended June 30, 1971

ASSETS		
Obligations subject to trust:		
Principal.....	\$2,424,023,074	
Accrued interest receivable - net.....	<u>34,420,810</u>	\$2,468,443,884
Receivable from trustors.....		23,291,066
Investments at cost plus unamortized net earnings.....		76,073,065
Cash on deposit with the United States Treasury.....		<u>406,174</u>
		<u>2,568,214,189</u>
LIABILITIES AND EQUITIES		
Participation certificates outstanding:		
Principal.....	2,465,000,000	
Accrued interest.....	<u>49,093,715</u>	2,514,093,715
Trustors' subordinated reversionary interests:		
Beginning balance at July 1, 1970.....	60,748,304	
Net reduction in obligations subject to trust.....	(4,962,087)	
Allocation of net loss.....	(61,459,902)	
Deficiency collections - interest.....	<u>59,784,659</u>	54,110,974
Accounts payable.....		<u>9,500</u>
		<u>2,568,214,189</u>

INCOME		
Interest earned on obligations subject to trust....	1135,879,123	
Less service fees retained by trustors.....	<u>5,488,226</u>	\$130,390,897
Income from investments.....		<u>5,849,460</u>
		<u>136,210,357</u>
EXPENSE		
Premiums on investments - amortization portion....		33,759
Service charges - Federal Reserve Bank.....		115,481
Administrative - Trustee.....		60,936
Printing and publication.....		3,425
Interest on participation certificates.....		<u>197,556,648</u>
		<u>197,700,259</u>
Net income from operations allocated trustors....		<u>(61,459,902)</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.

STATEMENT OF SOURCES AND APPLICATION OF FUNDS  
Fiscal Year Ended June 30, 1971

SOURCES OF FUNDS		
Liquidation of obligations subject to trust - principal and interest - net.....	\$1,154,957,584	
Receivable from trustors.....	<u>(1,025,719)</u>	\$1,153,931,865
Liquidation of investments.....		592,146,167
Deficiency collections - interest.....		<u>59,784,659</u>
		<u>1,805,862,691</u>

APPLICATION OF FUNDS		
Purchase of investments.....		\$ 584,262,328
Retirement of participation certificates.....		1,135,000,000
Net change in accrued interest payable.....		24,865,876
Net change in miscellaneous assets and liabilities.....		274,585
Net loss from operation.....		<u>61,459,902</u>
		<u>1,805,862,691</u>

