

THE HOME OWNERS' LOAN CORPORATION

The Home Owners' Loan Act, approved June 13, 1933, authorized and directed the Federal Home Loan Bank Board to organize the Home Owners' Loan Corporation with capital stock of \$200,000,000, to be subscribed by the Secretary of the Treasury on behalf of the United States Government. It further authorized the Corporation to exchange its bonds, in an amount not to exceed \$2,000,000,000, for first mortgages on urban homes.

Subsequent amendments to the original act increased the extent and scope of the Corporation's activities by authorizing the issuance of bonds in a total not exceeding \$4,750,000,000, of which \$400,000,000 could be used to finance necessary repairs and reconditioning of homes securing the Corporation's loans, and \$300,000,000 for investment in shares and deposits in qualified home-financing institutions or for the purchase of obligations of the Federal home-loan banks. The Corporation was also directed to transfer \$100,000,000 of its bonds in payment for the capital stock of the Federal Savings and Loan Insurance Corporation.

LOANS TO HOME OWNERS

Eligibility.—Under the terms of the Home Owners' Loan Act, the Corporation's authority to exchange its bonds was limited to a period of 3 years from date of the act, and to mortgages or other obligations or liens secured by urban homes where the instruments evidencing these encumbrances were recorded or filed in the proper office, or executed prior to the date of the act. It included, however, the sale of bonds and the making of cash loans under certain conditions, and the use of bonds for the redemption of homes lost by foreclosure or by voluntary surrender within 2 years prior to the date of redemption.

The original act was amended on April 27, 1934, by further restricting the loans to applicants in involuntary default on June 13, 1933, who were unable to carry or refund their existing mortgage indebtedness. The limitation of date was inoperative if it were specifically shown to the satisfaction of the Corporation that a default after such date was due to unemployment or to economic conditions or misfortune beyond the control of the applicant; and the requirement of inability to carry or refund was inapplicable if the mortgages or liens were held by an institution in liquidation. At the same time the authority of the Corporation to redeem from foreclosure, or voluntary surrender by deed, was extended to all owners who had lost their homes in such fashion subsequent to January 1, 1930. Later, by the Act to Provide Additional Home-Mortgage Relief, approved May 28, 1935, the preference given mortgages held by institutions in liquidation was withdrawn and inability to carry or refund on the part of the mortgagor became a universal requirement.

Loan limits.—Loans by the Corporation were limited to 80 percent of the Corporation's appraisal of the property and could not exceed

\$14,000 in any case. By regulation of the Corporation, a mortgage or lien subordinate to the Corporation's mortgage might be taken at the time of the closing of the loan if it did not exceed the difference between the amount of the Corporation's loan and the Corporation's appraised value of the property. The security for the loans was restricted to real estate upon which there was located a dwelling or dwellings for not more than four families and which was used in whole or in part by the owner as his home, or held by him as his homestead, and which had a value of not to exceed \$20,000 as appraised by the Corporation.

Terms and interest rate.—The original act granted the home owner the option of making no payment of principal for a period of 3 years from the date of the act, if he were not in default with respect to any other condition or covenant of his mortgage. This privilege was withdrawn on loans closed subsequent to the enactment of the Act to Guarantee the Bonds of the Home Owners' Loan Corporation, April 27, 1934. The moratorium, which was claimed by practically all of the borrowers prior to the amendment referred to, expired on June 13, 1936, and, consequently, at the end of the fiscal period being reported upon, all borrowers were being billed for full amortization payments. Although the act permitted the making of cash loans under certain conditions, comparatively few were made. Most of the Corporation's loans, therefore, bear 5 percent interest and are repayable in cash or in bonds of the Corporation in equal monthly installments of \$7.91 per \$1,000 of original loan for a period of 15 years. Some, but comparatively few, as originally made, run for a lesser period. All loans where the moratorium privilege was exercised have been reamortized over a 12-year period which, with interest, requires a normal payment of \$9.25 per \$1,000 of original face amount of the loan.

Types of financial assistance provided.—In addition to the amounts called for by the obligations to be refinanced, the Corporation was permitted to provide, and generally did provide, sufficient funds to pay delinquent taxes and assessments, pay for necessary repairs, and meet the incidental expenses of the refinancing.

