FEDERAL HOME LOAN BANK SYSTEM

The Federal Home Loan Bank System was created to give greater flexibility and expansion of lending powers to member building and loan associations, mutual savings banks, insurance companies, and similar private thrift and home-financing institutions. The factors leading to the creation of the bank system were not wholly due to the depression. They were rather the result of a concerted effort for a central mortgage-reserve structure on the part of far-sighted real estate interests and executives of thrift institutions under the sponsorship of leaders in Congress. It was the clear intent of Congress that the system should encourage home ownership by providing funds at reasonable rates, and by supporting the best practices of mortgage-lending institutions.

The Federal Home Loan Bank System is a permanent credit-reserve structure for the use of private home-financing institutions. It permits them to expand their lending power by the use of their present resources as collateral, very much as the Federal Reserve System permits commercial banks to increase their credit for industry. The Federal Home Loan Bank System in less than 3 years has grown to be the largest mortgage-reserve institution in the world, having a membership of 3,324 with resources of more than 3¼ billion dollars.

The bank system was established to protect home owners against a repetition of the dangers which they faced a few years ago in the scarcity of home-mortgage credit. It is not an emergency institution and does not make loans direct to home owners, for relief or any other purpose. It simply places an additional large volume of credit at the disposal of the private home-lending institutions, so that they may make a larger number of mortgage loans to home owners on reasonable terms, and also meet more readily the cash requirements of their investors.

The Federal Home Loan Bank System is susceptible of wide expansion. It encourages a general pooling of resources of member institutions to insure stability, and arranges for the transfer of funds from a section of the country in which demand is quiet to a section in which it is more active. In sections where housing shortage exists and demand for new loans is apparent, one regional bank or a group of regional banks, may be brought to the assistance of others. The national character of the system is an obvious and pronounced advantage.

MEMBER INSTITUTIONS

The standards of membership have been high enough to add to the prestige of all institutions which have been approved, yet liberal enough to permit the extension of the privileges of the system to all sound and worthy eligible institutions.

Chiefly, institutions of the savings-and-loan type have taken membership in the system although other eligible types of institu-

tions, such as savings banks and life insurance companies, are represented.

The early impression that the Federal Home Loan Bank System was designed as a rediscount system has been dissipated. Its true functions as a system of reserve credit for home mortgage-lending institutions are becoming more clearly and generally understood.

As a result of the financial assistance rendered by the banks to member institutions, these institutions were better able to meet the repurchase demands of their investors; they were able to make new loans for the construction of new homes and the repair of old homes, thus helping the building trades; and they were able to refinance mortgages already held and to pay taxes for their borrowers.

Although the chief demands on the Federal home loan banks by member institutions are for financial assistance in the form of short and long term advances to facilitate local lending operations, there have been increasing demands made on the time of the bank officers for counsel on practical operating problems. Thus, there have been afforded opportunities to improve the system by helping to improve the methods, the operations and the condition of member institutions. The results of this combination of credit facility with advisory assistance have been gratifying. Marked improvement in the condition of member institutions directly traceable to suggestions previously made by officers of the banks has in numerous instances been noted.

It is the conviction of the Federal Home Loan Bank Board that a sound and reliable system of home-mortgage finance can best be assured by means of localized lending operations such as are provided by the institutions which are eligible for membership in the Federal Home Loan Bank System. The assistance which the system has already rendered to its members in the development of sounder practices and methods in home-mortgage finance is a promise of future benefits and constantly improving standards of economical home financing.

LOCALIZED ASSISTANCE

Under the leadership of the Federal Home Loan Bank System its member institutions in increasing numbers have provided their respective communities with new and better loan plans at lower rates of interest. The simple, easy-to-understand direct-reduction type of loan is increasing in popularity. Many member institutions are adopting variable interest rates in order to adjust their rates to fit risks. The trend of average rates charged by member institutions is definitely downward.

The benefits to the people of these improvements cannot be measured by immediate effects alone, although their influence is already being felt in the hundreds of cities where the member institutions are situated. The results are cumulative and will provide improved operations and ability to cope with changing conditions and emergencies of the future. The far-reaching importance of the system, therefore, can best be appreciated by the significant fact that its member institutions on June 30, 1935, had borrowing and investing clients approximately totaling four million persons; and that students of the business agree that the possibilities for additional increase in assets of member institutions and number of people served are limited only by the population and development of the country.

UNIFORM STANDARDS

In conducting a system of 12 district banks, widely separated and each more or less independently operated, there arose the natural problem of uniform standards and operations. As a means of achieving uniformity and of making their advice available to the Board, there was organized a bank presidents' council, composed of executive heads of the 12 Federal home-loan banks. The council meets at least twice a year. For similar reasons, the Board established an advisory council composed of the chairmen of the boards of directors of the district banks. This council will be supplanted by the Federal Savings and Loan Advisory Council, created by Congress on May 28, 1935.

The problem of obtaining adequate reports from members of the Federal Home Loan Bank System is a serious one, in view of the wide divergence of accounting methods and State report forms used by the member institutions. A study of ways and means of standardizing and simplifying reports has been started, and an effort will be made to obtain the cooperation of the State supervisory authorities in this program.

The development of the Federal Home Loan Bank System during the 6 months covered by this report was marked by (1) an increase of 256 in the number of member institutions, the total reaching a new high of 3,324 on June 30, 1935; (2) aggregate resources of members on June 30, 1935 totaling over $3,200,000,000; (3) an increase of $781,400 in the amount of bank capital subscribed by member institutions, the new total being $23,442,800; and, (4) total new advances to member institutions during the period in the amount of $18,904,650.63.

CLASSES OF MEMBERSHIP

As of June 30, 1935, the membership was composed of 3,324 institutions, the classification and total approximate assets of which were as follows:

	Approximate assets
Building and loan associations:	
State members (2,426)	$2, 511, 127, 675
New Federals (515)	9, 909, 076
Converted Federals (297)	314, 838, 549
Other members:	
Savings banks (9)	138, 969, 025
Insurance companies (3)	15, 189, 257
Cooperative banks (60)	181, 867, 968
Homestead associations (14)	29, 637, 176
Total (3,324)	3, 201, 538, 726

This total membership in the System represented subscriptions to 234,428 shares of stock in the 12 Federal home-loan banks, of which $23,030,975 had been paid, leaving a balance still due on account of such subscriptions amounting to $411,825. Of the $124,741,000 representing the total amount of stock in the Federal home-loan banks which the Secretary of the Treasury is committed to subscribe, the sum of $81,645,700 had been paid in as of June 30, 1935, leaving a balance of $43,095,300 awaiting the call of the banks. The com-

bined capital-stock structure of the System as of June 30, 1935, may, therefore, be summarized as follows:

Total stock subscriptions:	
Members and applicants	$23, 968, 400. 00
U. S. Government	124, 741, 000. 00
	148, 709, 400. 00
Payments received on stock subscriptions:	
Members and applicants	23, 217, 721. 87
U. S. Government	81, 645, 700. 00
	104, 863, 421. 87
Balance due on stock subscriptions	43, 845, 978. 13

The Federal Home Loan Bank Act provides that after the private or member subscriptions to stock in the Federal home-loan banks equal the subscription of the Government, then one-half of the additional subscriptions or payments on stock which are received must be used to retire the Government's subscription. The Board, under the law, has power to retire Government capital at any time it sees fit. This, however, is not immediately possible and there is no apparent reason why the Government should retire its investment.

The present aggregate legal borrowing capacity of the members is estimated to be $818,000,000, a sum within the lending capacity of the banks; total advances of $79,232,514 (9.7 percent of this total borrowing capacity) have been made by the 12 Federal home-loan banks to their members.

When it is remembered that this amount exceeds the total volume of residential construction in the United States in 1935, and that the amount available for lending will grow steadily with the growth of the System, it will be clear that the present Federal home-loan bank mechanism is adequate to meet any likely demand from its members in the future.

If one-half of their present borrowing capacity were reserved for emergency needs and one-half used for the purpose of making new loans, the members of the System could thereby make available to their respective communities funds sufficient to finance the construction of 123,000 homes built at an average cost of $4,000 each. Last year the total number of non-farm homes built was 53,548, and the total for the first 6 months of 1935 was 61,385.

AMENDMENTS AFFECTING THE SYSTEM

An important recent amendment to the Federal Home Loan Bank Act made all stock of any Federal home loan bank share in dividend distributions without preference. This provision eliminated the 2 percent per annum cumulative dividend on stock owned by the Secretary of the Treasury, and thereby permitted the banks greater latitude in their interest rates.

Another amendment provided for the creation of a Federal savings and loan advisory council, consisting of one member for each Federal home-loan bank district, to be elected annually by the board of directors of the Federal home loan bank in such district, and six members to be appointed annually by the Federal Home

Loan Bank Board. This is in line with the action of the Board in previously creating an advisory council which will now be supplanted by the Federal savings and loan advisory council.

Another amendment increases the number of directors of each Federal home loan bank to 12, of whom 8 are to be elected by the members of the bank and 4 are to be appointed by the Board.