Government National Mortgage Association  
FEDERAL ASSETS FINANCING TRUST

Schedule of Financial Details

Dollars in thousands

	Trustors							TOTAL
	GNMA-SAF	GNMA-M&L	VA	SBA	FHQA	HEW	HUD	
<b>Obligations subject to trust:</b>								
Unpaid principal.....	\$224,136	\$266,521	\$763,537	\$87,929	\$364,854	\$109,219	\$617,827	\$2,444,023
Accrued interest-net.....	<u>776</u>	<u>1,068</u>	<u>1,124</u>	<u>516</u>	<u>16,280</u>	<u>3,290</u>	<u>11,367</u>	<u>34,421</u>
	<u>224,912</u>	<u>267,589</u>	<u>764,661</u>	<u>88,445</u>	<u>381,134</u>	<u>112,509</u>	<u>629,194</u>	<u>2,478,444</u>
<b>Receivable from trustors:</b>								
Principal collections.....	300	2,100	4,526	1,399	6,281	144	535	15,285
Interest collections.....	<u>600</u>	<u>900</u>	<u>3,582</u>	<u>340</u>	<u>1,405</u>	<u>169</u>	<u>1,010</u>	<u>8,006</u>
	<u>900</u>	<u>3,000</u>	<u>8,108</u>	<u>1,739</u>	<u>7,686</u>	<u>313</u>	<u>1,545</u>	<u>23,291</u>
<b>Participation certificates outstanding:</b>								
Principal.....	226,045	271,277	755,310	87,439	391,999	111,403	618,525	2,465,000
Accrued interest.....	<u>4,220</u>	<u>5,147</u>	<u>14,105</u>	<u>1,667</u>	<u>7,451</u>	<u>2,073</u>	<u>14,431</u>	<u>49,094</u>
	<u>230,265</u>	<u>279,426</u>	<u>769,415</u>	<u>89,106</u>	<u>399,450</u>	<u>113,476</u>	<u>632,956</u>	<u>2,514,094</u>
<b>Trustors' subordinated reversionary interest:</b>								
Balance July 1, 1977.....	(200)	1,842	24,111	8,518	22,136	1,536	2,805	60,748
Net reduction in obligations subject to trust....			602	33	(3,417)		(2,180)	(4,462)
Allocation of net loss.....	(6,400)	(5,651)	(5,657)	(564)	(4,766)	(3,462)	(34,960)	(61,460)
Deficiency collections (interest).....	<u>5,540</u>	<u>3,761</u>	<u>4,636</u>			<u>3,905</u>	<u>41,943</u>	<u>59,785</u>
	<u>(1,060)</u>	<u>(48)</u>	<u>23,692</u>	<u>7,987</u>	<u>13,953</u>	<u>1,979</u>	<u>7,608</u>	<u>54,111</u>
<b>Distribution of income and expense:</b>								
Net income on obligations subject to trust.....	7,635	11,468	41,179	4,966	20,618	3,420	41,105	130,391
Interest accrued on participation certificates..	<u>14,281</u>	<u>17,972</u>	<u>48,186</u>	<u>6,189</u>	<u>27,317</u>	<u>6,979</u>	<u>76,632</u>	<u>197,556</u>
	(6,646)	(6,504)	(7,007)	(1,223)	(6,699)	(3,559)	(35,527)	(67,167)
Income from investments.....	256	868	1,385	666	1,959	102	613	5,849
Expense of trust operations.....	<u>19</u>	<u>15</u>	<u>35</u>	<u>7</u>	<u>26</u>	<u>5</u>	<u>46</u>	<u>141</u>
	<u>(6,400)</u>	<u>(5,651)</u>	<u>(5,657)</u>	<u>(564)</u>	<u>(4,766)</u>	<u>(3,462)</u>	<u>(34,960)</u>	<u>(61,460)</u>

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Government National Mortgage Association  
FEDERAL ASSETS FINANCING TRUST