Home Owners' Loan Corporation assistance noncompetitive.—As pointed out previously, under the act as amended on April 27, 1935, no applicant was eligible for a loan who could secure the necessary financial assistance elsewhere. After that amendment the Corporation consistently followed the policy laid down by Congress and declined to refinance mortgages where the borrowers could refinance through private institutions, or individuals, or other established governmental agencies.

Loan applications.—Between June and September 1933 more than 400,000 applications, totaling \$1,194,866,000, were received in the various State and district offices which had been established up to that time. By the spring of 1934 the applications were coming in at a rate exceeding 35,000 per week. This rate declined during the year to approximately 6,000 per week in November. By that time, however, a total of 1,750,000 applications amounting to \$5,500,000,000, had been filed, and, as it was apparent that the making of such of these as were eligible would more than exhaust the Corporation's available resources, the acceptance of applications was suspended on November 13, 1934, and no further applications were received

until after the act of May 28, 1935, by which Congress increased the total bonding authority of the Corporation to \$4,750,000,000. In that act Congress specifically limited the acceptance of further applications by the Corporation to a period of 30 days, which ended June 27, 1935. During that period approximately 135,000 additional applications were made, much less than had been expected, but increasing the grand total of applications permitted to be filed to 1,885,000, for a total sum of \$6,173,000,000. The average application thus amounted to approximately \$3,282.

Loan-closing operations.—In order to take care of this flood of applications the Corporation opened offices in 48 States, the District of Columbia, and the Territories of Hawaii and Puerto Rico. To permit early action, regulations governing the procedure were originally issued in bulletin form to the field offices. As soon as possible uniform standards and policies were adopted and introduced. The first manual of loan procedure was issued in the spring of 1934 and has been subsequently revised from time to time in the light of experience.

Appraisals.—The Corporation's appraisal procedure was based upon a formula which gave equal weight to:

1. The market value at the time of the appraisal.
2. The cost of a similar plot of land at the time of the appraisal, plus the reproduction cost of the building, less depreciation.
3. The value of the premises, arrived at by capitalizing the reasonable monthly rental value of the premises over a period of 10 years immediately preceding the date of appraisal.

The training of appraisal personnel, and examination and rating of applicants for appraisal work, proceeded continuously during the entire 3 years of the Corporation's lending program. At that time approximately 4,000 appraisers were qualified by the Corporation; some 1,300 were used in salary appraisal work, and 2,700 for fee assignments.

Reconditioning.—As has been previously stated, the Corporation was authorized to include in its cash advances funds with which to make repairs necessary for the preservation of the property, and such repairs were generally made a condition precedent to the refinancing of the mortgages. By the terms of the Act to Guarantee the Bonds of the Home Owners' Loan Corporation, the authority to make advances was broadened to include sums for rehabilitation, modernization, rebuilding, and enlargement of the homes financed. Approximately 675,000 applications for reconditioning were received prior to loan closing on June 12, 1936. A preliminary inspection was made in practically every case; by June 30, 1936, 478,000 applications had been approved by the loan committee, and nearly 360,000 contracts had been awarded for a total of more than \$70,000,000. At the close of the fiscal year, approximately 330,000 jobs had been completed and approved. A complete summary of reconditioning operations, with cumulative totals for the country as a whole and by districts, regions, and States, appears in exhibit 12.

Bonds issued, retired, and outstanding.—To June 30, 1936, Home Owners' Loan Corporation bonds, including refunding issues and commitments, had been issued in the amount of \$3,742,024,925. Of this amount, \$626,020,050 was issued for refunding purposes. The principal item consisted of 4-percent bonds, issued in the early

stages of the Corporation's operations, which were guaranteed by the United States as to interest only. After the passage of the Act to Guarantee the Bonds of the Home Owners' Loan Corporation, extending the guarantee to include principal, these 4 percent bonds were called for redemption. At the end of the fiscal period reported upon, there were still outstanding bonds of this issue in the face amount of \$3,419,675. In addition to the bonds retired by refunding, bonds in the additional amount of \$67,635,325 have been retired either through repurchase or through acceptance in repayment of loans. This left a net liability for bonds and commitments outstanding of \$3,048,369,550. A statement showing the coupon dates of these bonds, the coupon rate, the callable date, maturity date, the total amount of each issue, the amount refunded and retired, and the balance outstanding, is set forth in exhibit 13.