INTEREST RATES AND DIVIDENDS

The interest rate charged by the district banks to members ranges from 3 to 4 percent, depending upon the location of the bank and the nature of the advance. Interest rates on advances made to nonmember institutions, secured by mortgages insured under title II of the National Housing Act, are one-half of 1 percent higher than the rates on corresponding advances made to member institutions.

As of June 30, 1935, with the exception of the Federal Home Loan Bank of Topeka, all of the Federal home loan banks were on a dividend-paying basis, such banks having paid dividends ranging from 1½ to 2 percent per annum. To the date of this report a total of $3,314,701.58 had been paid in dividends, of which $2,690,781.82 was paid to the Government and $623,919.76 was paid to member institutions as indicated on the attached statement marked "Schedule 9."

As of June 30, 1935, the total surplus of the 12 Federal home loan banks amounted to $2,354,317.79, $1,133,732.48 of which represented the legal reserve required under section 16 of the act. Total capital and surplus as of the same date aggregated $107,217,739.66.

ADMINISTRATIVE EXPENSES OF THE FEDERAL HOME LOAN BANK BOARD APPLICABLE TO OPERATIONS OF FEDERAL HOME LOAN BANK SYSTEM

The Federal Home Loan Bank Act originally made available $300,000 for administrative expenses of the Board during the fiscal year ending June 30, 1933. Of this amount, the sum of $250,000 was appropriated on July 22, 1932, all but $26,592.91 of which was disbursed, $19,387.87 of which amount were impounded. The Federal Home Loan Bank Act further provided that beginning July 1, 1933, the Board's administrative expenses should be obtained by assessments against the 12 Federal home loan banks. From this date, therefore, the Board has not operated under any Government appropriation but has been self-supporting.

Attention is also called to the fact that the duties of the Board and its staff are performed not only in connection with the Federal Home Loan Bank System, proper, but also the Home Owners' Loan Corporation, Federal Savings and Loan Insurance Corporation, and the Federal Savings and Loan System. In addition to assessing the Federal home loan banks, therefore, the Board assesses the other activities mentioned for a reasonable proportion of its expenses which corresponds to the services rendered such activities by those carried on the pay roll of the Board; and also charges member and applicant institutions for examining services performed. The following statement

reflects the receipts and disbursements of the Board for the 6 months ending June 30, 1935:

Balance as of Dec. 31, 1934	$14, 708. 35
Receipts:	
Assessments against Federal home loan banks	147, 589. 72
Transferred from—	
Savings and loan promotion, Federal Home Loan Bank Board	30, 000. 00
Federal Savings and Loan Insurance Corporation	75, 000. 00
Examining receipts	28, 515. 35
Assessments against Home Owners' Loan Corporation	60, 950. 15
Refunds	602. 81
	342, 658. 03
Total cash and receipts	357, 366. 38
Disbursements:	
Salaries	276, 364. 45
Travel	27, 835. 49
Printing and binding	9, 215. 06
Telephone and telegraph	7, 657. 25
Publications and sundries	3, 307. 60
Furniture and fixtures	12, 562. 96
Rent	645. 50
Total disbursements	337, 588. 31
Balance as of June 30, 1935	19, 778. 07

There are attached hereto and made a part of this report the following additional exhibits and schedules:

Exhibit A: Combined statement of condition as at June 30, 1935.

Exhibit A–1: Analysis of investments as at June 30, 1935.

Exhibit B: Statement of profit and loss for the period January 1, 1935, through June 30, 1935.

Exhibit C: Analysis of surplus and reserves as at June 30, 1935.

Exhibit D: Statement showing Federal home loan bank districts and States allocated thereto.

Schedule 1: Statement showing Government funds appropriated for subscription to stock of the regional home loan banks, the amounts allocated to each bank, and amounts still available for subscription as at June 30, 1935.

Schedule 2: Statement showing by districts the number of institutions approved by the Board for membership in the system, number of shares and amounts subscribed as of June 30, 1935.

Schedule 3: Statement showing loan activities of the Federal Home Loan Bank System from its inception through June 30, 1935.

Schedule 4: Statement showing by districts and States, the number and amount of loans authorized, advances, repayments, and balance outstanding as of June 30, 1935.

Schedule 5: Statement showing by districts and States number of members, number and amount of shares subscribed by members, and balance of loans outstanding as of June 30, 1935.

Schedule 6: Summary statement as reported by regional banks as of June 30, 1935.

Schedule 7: Appendix showing amendments to law, Seventy-fourth Congress.

Schedule 8: Statement reflecting interest rates charged by the 12 Federal home loan banks as of June 30, 1935.

Schedule 9: Statement of dividends paid by the 12 Federal home loan banks as of June 30, 1935.

EXHIBIT A

Statement of condition as at June 30, 1935

ASSETS

	Combined	Boston	New York	Pittsburgh	Winston-Salem	Cincinnati	Indianapolis
Cash:							
On hand	$107,417.42	$500.00		$1,000.00	$10.00	$510.00	
On deposit with U. S. Treasurer	16,235,988.21	1,064,301.64	$604,098.81	220,269.96	1,272,971.47	968,228.97	$3,147,250.80
On deposit with commercial banks	2,112,532.93	577,529.81	183,000.05	82,546.05	18,006.63	636,234.61	358,871.71
On deposit with U. S. Treasurer special account	1,487,466.71		55,000.00	76,141.38		975,102.49	30,511.23
Total cash	19,943,405.27	1,642,331.45	842,098.86	379,957.39	1,290,988.10	2,580,076.07	3,536,633.74
Loans outstanding:							
Members	79,228,322.97	2,275,230.86	14,059,169.43	10,163,204.84	6,080,260.40	15,373,686.20	4,095,285.50
Other	4,191.21						
Total loans outstanding	79,232,514.18	2,275,230.86	14,059,169.43	10,163,204.84	6,080,260.40	15,373,686.20	4,095,285.50
Accrued interest receivable:							
Members	306,696.01	9,341.56	66,260.00	45,445.30	32,681.28	56,994.40	758.08
Securities	129,067.26	38,050.07	1,048.41	1,213.33	3,809.12	17,072.91	6,417.41
Other	1,779.76					61.64	1,691.25
Total accrued interest	437,543.03	47,391.63	67,308.41	46,658.63	36,490.40	74,128.95	8,866.74
Investments: U. S. Government	11,859,289.98	3,600,000.00	159,606.25	137,900.00	345,400.96	1,505,897.38	621,028.96
Furniture and fixtures (net)	5,418.91		820.42	666.99		1.00	977.79
Deferred charges:							
Prepaid assessment, Federal Home Loan Bank Board	5,620.83				1,852.50	508.33	
Prepaid bond premiums	9,440.85	724.78	1,057.61	1,096.70	682.50		647.44
Other	461.56		215.06		66.50	130.00	
Total deferred charges	15,523.24	724.78	1,272.67	1,096.70	2,601.50	638.33	647.44
Other assets:							
Accounts receivable	5,785.39				682.55	566.55	126.00
Other	1,131.01				250.00		
Total other assets	6,916.40				932.55	566.55	126.00
Total assets	111,500,611.01	7,565,678.72	15,130,276.04	10,729,484.55	7,756,673.91	19,534,994.48	8,263,566.17

Statement of condition as at June 30, 1935—Continued

LIABILITIES AND CAPITAL

	Combined	Boston	New York	Pittsburgh	Winston-Salem	Cincinnati	Indianapolis
Liabilities:							
Deposits:							
Members, regular	$2,123,199.06	$452,000.00					$33,053.01
Members, special	1,487,466.71		$55,000.00	$76,141.38		$975,102.49	30,511.23
Other (members' loan prepayments)	120,688.88			120,688.88			
Accrued interest, members' deposits	4,180.06	1,195.23					
Accounts payable	1,272.44						647.44
Dividends payable:							
U. S. Government	431,673.48	25,000.00		85,000.00		126,706.94	44,630.75
Members	114,390.72	9,396.74		16,373.91		48,926.55	14,377.03
Total liabilities	4,282,871.35	487,591.97	55,000.00	298,204.17		1,150,735.98	123,219.46
Capital:							
Capital stock:							
Fully paid—issued and outstanding:							
Members	22,320,600.00	1,990,900.00	3,199,600.00	1,640,700.00	$1,881,600.00	4,740,600.00	1,961,100.00
U. S. Government	81,645,700.00	5,000,000.00	11,500,000.00	8,500,000.00	5,700,000.00	12,775,700.00	6,000,000.00
Total	103,966,300.00	6,990,900.00	14,699,600.00	10,140,700.00	7,581,600.00	17,516,300.00	7,961,100.00
Subscriptions to capital stock:							
Members and applicants	1,647,800.00	38,400.00	238,300.00	156,900.00	55,500.00	600,500.00	93,600.00
Less balance due	750,678.13	25,350.00	109,325.13	84,150.00	21,750.00	200,193.00	61,175.00
Total	897,121.87	13,050.00	128,974.87	72,750.00	33,750.00	400,307.00	32,425.00
U. S. Government	43,095,300.00	7,467,500.00	7,463,200.00	2,646,300.00	3,508,200.00		577,400.00
Less balance due	43,095,300.00	7,467,500.00	7,463,200.00	2,646,300.00	3,508,200.00		577,400.00
Surplus:							
Reserves:							
As required under section 16 of act	1,133,732.48	54,846.37	148,496.32	121,492.45	75,181.27	236,755.27	92,322.43
Surplus, unallocated	1,220,585.31	19,290.38	98,204.85	96,337.93	66,142.64	230,896.23	54,499.28
Total surplus	2,354,317.79	74,136.75	246,701.17	217,830.38	141,323.91	467,651.50	146,821.71
Total capital	107,217,739.66	7,078,086.75	15,075,276.04	10,431,280.38	7,756,673.91	18,384,258.50	8,140,346.71
Total liabilities and capital	111,500,611.01	7,565,678.72	15,130,276.04	10,729,484.55	7,756,673.91	19,534,994.48	8,263,566.17

