

# GNMAs still good if you know the limitations

Despite the carnage GNMA investors experienced last year, these investments are still alive, well and kicking. However, GNMA's are attractive only to those investors who are aware of their limitations and know how to buy them.

## Back to Basics

Ginnie Mae is a part of the Department of Housing and Urban Development, and it provides money for financing residential housing programs where established home-financing facilities are inadequate.

GNMA's credit is backed by the full faith and credit of the U.S. Government, and it is authorized to borrow from the Treasury to ensure timely payments of principal and interest on securities which GNMA

guarantees.

Of the three types of GNMA, modified pass-through securities are the most popular because they have several unusual features. These securities are created when a mortgage banker assembles a pool of FHA- or VA-guaranteed mortgages of the same coupon and maturity and deposits them at a custodian bank.

GNMA then issues securities against these mortgages, with interest and principal payments made monthly to investors on a modified pass-through basis, which means that interest and principal are paid to the investor by GNMA regardless of whether they have been collected on time from the mortgage.

Interest payments on GNMA securities are fully taxable at the federal, state and local levels. Also, al-



## finances and you

**Sid Mittra**

though the original life of the mortgages behind these securities is 25-30 years, the average life of a pool of mortgages works out to 12-14 years because of prepayments of principal by borrowers and mortgage refinancings.

That is precisely what happened in the fall of 1987 when homeowners dumped their 13-percent or 14-percent mortgages in favor of 9-percent loans. As a result, investors who thought they had bought 14-16 years

of high yields found their loans paid off in just a couple of years.

To partially solve this problem, the mortgage market now offers collateralized mortgage obligation, or CMO. I will discuss CMOs in my next week's column.

## The cash flow confusion

The guaranteed cash flow is an attractive feature of a GNMA. Qualified plan trustees and retirees love the safety and dependability of guar-

anteed cash flow.

What creates a massive confusion, however, is the fact that the cash flow does not entirely represent the return on investment. For instance, if you invest \$10,000 in a GNMA and receive \$1,000 for the year, your net return is not 10 percent (\$1,000/\$10,000).

The reason is that the check you receive every month represents both interest and principal. That is, if just \$500 of the \$1,000 income you received represents interest, your annual return is just 8.5 percent. An understanding of the real current return is basic to a successful investment in a GNMA.

What can a retiree do?

Using up the principal along with interest on a regular basis can spell disaster for a retiree. However, it

does not have to be that way.

A retiree can easily deposit the principal portion of the check in a money market account, in which case the principal will return to the investor when the GNMA expires.

Alternatively, the retiree can use 80 percent of the money to buy a GNMA and the balance of 20 percent can be invested in a zero-coupon bond. This investor can safely spend the cash flow from the GNMA and, upon maturity, the zero coupon bond will essentially replace the original investment.

Next week: Collateralized Mortgage Obligation.

Sid Mittra is a professor of management at Oakland University and proprietor of Coordinated Financial Planning.

## datebook

### • BUSINESS WOMEN

Thursday, April 28 — Detroit Business Woman's Club meets in Birmingham. Information: Carol Ann Payne, 937-2200.

### • GRE PREPARATION

Saturdays, April 30 to May 28 — Graduate Record Examination preparation workshops held 9 a.m. to 3 p.m. in Rochester. Fee: \$115. Information: 370-3120. Sponsor: Oakland University.

### • WHERE TO GROW MONEY

Monday, May 2 — "Where Will Your Money Grow the Fastest?" will be offered 7:30-9:30 p.m. in Birmingham. Fee: \$12. Information: 644-5832. Sponsor: The Community House.

### • VACATION PROPERTY

Tuesday, May 3 — Free "Real Estate Opportunities in Traverse City and Leland" seminar offered 7-9 p.m. in Birmingham. Information:

Mike Allingham, 645-6700. Sponsor: Vacation Properties Network Real Estate.

### • CONTRACTS WITH GOVERNMENT

Wednesday, May 4 — "Selling to Local and State Governments" will be offered 9 a.m. to noon in Detroit. Fee: \$20. Information: RoseAnne Herzog, 577-4850. Sponsor: Wayne State University.

### • INTERIOR DESIGNERS

Wednesday, May 4 — "Marble in the home and office TECH series begins at 6 p.m. in Troy. Non-member fee: \$5. Sponsor: American Society of Interior Designers.

### • CONTRACTS WITH GOVERNMENT

Wednesday, May 4-18 — "Making \$55 Through Contracts" series will be offered 9 a.m. to noon in Detroit. Fee: \$50. Information: RoseAnne Herzog, 577-4850. Sponsor: Wayne State University.

### • VACATION PROPERTY

Thursday, May 5 — Free "Real Estate Opportunities in Charlevoix, Boyne City, Petoskey and Harbor Springs" seminar offered 7-9 p.m. in Birmingham. Information: Mike Allingham, 645-6700. Sponsor: Vacation Properties Network Real Estate.

### • TRAINING GROUP

Thursday, May 5 — Technical Training special interest group of the American Society of Training and Development meets in Southfield. Information: Jack Baum, 642-4767.

### • CPA CONFERENCE

Thursday, May 5 — Current Accounting Issues Conference all day in Bloomfield Hills. Fee: \$80. Information: 855-2288. Sponsor: Michigan Association of Certified Public Accountants.

### • DISABILITY & FINANCIAL PLANNING

Saturday, May 7 — A video dramatization of financial planning for an older family that must prepare for disability will be offered for financial planners 9 a.m. to 4 p.m. in Rochester. Fee: \$125. Information: 370-3120. Sponsor: Oakland University.

### • LOTUS 1-2-3

Saturdays, May 7 to June 4 — Lotus 1-2-3 offered 9 a.m. to 12:30 p.m. in Rochester. Fee: \$150. Information: 370-3120. Sponsor: Oakland University division of continuing education.

### • SMALL BUSINESS MANAGEMENT

Monday, May 9 — "Daily Management of Small Business" offered

6:30-9 p.m. in Detroit. Fee: \$25. Information: 862-8000 Ext. 230. Sponsors: Small Business Development Center, U.S. Small Business Administration.

### • PROFESSIONAL WOMEN

Monday, May 9 — Michigan Professional Women's Network meets in Southfield. Information: Diane Wilbur, 647-4480 before 5 p.m.

### • REAL ESTATE EXECS

Tuesday, May 10 — National Association of Corporate Real Estate Executives meets in Rochester. Information: Rachel Long, 1-353-7370.

### • CONTRACTS WITH GOVERNMENT

Wednesday, May 11 — "Selling to the Federal Government" will be offered 9 a.m. to noon in Detroit. Fee:

\$20. Information: RoseAnne Herzog, 577-4850. Sponsor: Wayne State University.

### • BUILDING OWNERS

Thursday, May 12 — Building Owners and Managers Association meets in Southfield. Information: Jack Lewis, 864-4000.

### • MANUFACTURING HELP

Thursday, May 12 — Help for manufacturing business owners offered in small business clinic 1-6 p.m. in Detroit. Fee: \$15. Registration deadline: May 4. Information: Eric Pris, 647-5616. Sponsor: Michigan Technology Council.

### • INTERNAL AUDITING

Thursday-Friday, May 12-13 — Certified Internal Auditor examination held in Rochester. Information: 370-3120. Sponsor: Oakland University.

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Round Trip	\$20	\$25	\$30	\$35	\$40	\$52*

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