In addition to bonds exchanged for mortgages and for the purchase of the capital stock of the Federal Savings and Loan Insurance Corporation, it was necessary for the Home Owners' Loan Corporation to sell bonds totaling \$327,767,825, the proceeds of which were used for the various other purposes authorized by the Home Owners' Loan Act.

Under the provisions of the act, all payments made by borrowers on principal of the loans held by the Corporation must be applied to the retirement of bonds and cannot be used for any other purpose. Through June 30, 1936, principal payments, including the estimated distribution of unallocated cash on hand as of that date, totaled \$121,593,940.

MANAGEMENT

The administration of the Home Owners' Loan Act is vested in the board of directors of the Home Owners' Loan Corporation. These are identical with the members of the Federal Home Loan Bank Board. The directors select officials of the Corporation and adopt such bylaws, rules, and regulations as are deemed necessary for the accomplishment of the purposes of the act.

On June 30, 1936, the principal officials of the Corporation consisted of the general manager, auditor, comptroller, general counsel, secretary, treasurer, and their deputies or assistants. These officials, through their Washington, regional, and State and district office staffs, are responsible for the operation of the Corporation under policies and regulations prescribed by the board of directors.

SERVICING AND COLLECTION OF LOANS

Establishment of regional offices.—During the first months of operation all supervisory activities were conducted from Washington, and all accounting and treasury records were maintained in the Corporation's home office. As the business grew by leaps and bounds, physical limitations on available office space in Washington, as well as economy of time and effort and efficiency in operation, compelled a decentralization of administration. Accordingly, in the early part of 1934, the United States was divided for administrative purposes into 11 regions, and as rapidly as possible regional office organizations were recruited and established in the most convenient locations in the districts. A map showing the regions established appears on the opposite page. Since the establishment of regional offices all

individual loan records have been maintained in their respective regional offices, and the administrative control of the Corporation's local activities has been delegated to regional managers and their staffs. The home office management and technical staff see that the general policies promulgated by the Board are carried out, provide technical assistance to the regional offices, and exercise general administrative control over their activities.

Collections from borrowers.—On June 30, 1936, the borrowers had been billed for a total amount of \$446,184,887, representing \$186,386,933 of matured principal installments and \$259,797,954 of matured interest on loans and advances. Repayments of \$330,448,119 had been made, of which \$121,593,940 was applicable to principal and \$208,854,179 to interest (including the estimated distribution of unposted borrowers' payments on hand June 30). These collections represent 74 percent of the total amount of matured principal and interest.

Loan service division.—The collection and servicing efforts during the loan-closing period consisted largely of direct correspondence between Washington and mortgagors throughout the country. After the establishment of the regional offices, steps were taken in each region to organize a loan servicing procedure adaptable to conditions in that region. Various systems were tried out. As a result of the experience under them, a uniform procedure was developed and incorporated into the Corporation's Manual of Rules and Regulations. At this time a loan service division was established for the purpose of administering this procedure throughout the Nation. As rapidly as field offices could be provided with loan servicing personnel and equipment, the uniform procedure was put into operation. All delinquent borrowers were contacted by representatives of the division to determine the causes of default and possible remedies therefor, and individual records were established in the regional and in the district offices. At the end of June 1936 the loan service division had a total of 5,000 employees. The personnel was distributed as follows: 9 in the home office, 1,235 in the 11 regional offices, and 3,756 in the 313 field offices.

Property management.—The property management division is charged with the protection of the Corporation's interests in acquired properties and properties in process of acquisition. Its primary function is to liquidate owned properties as rapidly as possible without, however, interfering with recovery in the real estate market. Pending sale, these properties are managed in accordance with sound real estate practices. Wherever it is practical to do so, the Corporation utilizes the services of responsible real estate brokers.

Immediately preceding the acquisition of any property, a thorough analysis is made of it for the purpose of determining its proper disposition. A reconditioning inspection is made in order to ascertain the extent of reconditioning required to put the property in condition to invite sale or rental. A reappraisal report is obtained to establish the present market value and sales possibilities. Based on these field reports and on recommendations of the district or State office, a decision is reached as to the amount of reconditioning work to be performed, and whether the property is to be offered for immediate sale or is to be rented, awaiting a more favorable sales market. As of June 30, 1936, 28,675 properties were under the jurisdiction of

the division, of which 5,133 were owned by the Corporation and the balance were in process of acquisition. (See Exhibit 14.)