ASSETS

	Chicago	Des Moines	Little Rock	Topeka	Portland	Los Angeles
Cash:						
On hand	$104,812.42	$25.00	$25.00	$25.00		$510.00
On deposit with U. S. Treasurer	1,022,627.21	1,435,612.93	2,098,722.79	1,983,328.32	$1,422,746.35	995,828.96
On deposit with commercial banks	50,712.20	36,565.22		9,972.75	122,509.11	36,584.79
On deposit with U. S. Treasurer special account				32,581.35	280,130.26	38,000.00
Total cash	1,178,151.83	1,472,203.15	2,098,747.79	2,025,907.42	1,825,385.72	1,070,923.75
Loans outstanding:						
Members	12,324,760.32	3,519,830.24	3,305,630.65	2,838,711.12	2,207,408.00	2,985,145.41
Other						4,191.21
Total loans outstanding	12,324,760.32	3,519,830.24	3,205,630.65	2,838,711.12	2,207,408.00	2,989,336.62
Accrued interest receivable:						
Members	34,764.93	19,283.69	13,903.91	9,232.47	9,086.15	8,944.24
Securities	692.06	10,724.30	26,693.99	11,708.33	3,634.86	8,002.47
Other						26.87
Total accrued interest	35,456.99	30,007.99	40,597.90	20,940.80	12,721.01	16,973.58
Investments: U. S. Government	121,742.43	968,542.12	2,377,000.00	1,053,046.88	212,075.00	757,050.00
Furniture and fixtures (net)	940.45	527.51	1.00	887.59	1.00	595.16
Deferred charges:						
Prepaid assessment, Federal Home Loan Bank Board	2,922.50	337.50				
Prepaid bond premiums	1,709.17	616.50	836.60	590.65	836.45	642.45
Other						50.00
Total deferred charges	4,631.67	954.00	836.60	590.65	836.45	692.45
Other assets:						
Accounts receivable	104.65		2.00	125.00		4,178.64
Other	881.01					
Total other assets	985.66		2.00	125.00		4,178.64
Total assets	13,666,669.35	5,992,065.01	7,822,815.94	5,940,209.46	4,258,427.18	4,839,750.20

Statement of condition as at June 30, 1935—Continued

LIABILITIES AND CAPITAL

	Chicago	Des Moines	Little Rock	Topeka	Portland	Los Angeles
Liabilities:						
Deposits:						
Members, regular	$1,115,554.50	$350,934.67	$171,656.88			
Members, special				$32,581.35	$280,130.26	$38,000.00
Other (members' loan prepayments)						
Accrued interest, members' deposits	1,622.36	1,362.47				
Accounts payable	375.00					250.00
Dividends payable:						
U. S. Government			60,498.63		89,837.16	
Members			12,682.79		12,633.70	
Total liabilities	1,117,551.86	352,297.14	244,838.30	32,581.35	382,601.12	38,250.00
Capital:						
Capital stock:						
Fully paid—issued and outstanding:						
Members	2,103,800.00	972,100.00	1,287,600.00	971,200.00	510,100.00	1,061,300.00
U. S. Government	10,000.000.00	4,500,000.00	6,100,000.00	4,700,000.00	3,310,000.00	3,560,000.00
Total	12,103,800.00	5,472,100.00	7,387,600.00	5,671,200.00	3,820,100.00	4,621,300.00
Subscriptions to capital stock:						
Members and applicants	133,700.00	73,800.00	147,300.00	48,200.00	22,400.00	39,200.00
Less balance due	84,065.00	28,825.00	94,370.00	15,950.00	13,875.00	11,650.00
Total	49,635.00	44,975.00	52,930.00	32,250.00	8,525.00	27,550.00
U. S. Government	4,173,900.00	2,894,900.00	2,672,400.00	2,633,600.00	2,650,000.00	6,407,900.00
Less balance due	4,173,900.00	2,894,900.00	2,672,400.00	2,633,600.00	2,650,000.00	6,407,900.00
Surplus:						
Reserves:						
As required under section 16 of act	153,200.43	55,865.92	88,520.05	40,835.62	29,934.38	36,281.97
Surplus, unallocated	242,482.06	66,826.95	48,927.59	163,342.49	17,266.68	116,368.23
Total surplus	395,682.49	122,692.87	137,447.64	204,178.11	47,201.06	152,650.20
Total capital	12,549,117.49	5,639,767.87	7,577,977.64	5,907,628.11	3,875,826.06	4,801,500.20
Total liabilities and capital	13,666,669.35	5,992,065.01	7,822,815.94	5,940,209.46	4,258,427.18	4,839,750.20