SUMMARY OF OBLIGATIONS SUBJECT TO TRUST AND RELATED PARTICIPATION CERTIFICATES

	GNMA-SAF	GNMA-M&L	VA	SBA	FHDA	HEW	HUD	TOTAL
<b>Fiscal Year Ended June 30, 1971</b>								
<b>Obligations subject to trust:</b>								
Unpaid principal at beginning of period.....	\$232,103,294	\$291,927,389	\$802,471,378	\$107,545,098	\$456,795,218	\$112,554,615	\$1,585,062,194	\$3,588,458,686
Additions.....			20,705,523	3,809,287	(1,662,062)		17,671,000	40,523,748
Withdrawals.....			20,103,665	3,775,632	1,754,549		19,851,989	45,485,835
Liquidations.....	7,967,070	25,406,053	39,536,354	19,649,381	88,524,812	3,335,303	965,554,552	1,149,473,525
Unpaid principal at June 30, 1971.....	224,136,224	266,521,336	763,536,382	87,929,372	364,853,795	109,219,312	617,826,653	2,434,023,074
<b>Cumulative December 1, 1966 through June 30, 1971</b>								
Unpaid principal at beginning of period.....	125,026,545		181,719,460	100,495,027	175,500,540	25,000,000	401,397,794	1,009,139,276
Additions.....	125,749,449	356,335,245	798,335,379	86,417,935	576,922,801	90,012,143	1,421,275,118	3,455,048,070
Withdrawals.....		10,000	105,799,204	29,303,368	4,744,715		41,708,734	181,566,021
Liquidations.....	26,639,770	89,803,909	110,712,253	69,680,222	382,824,831	5,792,831	1,163,137,435	1,848,598,251
Unpaid principal at June 30, 1971.....	224,136,224	266,521,336	763,536,382	87,929,372	364,853,795	109,219,312	617,826,653	2,434,023,074
<b>Participation certificates:</b>								
<b>Principal at face value:</b>								
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		225,000,000	30,000,000	530,000,000	1,250,000,000
Issued April 8, 1968.....		125,000,000	165,000,000		125,000,000	45,000,000	210,000,000	670,000,000
Issued August 12, 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.....	23,955,000	80,721,000	94,690,000	62,561,000	358,001,000	3,597,000	1,161,475,000	1,785,000,000
Outstanding at June 30, 1971.....	226,045,000	274,279,000	755,310,000	87,439,000	391,999,000	111,403,000	618,525,000	2,465,000,000
<b>Fiscal Year Ended June 30, 1971</b>								
<b>Interest payables:</b>								
Outstanding at beginning of period .....	4,728,322	6,166,399	16,071,504	2,270,904	10,145,237	2,286,105	32,291,120	73,959,591
Accrued .....	14,280,925	17,972,136	48,186,110	6,189,077	27,317,373	6,979,471	76,631,555	197,556,647
Liquidated .....	14,789,642	18,991,170	50,152,059	6,793,023	30,011,932	7,192,863	94,491,834	222,422,523
Outstanding at June 30, 1971 .....	4,219,605	5,147,365	14,105,555	1,666,958	7,450,678	2,072,713	14,430,841	49,093,715
<b>Cumulative December 1, 1966 through June 30, 1971</b>								
Accrued .....	52,417,211	63,797,864	165,288,741	27,085,949	125,773,764	23,444,919	318,518,889	776,327,337
Liquidated .....	48,197,606	58,650,499	151,183,186	25,418,991	118,323,086	21,372,206	304,088,048	727,233,622
Outstanding at June 30, 1971 .....	4,219,605	5,147,365	14,105,555	1,666,958	7,450,678	2,072,713	14,430,841	49,093,715
<b>Issues:</b>								
	<b>Maturity</b>	<b>Int. Rate</b>	<b>Face Amount</b>	<b>Maturity</b>	<b>Int. Rate</b>	<b>Face Amount</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	335,000,000	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		

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# GOVERNMENT NATIONAL MORTGAGE ASSOCIATION

## Notes to Financial Statements

### GENERAL

The financial data in the schedules identified as the Combined Balance Sheet and the Combined Statement of Earnings are related only to operations conducted in the special assistance functions, the management and liquidating functions, and the mortgage-backed securities guaranty program. Excluded from these schedules are financial data pertaining to the activity as trustee for the Government Mortgage Liquidation Trust (GMLT), the Small Business Obligations Trust (SBOT), the Federal Assets Liquidation Trust (FALT), and the Federal Assets Financing Trust (FAFT). Information applicable to these trusts is provided in separate schedules.

As trustee for GMLT, SBOT, FALT, and FAFT, GNMA has legal title to all trust assets. Additionally, by virtue of a separate guaranty in its regular corporate capacity, GNMA is contingently liable for the timely payment of principal and interest due to the trust beneficiaries. The extent of trust liabilities is reflected in the trust schedules. With respect to FALT and FAFT, the United States Congress has authorized appropriations to meet trust obligations, as may be necessary. Financial data in the trust schedules has been provided, in substantial part, by the trustor Federal agencies having custody, control and administration of the obligations subject to the trusts.

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

GNMA is contingently liable 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. The extent of outstanding guaranties is shown in schedule 8.

TRUST AND DEPOSIT LIABILITIES  
(SCHEDULE 1)

The balance identified as trust and deposit liabilities includes only the portion of mortgage tax and insurance payment deposits that are held directly by GNMA. GNMA is also responsible for payments by servicing contractors of taxes and insurance from mortgagors' funds held in escrow in banks insured by the Federal Deposit Insurance Corporation: \$25,649,562 at June 30, 1971; \$23,455,790 at June 30, 1970.