Addition to home office building.—Reference has been previously made to the lack of available office space in Washington during the year 1934. This forced the Corporation to purchase a building for its own use. (See second annual report, p. 82.) In spite of the relief afforded by the new building, however, a rapid increase of the Corporation's business compelled it to continue the rental of additional space in the Standard Oil Building and to retain the offices occupied by its executives on the seventh floor of the New Post Office Building. The inconvenience and lost time due to this separation of the departments and employees of the Corporation led to the decision to construct an addition to what had been known as the HOLC Building for the purpose of housing in one structure the entire Washington organization of the Home Owners' Loan Corporation and the allied activities under the control of the Federal Home Loan Bank Board.

With the approval of the President, the Federal Home Loan Bank Board, by resolution on October 18, 1935, formally authorized the Home Owners' Loan Corporation to turn the necessary funds over to the procurement division of the Treasury Department. It was stipulated, however, that while the preparation of plans and the construction of the building were to be handled by the procurement division, the general direction of the work was to be carried on by the Deputy to the General Manager of the Home Owners' Loan Corporation.

Decision was made to construct a 10 story and basement addition, having a ground floor area of 13,000 square feet and an estimated cubic content of 1,641,000 cubic feet, the exterior of the building to harmonize with the existing structure. Preliminary drawings were approved on February 26, 1936, and the working plans and specifications were completed in April. Bids were taken thereon and the general contract was awarded to James Stewart & Co. on May 21, 1936, in the amount of \$1,446,700. Additional contracts awarded separately amounted to \$128,202, bringing the total cost as of June 30, 1936, to \$1,574,902.

Excavation began on the morning of May 27, 1936, and the first concrete foundations were poured on June 16. The contract calls for the completion of the work within 300 calendar days from May 21, 1936. Construction progress schedules have been prepared for checking and expediting the progress of the work so that it may be completed within the time stipulated.

COMPTROLLER'S DIVISION

Organization.—The Comptroller is responsible for maintaining all accounting and financial records, and is custodian of the Corporation's assets. The Comptroller's organization consists of four sections, namely: accounting, treasury, insurance, and purchase and supply.

Originally, the Comptroller's functions were centralized in the home office. Arrangements for decentralization to the 11 regional offices were started with the organization of the Boston Regional Office in June 1934. By the end of the year, regional accounting,

treasury, and insurance sections had been established in all regions. The purchasing section was retained in Washington to permit more economical purchase and use of equipment and supplies than would be possible on a decentralized basis.

Accounting section.—The regional accounting sections maintain complete records of all transactions affecting borrowers' accounts with the Corporation. Standard uniform reports are submitted by all regional offices to the home office, for consolidation into the Corporation's general books.

A staff of field representatives, under the direction of the Comptroller, maintains personal contact with regional offices, establishes uniform procedure, and provides supervision and assistance for regional accounting sections.

The accounts maintained in regional offices are subject to examination by the Auditor of the Corporation, and current transactions are verified by his staff.

With the completion of loan-closing operations, in June 1936, the accounting section was relieved of the burden of establishing new loan accounts and is now studying means for maintaining more adequate control of functional costs of operation, and more detailed analyses of the Corporation's financial condition.

Treasurer's section.—Custodianship of mortgage-loan docket, the receipt of Corporation funds, and the disbursing activities of the Corporation are under the supervision of the Treasurer.

To assist borrowers in making payments on their loans, the Corporation on June 30, 1936, had 195 collection offices throughout the country, to receive and transmit payments to the regional offices.

Insurance section.—The protection of the Corporation's home-mortgage investment against fire, wind, and other hazards is under the supervision of the insurance section. It is one of the duties of this section to see that the insurance requirements of the Corporation are consistent with the provisions of the laws of the several States and conform to the various types of insurance coverage and contracts required by local conditions.

At the time the loans were made, the Corporation required insurance, but permitted the borrower to arrange for the purchase of insurance through local agents, and in case he was unable to pay the initial premium, it was included in the original loan. In order that the Corporation might have complete protection, it also secured a contract protecting it against errors and omissions.