EXHIBIT A-1

Analysis of investments as at June 30, 1935

Regional bank	Description and location of security	Date due	Date purchased	Rate of interest	Par value	Premium	Discount	Cost	Amortized premium	Investment balance	Market: Price as quoted June 29, 1935	Market: Value	Appreciation	Depreciation	Unit cost price: Lowest	Unit cost price: Highest	Unit cost price: Average
Boston	Home Owners' Loan Corporation, Federal Reserve Bank of New York	Aug. 1, 1949	Various	2¾	$3,200,000	$8,968.76		$3,208,968.76	$8,968.76	$3,200,000.00	100 18/32	$3,218,000.00	$18,000.00		99 9/32	100 14/32	100 6/32+
	U. S. Treasury, Federal Reserve Bank of New York	Mar. 15, 1940	do	1⅝	400,000	2,875.00		402,875.00	2,875.00	400,000.00	101 15/32	405,875.00	5,875.00		100 23/32	100 23/32	100 23/32
Total					3,600,000	11,843.76		3,611,843.76	11,843.76	3,600,000.00		3,623,875.00	23,875.00				
New York	Home Owners' Loan Corporation, Federal Reserve Bank of New York	May 1, 1952	Various	3	90,000		$706.25	89,293.75		89,293.75	102 1/32	91,828.13	2,534.38		99 3/32	99 10/32	99 6/32+
	Do	Aug. 1, 1949	June 28, 1935	2¾	50,000	312.50		50,312.50		50,312.50	100 18/32	50,281.25		$31.25	100 29/32	100 29/32	100 29/32
	U. S. Treasury, Federal Reserve Bank of New York	June 15, 1948	June 13, 1934	3	10,000			10,000.00		10,000.00	103 24/32	10,375.00	375.00		100	100	100
	Do	Dec. 15, 1952	Dec. 13, 1934	3⅛	10,000			10,000.00		10,000.00	104 25/32	10,487.50	487.50		100	100	100
Total					160,000	312.50	706.25	159,606.25		159,606.25		162,971.88	3,365.63				
Pittsburgh	U. S. Treasury, Federal Reserve Bank of New York	Sept. 15, 1955	Oct. 26, 1933	3	140,000		2,100.00	137,900.00		137,900.00	103 27/32	145,381.25	7,481.25		98 15/32	98 15/32	98 15/32
Winston-Salem	Home Owners' Loan Corporation, Banks' possession	May 1, 1952	May 22, 1935	3	15,000	285.94		15,285.94		15,285.94	102 1/32	15,304.69	18.75		101 29/32	101 29/32	101 29/32
	Do	Aug. 1, 1949	Various	2¾	28,075	165.02		28,240.02		28,240.02	100 18/32	28,232.92		7.10	100 14/32	100 29/32	100 18/32+
	Home Owners' Loan Corporation, Federal Reserve Bank of New York	do	June 26, 1935	2¾	300,000	1,875.00		301,875.00		301,875.00	100 15/32	301,687.50		187.50	100 29/32	100 29/32	100 29/32
Total					343,075	2,325.96		345,400.96		345,400.96		345,225.11		175.85			
Cincinnati	Home Owners' Loan Corporation, Federal Reserve Bank of New York	Aug. 1, 1949	Various	2¾	1,500,000	9,218.75		1,509,218.75	3,321.37	1,505,897.38	100 15/32	1,508,437.50	2,540.12		100 19/32	100 21/32	100 19/32+
Indianapolis	U. S. Treasury, Federal Reserve Bank of New York	June 15, 1939	June 14, 1934	2⅛	18,000			18,000.00		18,000.00	103 19/32	18,646.88	646.88		100	100	100
	Home Owners' Loan Corporation, Federal Reserve Bank of New York	Feb. 15, 1938	Aug. 14, 1934	2	100,000			100,000.00		100,000.00	102 27/32	102,843.75	2,843.75		100	100	100
	Do	Aug. 1, 1949	June 24, 1935	2¾	500,000	3,046.88		503,046.88	17.92	503,028.96	100 15/32	502,812.50		216.46	100 19/32	100 29/32	100 19/32+
Total					618,000	3,046.88		621,046.88	17.92	621,028.96		624,303.13	3,274.17				
Chicago	Home Owners' Loan Corporation, Banks' possession	May 1, 1952	Various	3	107,625		924.76	106,700.24		106,700.24	102 1/32	109,811.13	3,110.89		95 1/32	100	99 4/32+
	Do	Aug. 1, 1949	May 31, 1935	2¾	15,000	42.19		15,042.19		15,042.19	100 18/32	15,084.38	42.19		100 9/32	100 9/32	100 9/32
Total					122,625	42.19	924.76	121,742.43		121,742.43		124,895.51	3,153.08				
Des Moines	U. S. Treasury, Federal Reserve Bank of New York	Oct. 15, 1952	Various	4¼	17,100	1,590.75		18,690.75	152.72	18,538.03	116 30/32	19,996.31	1,458.28		108 15/32	109 31/32	109 9/32+
	Do	June 15, 1948	June 15, 1934	3	25,000			25,000.00		25,000.00	103 24/32	25,937.50	937.50		100	100	100
	Home Owners' Loan Corporation, Federal Reserve Bank of New York	Aug. 1, 1949	Various	2¾	920,000	5,062.50		925,062.50	58.41	925,004.09	100 18/32	925,175.00	170.91		100	100 18/32	100 17/32+
Total					962,100	6,653.25		968,753.25	211.13	968,542.12		971,108.81	2,566.69				
Little Rock	U. S. Treasury, Federal Reserve Bank of New York	Oct. 15, 1945	Apr. 25, 1934	3¼	25,000	531.25		25,531.25	531.25	25,000.00	106 23/32	26,679.67	1,679.67		102 4/32	102 4/32	102 4/32
	Do	June 15, 1948	Sept. 4, 1934	3	25,000	31.25		25,031.25	31.25	25,000.00	103 24/32	25,937.50	937.50		100 4/32	100 4/32	100 4/32
	Home Owners' Loan Corporation, Federal Reserve Bank of New York	May 1, 1952	Oct. 27, 1934	3	27,000	138.10		27,138.10	138.10	27,000.00	102 1/32	27,548.44	548.44		100 16/32+	100 16/32+	100 16/32+
	Do	Aug. 1, 1949	Various	2¾	2,300,000	7,312.50		2,307,312.50	7,312.50	2,300,000.00	100 18/32	2,312,937.50	12,937.50		100	100 18/32	100 19/32+
Total					2,377,000	8,013.10		2,385,013.10	8,013.10	2,377,000.00		2,393,103.11	16,103.11				
Topeka	Home Owners' Loan Corporation, Federal Reserve Bank of New York	May 1, 1952	Various	3	50,000			50,000.00		50,000.00	102 1/32	51,015.63	1,015.63		100	100	100
	Do	Aug. 1, 1949	June 3, 1935	2¾	1,000,000	3,046.88		1,003,046.88		1,003,046.88	100 15/32	1,005,625.00	2,578.12		100 19/64	100 19/32	100 9/32+
Total					1,050,000	3,046.88		1,053,046.88		1,053,046.88		1,056,640.63	3,593.75				
Portland	Home Owners' Loan Corporation, Federal Reserve Bank of New York	May 1, 1952	Various	3	12,075		203.26	11,871.74	[1] 203.26	12,075.00	102 1/32	12,320.27	245.27		98 5/32	99 3/32	98 19/32+
	Do	June 1, 1939	do	1½	200,000			200,000.00		200,000.00	100 24/32	201,500.00	1,500.00		100	100	100
Total					212,075		203.26	211,871.74	[1] 203.26	212,075.00		213,820.27	1,745.27				
Los Angeles	U. S. Treasury, Federal Reserve Bank of New York	June 15, 1948	June 11, 1934	3	50,000			50,000.00		50,000.00	103 24/32	51,875.00	1,875.00		100	100	100
	Home Owners' Loan Corporation, Federal Reserve Bank of New York	Aug. 1, 1949	June 27, 1935	2¾	700,000	4,375.00		704,375.00		704,375.00	100 18/32	703,937.50		437.50	100 29/32	100 29/32	100 29/32
	Home Owners' Loan Corporation, Federal Reserve Bank of Los Angeles [2]	do	Jan. 28, 1935	2¾	2,675			2,675.00		2,675.00	100 18/32	2,690.05	15.05		100	100	100
Total					752,675	4,375.00		757,050.00		757,050.00		758,502.55	1,452.55				
Grand total					11,837,550	48,878.27	3,934.27	11,882,494.00	23,204.02	11,859,289.98		11,928,264.75	68,974.77				

[1] Denotes red figures.
[2] These bonds are being transferred to Federal Reserve Bank of New York for safekeeping.

EXHIBIT B.

Statement of profit and loss for the period Jan. 1 through June 30, 1935

	Combined	Boston	New York	Pittsburgh	Winston-Salem	Cincinnati	Indianapolis
Gross income	$1,815,465.96	$102,750.97	$274,411.51	$214,498.00	$112,740.66	$320,096.44	$115,369.20
Less total deductions from income	410,217.41	32,241.32	40,744.50	54,256.21	34,221.49	58,889.14	20,849.11
Net income before Federal Home Loan Bank Board assessment	1,405,248.55	70,509.65	233,667.01	160,241.79	78,519.17	261,207.30	94,520.09
Deduct Federal Home Loan Bank Board assessment	150,000.00	10,005.00	20,700.00	14,775.00	11,115.00	25,425.00	11,625.00
Net profit or loss to surplus	1,255,248.55	60,504.65	212,967.01	145,466.79	67,404.17	235,782.30	82,895.09
INCOME							
Income from operations: Interest earned on advances	1,521,320.23	41,986.95	272,743.83	212,341.34	106,279.39	291,120.04	90,246.84
Other income: Interest earned on:							
Loans to other Federal home loan banks	2,531.51	2,531.51	0	0	0	0	0
Deposits—other Federal home loan banks	3,126.03	761.64	0	0	646.58	0	1,293.16
Deposits—other banks	2,308.36	0	0	0	0	397.25	1,911.11
Loans direct to home owners	139.63	0	0	0	0	0	0
Securities: U. S. Government	111,452.14	23,231.31	1,667.68	2,076.66	2,300.44	9,109.34	8,373.38
Profit on sale of securities: U. S. Government	168,528.80	33,520.81	0	0	937.50	19,469.81	12,911.91
Miscellaneous	6,059.26	718.75	0	80.00	2,576.75	0	632.80
Total other income	294,145.73	60,764.02	1,667.68	2,156.66	6,461.27	28,976.40	25,122.36
Gross income	1,815,465.96	102,750.97	274,411.51	214,498.00	112,740.66	320,096.44	115,369.20
DEDUCTIONS FROM INCOME							
Compensation:							
Directors' fees	15,602.00	980.00	1,960.00	1,237.00	710.00	3,695.00	660.00
Officers' salaries	95,833.18	7,750.00	9,300.00	8,000.00	7,300.00	11,637.50	6,450.00
General counsel, salary	20,672.46	600.00	3,000.00	2,500.00	2,000.00	2,499.96	797.50
Other salaries	99,666.72	2,975.00	10,971.02	22,330.82	12,361.01	15,880.25	5,138.05
Total compensation	231,774.36	12,305.00	25,231.02	34,067.82	22,371.01	33,712.71	13,045.55
Travel expenses:							
Directors	15,860.81	753.57	1,218.76	1,490.99	1,272.55	2,639.50	1,309.11
Officers	12,874.74	642.25	1,913.58	1,475.82	1,152.70	2,415.08	577.91
Other	9,128.69	0	441.41	1,389.01	1,668.17	3,750.08	0
Total travel	37,864.24	1,395.82	3,573.75	4,355.82	4,093.42	8,804.66	1,887.02

Statement of profit and loss for the period Jan. 1 through June 30, 1935—Continued

	Combined	Boston	New York	Pittsburgh	Winston Salem	Cincinnati	Indianapolis
Other administrative:							
Telephone and telegraph	$9,571.01	$334.97	$1,057.89	$1,100.83	$701.60	$1,432.44	$528.30
Postage and express	8,135.06	191.67	962.74	816.08	990.12	1,222.31	320.03
Heat, light, power, ice, etc	1,998.39	124.39	52.00	82.56	140.59	377.47	80.11
Stationery, printing, and supplies	12,476.38	526.01	1,643.13	1,207.27	1,425.68	2,102.63	242.47
Insurance	782.26	7.11	49.10	58.45	74.44	299.57	7.96
Bond premiums	12,315.50	1,003.80	1,333.92	1,410.12	974.36	0	1,003.75
Premiums on securities	28,959.10	12,562.51	0	0	0	6,828.09	89.54
Depreciation F. & F	5,446.04	0	820.56	666.99	0	0	1,005.76
Rent	27,052.96	1,860.00	3,499.98	3,266.98	1,762.50	4,250.00	1,350.00
Interest on loans	2,531.51	0	0	2,531.51	0	0	0
Interest on deposits—other Federal home loan banks	3,126.03	0	978.08	2,147.95	0	0	0
Interest on deposits—members	12,937.54	1,230.71	0	0	0	0	0
Other deductions	15,247.03	699.33	1,542.33	2,543.83	1,687.77	[1] 140.74	1,288.62
Total other administrative	140,578.81	18,540.50	11,939.73	15,832.57	7,757.06	16,371.77	5,916.54
Total deductions from income	410,217.41	32,241.32	40,744.50	54,256.21	34,221.49	58,889.14	20,849.11