MORTGAGE PRINCIPAL AND INTEREST  
COLLECTIONS AWAITING REMITTANCE  
TO TRUSTEE FOR GMLT, FALT, AND FAFT  
(SCHEDULES 1, 3, and 5)

The balance identified as accounts payable and accrued liabilities includes principal and interest collections estimated for June on mortgages administered for GMLT, FALT, and FAFT. Such collections, amounting to \$6,900,000 in special assistance functions and \$8,100,000 in management and liquidating functions have been paid over to the trustee during July.

UNPAID PRINCIPAL OF MORTGAGE LOANS  
(SCHEDULES 1, 3, and 5)

The unpaid principal of mortgage loans, including mortgages subject to GMLT, FALT, and FAFT is reported at cost on the basis of unpaid principal less unrealized/purchase discount. The following are the amounts of unpaid principal that are due from the mortgage debtors:

Combined	FHA-insured and VA-guaranteed	\$5,275,013,713
Special assistance functions	FHA-insured and VA-guaranteed	3,552,453,573
Management and liquidating functions	FHA-insured and VA-guaranteed	1,722,560,140

OTHER PARTICIPATION EQUITIES  
(SCHEDULES 1 AND 3)

The principal reduction (other than GMLT, FALT, or FAFT) identified as other participation equities represents a 40 percent interest in an FHA-insured mortgage loan that was sold by GNMA to a private investor. GNMA has administrative responsibility for servicing the loan account, and for paying to the participation owner the proportionate share of principal repayments and interest earnings as collections are effected.

ADMINISTRATIVE EXPENSES  
(SCHEDULES 2, 4 AND 6)

The amounts reported for administrative expenses include costs in connection with the custody, control and administration of special assistance functions and management and liquidating functions mortgages subject to GMLT, FALT, and FAFT, but do not include trusteeship expenses for these trusts or for the SBOT.

Administrative expense totals also include amounts allocated to GNMA by the Federal National Mortgage Association in connection with functional services furnished by FNMA in processing mortgage purchase transactions and in mortgage loan servicing. These allocations are made on a shared-cost basis, and amounted to \$1,763,917 for the first half of the fiscal year (July through December), and estimated charges of \$1,800,000 for the second half (January through June). Second half charges are subject to adjustment upon completion of cost analysis.

OPERATING LOSSES  
(SCHEDULES 2 AND 4)

Operating losses reflected in the statements of earnings are attributable to the financing costs in excess of revenues of FHA-insured section 221(d)(3) mortgages bearing interest at below market rates, generally at 3 percent but as high as 3-7/8 percent. Approximately \$55,401,000 of excess interest is involved, of which \$10,654,000 is related to mortgages subject to participation sales trusts FALT and FAFT and of which \$44,747,000 is related to special assistance

functions. The total of \$55,401,000 compares to similar excess costs of \$37,294,000 experienced in fiscal year 1970.

NOT INCLUDED IN FINANCIAL STATEMENTS

Commitments to purchase mortgage  
loans at future delivery dates

In addition to the mortgage principal presently included in the accounts, GNMA has issued advance commitments or made administrative reservations in connection with future purchase of mortgage principal aggregating \$1,616,254,000.

PRINCIPAL OFFICIALS  
RESPONSIBLE FOR THE ACTIVITIES  
DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
<u>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>		
SECRETARY OF HOUSING AND URBAN DEVELOPMENT:		
George W. Romney	Jan. 1969	Present
<u>GOVERNMENT NATIONAL MORTGAGE ASSOCIATION</u>		
PRESIDENT:		
Woodward Kingman	July 1969	Present
EXECUTIVE VICE PRESIDENT:		
Richard C. Dyas	Mar. 1970	Present
VICE PRESIDENT--FISCAL MANAGEMENT:		
John L. Burke	Apr. 1970	Present
SECRETARY-TREASURER:		
Albert J. Fulner, Jr.	Dec. 1968	Present

Copies of this report are available from the U. S. General Accounting Office, Room 6417, 441 G Street, N W., Washington, D.C., 20548.

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