Following out the policy of the Corporation not to interfere with local insurance practices, or the rights of borrowers to secure through local insurance agents insurance necessary to meet the Corporation's requirements, it has participated in the adjustment of insurance losses only where it finds that an equitable adjustment is not being made and the interests of the Corporation are not fully protected.

As of June 30, 1936, this section was servicing approximately 2,500,000 insurance policies. All of these have been examined to determine that they meet the requirements of the Corporation and to make certain that nonstandard clauses and conditions, which might defeat recovery or prevent an equitable adjustment in the case of loss, are not incorporated therein. Through a careful and consistent follow-up of policies which are about to lapse, the num-

ber of premiums which it has been necessary for the Corporation to advance on behalf of borrowers has been reduced from approximately 50 percent in 1934 to 10 percent in 1936. To the end of the fiscal year there had been 57,629 losses for a total of over \$6,500,000. These losses, except in a few cases, were fully covered by the policies, and promptly paid by the insurance companies.

Purchase and supply section.—At the outset of the Corporation's activities the immediate need for the speedy organization of State and district offices made it necessary that many purchases of equipment and supplies be made from local dealers by the local officials. A large amount of equipment was also borrowed from other Government agencies, National, State, and municipal.

Since 1934, however, all purchases, except inconsequential items or supplies required to meet local emergencies, have been made through the purchase and supply section of the home office. By this means the Corporation has been able to take full advantage of economies made possible by large orders of standard supplies and equipment which could not have been realized if the purchases had been made in small quantities through local dealers.

The purchase and supply section maintains an inventory of the nonexpendable equipment in all the offices of the Corporation. With the cessation of lending operations, which resulted in the closing of some offices and reductions in others, many and frequent changes in this inventory are necessary. The curtailment of operations also resulted in the accumulation of surplus equipment, which the purchase and supply section is now liquidating as rapidly as possible. Rented and borrowed equipment is being replaced from the surplus equipment and such as is not in use, or that there is no reasonable prospect of using, is being sold. A considerable stock of standard supplies and equipment is maintained in the home office and shipped to the various regional offices upon requisition.

LEGAL DEPARTMENT

The nature of the business conducted by the Home Owners' Loan Corporation necessarily requires an unusual amount of legal work. The services of the General Counsel to the other agencies of the Board have been described in a previous portion of this report, but the more complicated nature of the service which he and his department perform for the Home Owners' Loan Corporation requires a more detailed statement here.

Organization.—With particular reference to the work of the Home Owners' Loan Corporation, the legal department is organized in three divisions—advisory, litigation, and servicing.

Advisory.—In addition to the legal advice to the board of directors, the advisory division deals with all legal problems in the internal operation of the Corporation, including advice in connection with bond issues or retirements and negotiations with Treasury officials; advice to the auditing department, including matters growing out of the exceptions in the auditing reports; advice to the accounting section, covering also many miscellaneous problems in connection with credits and fire-insurance losses.

The division contains a briefs section, which is provided with a library, briefs many questions, and reviews briefs made by the legal departments in the field.

A regulations section drafts rules and regulations as instructed by the Board, or as requested by departments, and negotiates with the executives and the board of directors in connection with them.

Litigation division.—The litigation division supervises, through a general litigation section, all litigation except foreclosure actions. During the fiscal year this involved the handling of 3,780 lawsuits, in 296 of which the Corporation was plaintiff.

The increasing number of foreclosures required the organization, during the year, of a special foreclosure section. Only a few foreclosures had been authorized, however, prior to June 30, 1936.

As the Corporation has adopted the policy of carrying its own fidelity, casualty, and public liability risks, the litigation division maintains a claims section to handle all claims of such character, as well as all claims filed with the United States Employees' Compensation Commission on behalf of employees.

From the early days of the Corporation, an investigation section has been maintained in the litigation division to investigate all alleged violations of criminal statutes in any way connected with the operation of the Corporation. More than 4,000 such cases were referred to the section during the fiscal year, of which 1,126 were pending at its close. After investigation of the charges by this section, appropriate administrative action is taken, and if it appears in any case that there has been willful violation of the criminal statutes, such case is referred for prosecution to the Attorney General of the United States and to the United States district attorney in the proper district.

Servicing division.—Between June 30, 1935, and June 30, 1936, the servicing division of the legal department, through its examining section, supervised the closing of 137,795 loans, and through its reconditioning section, the award of approximately 110,000 contracts of reconditioning. These latter involved approximately \$25,000,000, and the clearance of all laborers', mechanics', and material men's liens.