	Chicago	Des Moines	Little Rock	Topeka	Portland	Los Angeles
Gross income	$226,543.08	$93,724.63	$148,635.49	$81,658.38	$47,603.88	$77,433.72
Less total deductions from income	47,592.91	25,443.24	31,676.21	24,031.32	17,131.38	23,140.58
Net income before Federal Home Loan Bank Board assessment	178,950.17	68,281.39	116,959.28	57,627.06	30,472.50	54,293.14
Deduct Federal Home Loan Bank Board assessment	17,535.00	7,860.00	10,575.00	8,205.00	5,565.00	6,615.00
Net profit or loss to surplus	161,415.17	60,421.39	106,384.28	49,422.06	24,907.50	47,678.14
INCOME						
Income from operations: Interest earned on advances	206,141.42	73,247.71	66,884.68	64,134.28	39,109.28	57,034.47
Other income: Interest earned on:						
Loans to other Federal home-loan banks	0	0	0	0	0	0
Deposits—other Federal home-loan banks	0	284.93	0	0	0	139.72
Deposits—other banks	0	0	0	0	0	0
Loans direct to home owners	0	0	0	0	0	139.63
Securities: U. S. Government	6,431.54	9,968.80	28,313.31	9,543.91	6,178.37	4,257.40

Profit on sale of securities: U. S. Government	13,540.12	9,545.49	52,937.50	7,980.19	1,872.97	15,812.50
Miscellaneous	430.00	677.70	500.00	0	443.26	0
Total other income	20,401.66	20,476.92	81,750.81	17,524.10	8,494.60	20,349.25
Gross income	226,543.08	93,724.63	148,635.49	81,658.38	47,603.88	77,433.72
DEDUCTIONS FROM INCOME						
Compensation:						
Directors' fees	2,040.00	595.00	615.00	1,360.00	890.00	860.00
Officers' salaries	10,362.50	8,250.00	7,500.00	8,274.00	5,954.18	5,055.00
General counsel, salary	1,800.00	2,000.00	1,200.00	1,500.00	1,200.00	1,575.00
Other salaries	8,955.68	4,291.70	6,255.75	4,295.08	700.00	5,512.36
Total compensation	23,158.18	15,136.70	15,570.75	15,429.08	8,744.18	13,002.36
Travel expenses:						
Directors	865.41	1,054.95	1,228.80	1,302.32	1,615.52	1,109.33
Officers	799.61	601.65	882.17	780.30	139.70	1,493.97
Other	1,221.84	143.60	62.40	292.07	0	160.11
Total travel	2,886.86	1,800.20	2,173.37	2,374.69	1,755.22	2,763.41
Other administrative:						
Telephone and telegraph	743.51	518.28	1,251.86	567.10	494.67	839.56
Postage and express	1,157.52	340.64	567.30	460.34	313.02	793.29
Heat, light, power, ice, etc	476.44	255.75	276.40	0	0	132.68
Stationery, printing, and supplies	1,795.16	1,087.92	418.55	520.58	352.13	1,154.85
Insurance	166.82	0	0	64.57	0	54.24
Bond premiums	1,188.30	978.54	1,434.84	978.63	1,003.74	1,005.50
Premiums on securities	0	166.46	7,312.50	0	2,000.00	0
Depreciation F. & F	940.44	527.52	0	887.59	0	597.18
Rent	3,000.00	1,462.50	1,500.00	2,100.00	1,551.00	1,450.00
Interest on loans	0	0	0	0	0	0
Interest on deposits—other Federal home-loan banks	0	0	0	0	0	0
Interest on deposits—members	10,321.74	1,385.09	0	0	0	0
Other deductions	1,757.94	1,783.64	1,170.64	648.74	917.42	1,347.51
Total other administrative	21,547.87	8,506.34	13,932.09	6,227.55	6,631.98	7,374.81
Total deductions from income	47,592.91	25,443.24	31,676.21	24,031.32	17,131.38	23,140.58

[1] Denotes red figures.

EXHIBIT C

Analysis of surplus and reserves as at June 30, 1935

	Combined	Boston	New York	Pittsburgh	Winston-Salem	Cincinnati	Indianapolis
ANALYSIS OF SURPLUS							
Balance at credit, May 31, 1935	$1,992,995.32	$68,541.55	$251,677.89	$204,936.23	$68,170.46	$411,780.84	$110,248.09
Add profit for current month of June 1935	170,786.79	[1] 2,753.50	35,203.25	21,868.97	11,453.01	41,905.34	19,837.99
Total	2,163,782.11	65,788.05	286,881.14	226,805.20	79,623.47	453,686.18	130,086.08
Deduct:							
Dividends declared or paid to members	145,473.61	9,396.74	31,082.89	16,373.91	----------	48,926.55	14,377.03
Dividends declared or paid to U. S. Government	546,673.48	25,000.00	115,000.00	85,000.00	----------	126,706.94	44,630.75
Surplus allocations to reserves: Reserve required by sec. 16 of act	251,049.71	12,100.93	42,593.40	29,093.36	13,480.83	47,156.46	16,579.02
Total deductions	943,196.80	46,497.67	188,676.29	130,467.27	13,480.83	222,789.95	75,586.80
Balance at credit, June 30, 1935	1,220,585.31	19,290.38	98,204.85	96,337.93	66,142.64	230,896.23	54,499.28
ANALYSIS OF RESERVE REQUIRED BY SEC. 16 OF ACT							
Balance at credit, May 31, 1935	882,682.77	42,745.44	105,902.92	92,399.09	61,700.44	189,598.81	75,743.41
Add surplus allocation, current month of June 1935	251,049.71	12,100.93	42,593.40	29,093.36	13,480.83	47,156.46	16,579.02
Total	1,133,732.48	54,846.37	148,496.32	121,492.45	75,181.27	236,755.27	92,322.43
Balance at credit, June 30, 1935	1,133,732.48	54,846.37	148,496.32	121,492.45	75,181.27	236,755.27	92,322.43
Total surplus and reserves	2,354,317.79	74,136.75	246,701.17	217,830.38	141,323.91	467,651.50	146,821.71

	Chicago	Des Moines	Little Rock	Topeka	Portland	Los Angeles
ANALYSIS OF SURPLUS						
Balance at credit, May 31, 1935	$250,706.48	$70,792.95	$141,018.28	$167,515.50	$124,267.17	$123,339.88
Add profit for current month of June 1935	24,058.61	8,118.28	2,367.59	5,711.40	451.87	2,563.98
Total	274,765.09	78,911.23	143,385.87	173,226.90	124,719.04	125,903.86
Deduct:						
Dividends declared or paid to members	----------	----------	12,682.79	----------	12,633.70	----------
Dividends declared or paid to U. S. Government	----------	----------	60,498.63	----------	89,837.16	----------
Surplus allocations to reserves: Reserve required by sec. 16 of act	32,283.03	12,084.28	21,276.86	9,884.41	4,981.50	9,535.63
Total deductions	32,283.03	12,084.28	94,458.28	9,884.41	107,452.36	9,535.63
Balance at credit, June 30, 1935	242,482.06	66,826.95	48,927.59	163,342.49	17,266.68	116,368.23
ANALYSIS OF RESERVE REQUIRED BY SEC. 16 OF ACT						
Balance at credit, May 31, 1935	120,917.40	43,781.64	67,243.19	30,951.21	24,952.88	26,746.34
Add surplus allocation, current month of June 1935	32,283.03	12,084.28	21,276.86	9,884.41	4,981.50	9,535.63
Total	153,200.43	55,865.92	88,520.05	40,835.62	29,934.38	36,281.97
Balance at credit, June 30, 1935	153,200.43	55,865.92	88,520.05	40,835.62	29,934.38	36,281.97
Total surplus and reserves	395,682.49	122,692.87	137,447.64	204,178.11	47,201.06	152,650.20

[1] Red figures

EXHIBIT D

Statement Showing Federal Home Loan Bank Districts and States Allocated Thereto

District No. 1—Boston, Mass.

Maine	Vermont	Massachusetts
New Hampshire	Rhode Island	Connecticut

District No. 2—New York, N. Y.

New York	Puerto Rico	Virgin Islands
New Jersey		

District No. 3—Pittsburgh, Pa.

Delaware	Pennsylvania	West Virginia

District No. 4—Winston-Salem, N. C.

Maryland	North Carolina	Florida
Virginia	South Carolina	Georgia
District of Columbia	Alabama	

District No. 5—Cincinnati, Ohio

Ohio	Kentucky	Tennessee

District No. 6—Indianapolis, Ind.

Michigan	Indiana

District No. 7—Chicago, Ill.