Through the tax section of the servicing division, an accurate record is maintained with reference to the tax status of every piece of property, somewhat over a million, upon which the Corporation holds a lien, or which it owns. The size and complexity of the task can be better appreciated if one recalls that, on the average, every piece of property is subject to taxation by five governmental units.

It is also the function of the tax section to authorize the payment of taxes on account of the borrowers, where necessary to protect the lien of the Corporation. In the performance of this duty it saw to the payment of approximately \$1,500,000 in taxes during this fiscal period. It performs the same service with reference to acquired properties. The amount of taxes on these paid for the period was \$900,000.

As previously indicated, the fiscal year covered by this report saw the establishment of loan servicing and property management. This required the creation of a loan service section and a property service section, to give advice to, and perform such legal duties as would be required by, these vital operating divisions.

All sections of the legal department which have been referred to generally have corresponding sections in the regional offices. The regional staff in turn supervises the handling of legal matters in the

States by the State counsel and his staff. The salaried staff of attorneys in the Washington, regional, State, and Territorial offices on June 30, 1935, consisted of 939 attorneys; on June 30, 1936, 541. In addition, the Corporation employed, during the fiscal year, from time to time, several thousand attorneys to examine titles, draw papers, and close loans in their own offices in the communities where homeowner borrowers resided. The Corporation also employed a few lawyers to handle certain litigation on a fee basis.

From the start of lending operations the legal department began the creation of a list of lawyers to be used as fee attorneys in connection with loan closing. During this fiscal year a new list of lawyers, to be used in the foreclosure work, was compiled and approved, and the fees for the services in the different States and communities were fixed and agreed upon. A smaller list of attorneys was selected for the foreclosure work on a fee basis, but most of them were attorneys who had been tried out in connection with loan closing.

PERSONNEL DEPARTMENT

The personnel department was organized to meet the personnel problems incidental to the rapid growth and the unusual nature and size of the organization. The development of the Corporation involved the selection and classification of over 20,000 employees located in some 300 different offices. To meet the urgent demands for qualified workers with the least possible delay, local officials of the Corporation originally made selections of personnel in accordance with their own standards.

Pursuant to the Executive order approved by the President of the United States on June 21, 1934, the personnel department classified the positions of the employees under the provisions of the Classification Act of 1923, as amended, subject to the review and revision by the Civil Service Commission. It also developed standards of selection, procedure, and uniform salary schedules adjusted to varying local requirements.

Since the organization of the regional offices in the fall of 1934, the administration of personnel matters has been correlated by control, planning, and recording units in the personnel departments of the Washington and regional offices. These units handle all pay-roll and leave matters and establish plans and standards for the field operations of the personnel department.

This activity has led to a well-organized personnel procedure whereby selections are based on carefully prepared tests in which the qualifications of applicants are compared with standard minimum requirements, and wherein an essential feature is a standard plan of salary administration, based on the accurate classification of all positions.

Exhibits 15 and 16 show the number of employees carried on the Corporation's pay roll during the fiscal year 1936.

AUDITING DEPARTMENT

The auditor is responsible for the proper audit of all accounts of the Corporation. In addition, his division reports to the Board on all infractions of rules and regulations, as prescribed by enabling legislation, bylaws, Board resolutions, manual of procedure, bulletins,

and general governmental standards and regulations, as they develop in the normal course of its activities.

The auditing department, during the fiscal year July 1, 1935, to June 30, 1936, preaudited and certified for payment by the Treasurer of the Corporation approximately 375,000 vouchers aggregating approximately \$33,000,000 for all general operating expenditures, and preaudited and certified for payment disbursements made by the various treasurers in the regional offices.

Up to June 30, 1936, this department had concluded 106 regional office, State office, and special audits, of which number 58 were completed during this fiscal year's operations, and 1,024 regular audits of collection offices maintained in the various States. Reports covering these audits were submitted to the Board and to the various departments involved. Audits are being maintained on an annual basis for State and district offices and for lesser periods on collection offices.

An audit was made of mortgage loans refinanced by the Home Owners' Loan Corporation, and all exceptions to the required standards were noted. Apparent overpayments in loan settlements with the mortgagees were submitted, in accordance with regulations, through the regional managers to the adjustment department in Washington. Recoveries of overpayments previously submitted were reported and credited to borrowers' accounts. In addition, the regional supervising auditors prepared schedules of loans which were paid in full, and these were reviewed by the home office.

A continuous internal audit is conducted of borrowers' accounts and property accounts. The application of the receipts and disbursements is checked and properly cleared through the records of the Corporation.

MORTGAGEE REHABILITATION DIVISION

By the summer of 1935 the Corporation had closed more than 900,000 loans; the Federal Home Loan Bank Board had chartered a very substantial number of Federal savings and loan associations; the program of the Federal Savings and Loan Insurance Corporation was getting well under way; the lending activities of the Federal home-loan banks were increasing steadily, and the necessity of providing the Federal Home Loan Bank Board and its affiliated agencies and executives with current, accurate, and comprehensive information as to real-estate and mortgage conditions throughout the country became apparent.

As a result the Board, on July 28, 1935, created the mortgagee rehabilitation division to conduct a Nation-wide survey of mortgage and real estate conditions. After careful analysis it was determined that the activities of this investigation should be confined to cities of 40,000 population and over. A field and office staff of approximately 22 people was organized, and, after careful study of the problem involved, operations were started in August 1935. To date this division has completed the survey of 92 cities, and it is anticipated that surveys of the remaining cities over 40,000 population can be completed by March 1937.

Reports of completed surveys furnish the Board and the executives of the various interested agencies with complete and accurate infor-

mation covering every phase of mortgage and real estate activity in the communities covered.

SUMMARY OF FISCAL OPERATIONS

During the fiscal year 1936 the Corporation completed the following operations:

Bonds.—Bonds and commitments issued through June 30, 1936, totaled \$3,742,024,925. Of this amount, \$626,020,050 have been refunded, and \$67,635,325 retired, leaving a net outstanding bond and commitment liability of \$3,048,369,550. (See exhibit 13.)

Principal repayments from borrowers, exclusive of unallocated funds, have amounted to \$121,040,611, of which \$67,635,325 have been used for the retirement of bonds and the balance of \$53,405,286 are held in the bond retirement fund available for that purpose.

Disposition of bonds and commitments issued, capital stock, and realized income.—The disposition of proceeds of bonds and commitments issued, capital stock subscribed by the United States Treasury, and realized corporate income to June 30, 1936, is set forth in exhibit 17.

Loans.—Of 340,470 applications pending on June 30, 1935, 136,935 cases were eligible for Home Owners' Loan Corporation loans, which were consummated prior to the termination of loan-closing activities on June 12, 1936. Through that date a total of 1,018,390 loans, in the gross amount of \$3,092,870,784, had been closed. This amount includes approximately \$75,000,000 lent for necessary repairs and reconditioning incidental to refinancing operations.

Liquidation.—Through June 30, 1936, borrowers had been billed for a total amount of \$446,184,887, representing \$186,386,933 of matured principal installments, and \$259,797,954 of matured interest on loans and advances. Repayments, including unallocated cash on hand on June 30, 1936, totaled \$330,448,119, representing 74 percent of the total amount of matured principal and interest. Of this total, \$121,593,940 represents principal and \$208,854,179 interest, including the estimated distribution of unallocated cash.

Properties.—As of June 30, 1936, 5,133 properties were owned by the Corporation, and 23,542 were in process of acquisition.

Income and expenses.—During the fiscal year 1936, the total income of the Corporation from all sources amounted to \$147,214,437. After deducting expenses, in the amount of \$150,947,877, which includes reserves for fidelity and casualty losses in the amount of \$300,000, the deficit for fiscal year 1936 amounted to \$3,733,440, bringing the total deficit on June 30, 1936, to \$34,024,396. This deficit is principally attributable to the expenses incidental to the closing of loans which were charged as incurred. If no change is made in the interest rate and if economic conditions continue to improve and if no impediments are placed in the way of collection, this deficit should be eliminated by earnings during the 15-year term of the loans. Ample reserves for losses on delinquent interest and losses on acquired properties are being charged against current earnings. With the reduction in loan operations, monthly administrative expenses declined from \$3.54 per loan during June 1935 to \$2.57 in June 1936, but, to offset this, the cost of servicing the loans and of handling the properties necessarily acquired will increase rapidly for some months.