Illinois	Wisconsin

District No. 8—Des Moines, Iowa

North Dakota	Minnesota	Missouri
South Dakota	Iowa	

District No. 9—Little Rock, Ark.

Arkansas	Louisiana	New Mexico
Mississippi	Texas	

District No. 10—Topeka, Kans.

Kansas	Oklahoma	Colorado
Nebraska		

District No. 11—Portland, Oreg.

Montana	Oregon	Utah
Washington	Idaho	

District No. 12—Los Angeles, Calif.

Arizona	California	Nevada

SCHEDULE 1.—*Statement showing Government funds appropriated for subscription to stock of the Regional Home Loan banks, the amounts allocated to each bank, and amounts still available for subscription as at June 30, 1935*

	Total Government funds available for subscription to stock	Total subscribed June 30, 1935 [1]	Subscription balance available
No. 1. Boston	$12,467,500	$5,000,000	$7,467,500
No. 2. New York	18,963,200	11,500,000	7,463,200
No. 3. Pittsburgh	11,146,300	8,500,000	2,646,300
No. 4. Winston-Salem	9,208,200	5,700,000	3,508,200
No. 5. Cincinnati	12,775,700	12,775,700	
No. 6. Indianapolis	6,577,400	6,000,000	577,400
No. 7. Chicago	14,173,900	10,000,000	4,173,900
No. 8. Des Moines	7,394,900	4,500,000	2,894,900
No. 9. Little Rock	8,772,400	6,100,000	2,672,400
No. 10. Topeka	7,333,600	4,700,000	2,633,600
No. 11. Portland	5,960,000	3,310,000	2,650,000
No. 12. Los Angeles	9,967,900	3,560,000	6,407,900
Total	124,741,000	81,645,700	43,095,300

[1] No change since Dec. 31, 1934.

SCHEDULE 2.—*Statement showing by districts the number of institutions approved by the Board for membership in the system, number of shares and amounts subscribed and the lines of credit as of June 30, 1935*

District	Number of member institutions	Number of shares subscribed	Total amount subscribed	Line of credit 12× stock payments
No. 1. Boston	135	20,288	$2,028,800	$24,045,900
No. 2. New York	385	33,229	3,322,900	39,424,200
No. 3. Pittsburgh	469	17,185	1,718,500	20,135,100
No. 4. Winston-Salem	385	19,251	1,925,100	22,933,200
No. 5. Cincinnati	477	52,819	5,281,900	61,453,500
No. 6. Indianapolis	147	19,835	1,983,500	23,681,400
No. 7. Chicago	401	21,909	2,190,900	25,607,400
No. 8. Des Moines	211	10,258	1,025,800	12,098,100
No. 9. Little Rock	242	13,252	1,325,200	15,706,200
No. 10. Topeka	207	10,189	1,018,900	12,039,900
No. 11. Portland	120	5,221	522,100	6,192,300
No. 12. Los Angeles	145	10,992	1,099,200	13,054,500
Total	3,324	234,428	23,442,800	276,371,700

SCHEDULE 3.—*Statement showing loan activities of the Federal home loan bank system from its inception through June 30, 1935*

	Loans advanced	Amount repaid	Balance loans outstanding
1932			
December	$837,500.00		$837,500.00
1933			
January	3,896,800.00	$540.00	3,896,260.00
February	9,234,086.00	50,440.00	9,183,646.00
March	22,957,191.00	258,730.00	22,698,461.00
April	31,268,587.66	728,872.36	30,539,715.30
May	39,991,391.12	1,059,087.37	38,932,303.75
June	48,816,812.41	1,237,932.82	47,537,879.59
July	55,493,515.95	1,748,851.92	53,744,664.03
August	61,907,694.54	2,101,441.84	59,806,252.70
September	68,916,379.74	2,586,878.49	66,329,492.25
October	76,948,584.23	3,838,473.32	73,110,110.91
November	85,233,120.49	4,534,117.35	80,699,003.14
December	93,865,344.49	5,423,490.12	88,441,854.37

SCHEDULE 3.—*Statement showing loan activities of the Federal home loan bank system from its inception through June 30, 1935*—Continued

	Loans advanced	Amount repaid	Balance loans outstanding
1934			
January	$99, 601, 833. 90	$7, 104, 900. 42	$92, 496, 933. 48
February	102, 958, 427. 04	8, 918, 592. 32	94, 039, 834. 72
March	105, 957, 441. 60	12, 832, 635. 60	93, 124, 806. 00
April	108, 313, 841. 53	19, 391, 819. 12	88, 922, 022. 41
May	112, 816, 968. 63	25, 975, 167. 37	86, 841, 801. 26
June	116, 466, 572. 63	30, 218, 218. 54	86, 248, 354. 09
July	119, 587, 357. 29	33, 864, 475. 74	85, 722, 881. 55
August	122, 158, 821. 93	36, 640, 101. 14	85, 518, 720. 79
September	125, 355, 071. 93	38, 708, 137. 66	86, 646, 934. 27
October	128, 733, 125. 16	41, 286, 794. 30	87, 446, 330. 86
November	130, 841, 280. 16	43, 126, 877. 37	87, 714, 402. 79
December	133, 745, 230. 61	46, 486, 918. 08	87, 258, 312. 53
1935			
January	135, 977, 585. 61	53, 392, 108. 72	82, 585, 476. 89
February	137, 275, 441. 85	60, 133, 392. 45	77, 142, 049. 40
March	139, 398, 385. 00	66, 782, 718. 88	72, 615, 666. 12
April	143, 501, 914. 21	69, 491, 109. 15	74, 010, 805. 06
May	147, 296, 977. 71	71, 460, 800. 24	75, 836, 177. 47
June	152, 649, 831. 24	73, 417, 367. 06	79, 232, 514. 18

SCHEDULE 4.—*Statement showing by districts and States, the number and amount of loans authorized, advances, repayments, and balance outstanding as of June 30, 1935*

Regional home loan banks by districts and States	Authorized	Advanced	Repaid	Balance outstanding
District no. 1:				
Connecticut	$2, 423, 900. 00	$2, 378, 900. 00	$1, 119, 785. 14	$1, 259, 114. 86
Maine	1, 117, 300. 00	1, 109, 300. 00	519, 859. 00	589, 441. 00
Massachusetts	4, 573, 000. 00	3, 073, 000. 00	2, 753, 529. 00	319, 471. 00
New Hampshire	173, 000. 00	173, 000. 00	111, 674. 00	61, 326. 00
Rhode Island	30, 000. 00	30, 000. 00	0	30, 000. 00
Vermont	80, 000. 00	80, 000. 00	64, 122. 00	15, 878. 00
Total	8, 397, 200. 00	6, 844, 200. 00	4, 568, 969. 14	2, 275, 230. 86
District no. 2:				
New Jersey	16, 732, 275. 00	16, 229, 275. 00	4, 881, 849. 83	11, 347, 425. 17
New York	4, 734, 100. 00	4, 533, 100. 00	1, 821, 355. 74	2, 711, 744. 26
Puerto Rico	0	0	0	0
Virgin Islands	0	0	0	0
Total	21, 466, 375. 00	20, 762, 375. 00	6, 703, 205. 57	14, 059, 169. 43
District no. 3:				
Delaware	243, 600. 00	243, 600. 00	158, 880. 00	84, 720. 00
Pennsylvania	14, 208, 793. 78	13, 813, 218. 78	4, 676, 350. 24	9, 136, 868. 54
West Virginia	1, 410, 105. 00	1, 410, 105. 00	468, 488. 70	941, 616. 30
Total	15, 862, 498. 78	15, 466, 923. 78	5, 303, 718. 94	10, 163, 204. 84
District no. 4:				
Alabama	554, 200. 00	554, 200. 00	504, 225. 00	49, 975. 00
District of Columbia	2, 686, 800. 00	2, 686, 800. 00	2, 538, 550. 00	148, 250. 00
Florida	750, 705. 00	750, 705. 00	234, 657. 50	516, 047. 50
Georgia	795, 875. 00	795, 875. 00	233, 710. 00	562, 165. 00
Maryland	2, 471, 029. 50	2, 471, 029. 50	1, 275, 132. 34	1, 195, 897. 16
North Carolina	5, 186, 483. 81	5, 186, 483. 81	2, 728, 572. 12	2, 457, 911. 69
South Carolina	1, 132, 405. 00	1, 132, 405. 00	739, 322. 03	393, 082. 97
Virginia	1, 750, 825. 00	1, 750, 825. 00	993, 893. 92	756, 931. 08
Total	15, 328, 323. 31	15, 328, 323. 31	9, 248, 062. 91	6, 080, 260. 40
District no. 5:				
Kentucky	4, 769, 680. 07	4, 679, 680. 07	1, 468, 656. 79	3, 211, 023. 28
Ohio	24, 310, 004. 93	22, 729, 974. 93	11, 367, 415. 51	11, 362, 559. 42
Tennessee	913, 130. 00	903, 130. 00	103, 026. 50	800, 103. 50
Total	29, 992, 815. 00	28, 312, 785. 00	12, 939, 098. 80	15, 373, 686. 20

SCHEDULE 4.—*Statement showing by districts and States, the number and amount of loans authorized, advances, repayments, and balance outstanding as of June 30, 1935*—Continued

Regional home loan banks by districts and States	Authorized	Advanced	Repaid	Balance outstanding
District no. 6:				
Indiana	$6,589,825.00	$5,798,275.00	$3,027,399.00	$2,770,876.00
Michigan	4,005,500.00	3,562,825.00	2,238,415.50	1,324,409.50
Total	10,595,325.00	9,361,100.00	5,265,814.50	4,095,285.50
District no. 7:				
Illinois	13,867,578.50	13,437,200.47	4,411,212.95	9,025,987.52
Wisconsin	6,048,525.00	5,752,761.50	2,453,988.70	3,298,772.80
Total	19,916,103.50	19,189,961.97	6,865,201.65	12,324,760.32
District no. 8:				
Iowa	2,662,595.43	2,401,070.43	1,646,063.43	755,007.00
Minnesota	973,015.00	843,865.00	322,456.50	521,408.50
Missouri	3,747,323.00	3,301,800.00	1,288,877.81	2,012,922.19
North Dakota	289,000.00	206,000.00	145,796.00	60,204.00
South Dakota	260,000.00	244,500.00	74,211.45	170,288.55
Total	7,931,933.43	6,997,235.43	3,477,405.19	3,519,830.24
District no. 9:				
Arkansas	848,378.94	848,378.94	625,027.00	223,351.94
Louisiana	4,838,517.22	4,838,517.22	3,175,285.19	1,663,232.03
Mississippi	285,256.00	285,256.00	214,282.00	70,974.00
New Mexico	37,000.00	37,000.00	32,000.00	5,000.00
Texas	3,999,047.75	3,999,047.75	2,655,975.07	1,343,072.68
Total	10,008,199.91	10,008,199.91	6,702,569.26	3,305,630.65
District no. 10:				
Colorado	901,400.00	901,400.00	316,942.63	584,457.37
Kansas	4,209,963.00	4,052,713.00	2,564,448.00	1,488,265.00
Nebraska	516,650.00	509,350.00	204,111.25	305,238.75
Oklahoma	3,344,750.00	2,212,750.00	1,752,000.00	460,750.00
Total	8,972,763.00	7,676,213.00	4,837,501.88	2,838,711.12
District no. 11:				
Idaho	301,820.00	301,820.00	225,584.18	76,235.82
Montana	470,260.00	470,260.00	399,287.50	70,972.50
Oregon	2,509,310.00	2,509,310.00	1,861,926.58	647,383.42
Utah	805,257.50	805,257.50	565,459.16	239,798.34
Washington	2,417,794.00	2,417,794.00	1,393,476.08	1,024,317.92
Wyoming	166,400.00	166,400.00	17,700.00	148,700.00
Total	6,670,841.50	6,670,841.50	4,463,433.50	2,207,408.00
District no. 12:				
Arizona	65,500.00	65,500.00	51,191.88	14,308.12
California	5,771,722.34	5,771,722.34	2,829,606.34	2,942,116.00
Hawaii	110,000.00	110,000.00	85,000.00	25,000.00
Nevada	84,500.00	84,500.00	76,587.50	7,912.50
Total	6,031,722.34	6,031,722.34	3,042,385.72	2,989,336.62
Grand total	161,174,100.77	152,649,881.24	73,417,367.06	79,232,514.18

SCHEDULE 5.—*Statement showing by Districts and States number of members, number and amount of shares subscribed by members, and balance of loans outstanding as at June 30, 1935*

	Number member institutions	Number shares subscribed	Amount subscribed by members	Balance loans outstanding
District no. 1, Boston:				
Connecticut	35	2,436	$243,600	$1,259,114.86
Maine	15	1,398	139,800	589,441.00
Massachusetts	64	13,564	1,356,400	319,471.00
New Hampshire	14	1,016	101,600	61,326.00
Rhode Island	3	1,632	163,200	30,000.00
Vermont	4	242	24,200	15,878.00
Total	135	20,288	2,028,800	2,275,230.86
District no. 2, New York:				
New Jersey	289	20,449	2,044,900	11,347,425.17
New York	96	12,780	1,278,000	2,711,744.26
Puerto Rico			0	0
Virgin Islands			0	0
Total	385	33,229	3,322,900	14,059,169.43
District no. 3, Pittsburgh:				
Delaware	7	216	21,600	84,720.00
Pennsylvania	433	15,426	1,542,600	9,136,868.54
West Virginia	29	1,543	154,300	941,616.30
Total	469	17,185	1,718,500	10,163,204.84
District no. 4, Winston-Salem:				
Alabama	18	671	67,100	49,975.00
District of Columbia	15	6,079	607,900	148,250.00
Florida	47	744	74,400	516,047.50
Georgia	41	587	58,700	562,165.00
Maryland	108	4,426	442,600	1,195,897.16
North Carolina	98	4,024	402,400	2,457,911.69
South Carolina	29	712	71,200	393,082.97
Virginia	29	2,008	200,800	756,931.08
Total	385	19,251	1,925,100	6,080,260.40
District no. 5, Cincinnati:				
Kentucky	82	6,685	668,500	3,211,023.28
Ohio	355	44,928	4,492,800	11,362,559.42
Tennessee	40	1,206	120,600	800,103.50
Total	477	52,819	5,281,900	15,373,686.20
District no. 6, Indianapolis:				
Indiana	108	12,446	1,244,600	2,770,876.00
Michigan	39	7,389	738,900	1,324,409.50
Total	147	19,835	1,983,500	4,095,285.50
District no. 7, Chicago:				
Illinois	315	15,410	1,541,000.00	9,025,987.52
Wisconsin	86	6,499	649,900.00	3,298,772.80
Total	401	21,909	2,190,900.00	12,324,760.32
District no. 8, Des Moines:				
Iowa	53	2,472	247,200	755,007.00
Minnesota	36	1,627	162,700	521,408.50
Missouri	100	5,347	534,700	2,012,922.19
North Dakota	13	562	56,200	60,204.00
South Dakota	9	250	25,000	170,288.55
Total	211	10,258	1,025,800	3,519,830.24
District no. 9, Little Rock:				
Arkansas	41	948	94,800	223,351.94
Louisiana	48	6,344	634,400	1,663,232.03
Mississippi	25	364	36,400	70,974.00
New Mexico	14	220	22,000	5,000.00
Texas	114	5,376	537,600	1,343,072.68
Total	242	13,252	1,325,200	3,305,630.65

SCHEDULE 5.—*Statement showing by Districts and States number of members, number and amount of shares subscribed by members, and balance of loans outstanding as at June 30, 1935*—Continued

	Number member institutions	Number shares subscribed	Amount subscribed by members	Balance loans outstanding
District no. 10, Topeka:				
Colorado	38	1,092	$109,200	$584,457.37
Kansas	100	4,371	437,100	1,488,265.00
Nebraska	23	569	56,900	305,238.75
Oklahoma	46	4,157	415,700	460,750.00
Total	207	10,189	1,018,900	2,838,711.12
District no. 11, Portland:				
Idaho	9	231	23,100	76,235.82
Montana	10	592	59,200	70,972.50
Oregon	32	1,158	115,800	647,383.42
Utah	9	724	72,400	239,798.34
Washington	56	2,355	235,500	1,024,317.92
Wyoming	4	161	16,100	148,700.00
Total	120	5,221	522,100	2,207,408.00
District no. 12, Los Angeles:				
Arizona	4	172	17,200	14,308.12
California	136	10,624	106,240	2,942,116.00
Hawaii	2	96	9,600	25,000.00
Nevada	3	100	10,000	7,912.50
Total	145	10,992	1,099,200	2,989,336.62
Grand total	3,324	234,428	23,442,800	79,232,514.18

SCHEDULE 6.—*Summary statement as reported by regional banks as of June 30, 1935*

Total number of member institutions	3,324
Total minimum capital stock	$134,000,000.00
Total stock subscriptions:	
Members and applicants	23,968,400.00
U. S. Government	124,741,000.00
Total	148,709,400.00
Payments received on stock subscriptions:	
Members and applicants	23,217,721.87
U. S. Government	81,645,700.00
Total	104,863,421.87
Balance due on stock subscriptions	43,845,978.13
Total line of credit as established by the Board	[1] 276,371,700.00
Total loans authorized by regional banks	161,174,100.77
Total loans made by regional banks	152,649,881.24
Total repayments on loans by borrowing institutions	73,417,367.06
Total loans outstanding	79,232,514.18
Balance authorized to be loaned by regional banks and not advanced	8,524,219.53

[1] 12 times stock payments.

SCHEDULE 7. AMENDMENTS TO ACTS

There is set forth hereafter a concise summary of the amendments made to the Federal Home Loan Bank Act, Home Owners' Loan Act of 1933, and the portion of the National Housing Act providing for the insurance of savings and loan accounts.

SCHEDULE 7—Continued

FEDERAL HOME LOAN BANK ACT

The original Federal Home Loan Bank Act provided that the term "home mortgage" as used therein meant a first mortgage or certain other first liens on real estate in fee simple or under a renewable lease for not less than 99 years. The National Housing Act broadened this term to include such mortgages or liens on property on which the borrower had a lease having a period of not less than 50 years to run. Such a mortgage or lien has to be on real estate upon which there is a dwelling for not more than three families. An act of Congress approved May 28, 1935, allowed such a dwelling to be one for not more than four families.

The original act provided for direct loans to home owners by the banks. The Home Owners' Loan Act repealed this direct-loan provision.

The original act provided that the minimum stock subscription of each institution (or amount of security deposited, if not permitted by State law to subscribe) should be $1,500. This minimum was lowered to $500 by the National Housing Act.

The original act provided that stock of the United States in the banks was entitled to a cumulative dividend at a rate of 2 percent per annum from the date of investment. This provision was eliminated by an act approved May 28, 1935.

The act approved May 28, 1935 amended the original act effective January 1, 1936, to provide for 12 directors of each bank in lieu of 11; the appointment by the Board of 4 directors in lieu of 2; and the election of six directors by classes and the election of 2 directors by the members at large without regard to class in lieu of 9 directors elected by class. The same act provided for an advisory council of 18 members, 1 to be elected by the board of directors of each bank from the bank district, and 6 to be appointed by the Board. This council is to meet in Washington at least twice a year and oftener if requested by the Board. Members of the council are to serve without compensation, but traveling expenses are to be paid by the Board.

The National Housing Act permitted an advance by a bank of an amount not in excess of 90 percent of the unpaid principal of the mortgage loan, if the mortgage was insured under title 2 of such act. This act allowed advances secured by amortized home mortgages to be made for an amount not in excess of 65 percent in lieu of 60 percent of the face value thereof, the former maximum, and allowed the amount of the advance to be as high as 60 percent of the value of the real estate, in lieu of 40 percent, the former maximum. The original act allowed the banks to make long-term advances only upon the security of home mortgages. The act approved May 28, 1935, allowed banks to make long-term advances upon the security also of obligations of the United States, or obligations fully guaranteed by the United States. It also included mortgages for a term of 6 years or more in the same status that amortized mortgages for 8 years or more were treated by the original act. The original act required that advances on other mortgage loans should not exceed 30 percent of the value of the real estate securing such loan. This maximum was increased to 40 percent by the National Housing Act. Mortgages having more than 15 years to run to maturity or upon real estate which exceeded $20,000 in value were not eligible as collateral security for advances by banks. The act approved May 28, 1935, raised this maximum and provided that mortgages having more than 20 years to run, or exceeding $20,000, should not be eligible as collateral security. By an act of Congress approved April 27, 1934, an exception to the requirement that home mortgages 6 months past due when presented were not eligible as collateral security was provided if the debt was less than 50 percent of the value of the real estate.

The National Housing Act allowed the banks to make advances until July 1, 1936, to members in order to enable certain financing of home repair, improvements, and alterations. Such advances shall be made upon security of notes representing obligations incurred pursuant to, and insurable under, section 2 of the National Housing Act.

The act approved May 28, 1935, authorized banks to make loans to nonmembers meeting conditions specified therein, on insured mortgages up to 90 percent of the unpaid balance of the same at such rates of interest and upon such terms and conditions as determined by the Board.

Section 11 of the Federal Home Loan Bank Act was reenacted and changed in many respects, but no substantial change was made. The banks were authorized to issue consolidated Federal home loan bank bonds or debentures.

SCHEDULE 7—Continued

The act approved May 28, 1935, amended the Federal Home Loan Bank Act in order to make it clear that consolidated Federal home loan bank bonds and debentures have the same tax exemption originally provided for the bonds and debentures of individual banks. The original act was further amended by the act approved May 28, 1935, relative to receipts and expenditures of the Board.

HOME OWNERS' LOAN CORPORATION

The original act provided that a mortgage to be refunded must be a first mortgage on real estate in fee simple or on a leasehold under a renewable lease for not less than 99 years. The National Housing Act allowed refunding also of first mortgages on property on which the borrower had a lease having a period of not less than 50 years to run from the date the mortgage was executed. The original act specified that the mortgage to be refunded should be upon real estate upon which there was located a dwelling used by the owner as a home or held by him as his homestead. The act of May 28, 1935, amended this provision, extending mortgages that could be refunded to those secured by real estate upon which there is located a dwelling or dwellings used in whole or in part by the owner as a home or held by him as his homestead.

The original act authorized the Home Owners' Loan Corporation to issue bonds up to $2,000,000,000, which would be guaranteed as to interest only by the United States. By the act approved April 27, 1934, bonds issued by the Corporation were guaranteed as to principal as well as to interest. The National Housing Act increased the authorized bond issue of the Corporation to $3,000,000,000, and this was further increased to $4,750,000,000 by the act approved May 28, 1935. The use of bonds for refunding mortgages of home owners was limited to applications filed within 30 days after May 28, 1935, by the act of that date. This act also allowed this bond issue to be used for the purpose of redeeming outstanding bonds, and when so used, the Corporation was authorized to increase the total bonds issued by an amount equal to the bonds retired. That amendment further provided that no bonds issued under that section, as amended, should have a maturity date later than 1952. The act approved April 27, 1934, provided that such bonds should be lawful investments for all fiduciary, trust, and public funds under the control of the United States or any of its officers. This act further allowed the Secretary of the Treasury to purchase any bonds of the Corporation so guaranteed and to sell the same at any time. This amendment further allowed the Corporation to purchase in open market bonds issued by it at any price not to exceed par and to resell the same at any time and at any price. It further authorized the Corporation to refund within a period of 6 months after April 27, 1934, bonds issued prior to that date upon application of the holders of such bonds and authorized the Corporation to increase its total bond issue in an amount equal to the bonds so refunded.

The original act provided that the borrower need not pay any principal on his indebtedness for 3 years after June 13, 1933. This provision was stricken from the act by the amendment of April 27, 1934.

The Home Owners' Loan Act was amended May 28, 1935, so as to require levies of assessments to be treated as general taxes, and to prevent any reduction for any such levies not due unless the total levy of taxes and assessments exceeds a sum which, in the discretion of the Board, is a reasonable annual tax burden. The original act allowed funds to be used to recover homes lost by foreclosure or sale under a deed of trust or voluntary surrender to the mortgagee within 2 years prior to such exchange. This provision was amended April 27, 1934, to provide that such exchange could be made where such loss by foreclosure, sale, or voluntary surrender was subsequent to January 1, 1930.

The act was amended on May 28, 1935, so that it prohibits any person from acting as appraiser if he is interested in the loan, and this same act prohibits as of August 26, 1935, any person from being an employee of the Corporation, at a fixed salary in any regional or State office, who is an officer or director of any firm, corporation, or association engaged in lending money on real estate, and further prohibits after August 26, 1935, any person from being an employee in any State or district office who was not a bona-fide resident of such State for a period of at least 1 year prior to the date of his appointment.

The act was further amended April 27, 1934, to provide that all payments upon principal of loans should be applied to the retirement of the bonds.

SCHEDULE 7—Continued

The act was further amended April 27, 1934, so as to require the applicant to be in involuntary default on June 13, 1933, with respect to the indebtedness on his real estate which he seeks to refund under sections 4 (d) and 4 (f), and to require that he be unable to carry or refund his present mortgage indebtedness. An exception was made, however, from the foregoing limitation in cases in which default after such date was due to unemployment or to economic conditions or misfortune beyond the control of the applicant. A further exception was added by this same amendment to the effect that the foregoing limitation did not apply in any case in which the indebtedness to be refunded was held by an institution in liquidation, but this exception was stricken by the amendment made May 28, 1935. The Home Owners' Loan Act was amended April 27, 1934, to allow reconditioning of properties in cases where the Corporation was authorized to advance cash. A sum of not to exceed $200,000,000 was to be used for this purpose. This sum was increased to $300,000,000 by the National Housing Act, and further increased to $400,000,000 by the amendment made May 28, 1935.

The act was further amended April 27, 1934, to authorize the Corporation to buy bonds, debentures, and notes of Federal home loan banks and to loan money to Federal home loan banks. This amendment was repealed May 28, 1935, and the Corporation was then authorized to buy bonds, debentures, or notes of Federal home loan banks, shares of Federal savings and loan associations, and shares of member and insured institutions, and authorized to sell $300,000,000 of bonds, to provide such funds.

FEDERAL SAVINGS AND LOAN ASSOCIATIONS

The Home Owners' Loan Act of 1933 was amended to authorize any Federal savings and loan association, which was converted from a State-chartered institution, to continue to make loans in the territory in which it made loans while operating under the State charter by the act approved May 28, 1935.

The act approved April 27, 1934, amended the Home Owners' Loan Act to provide that conversions of State associations into Federal associations could be done upon a vote of 51 percent of the votes cast at a legal meeting called to consider such action.

The act approved April 27, 1934, provided that the Secretary of the Treasury, on behalf of the United States, was authorized to subscribe for full-paid income shares in Federal associations. This act also provides that any Federal association or member of any home loan bank may be employed as fiscal agent of the Government when designated for that purpose by the Secretary of the Treasury. It further provides that the Secretary of the Treasury should make available the sum of $500,000, later raised to $700,000, by the act approved May 28, 1935, in order to encourage saving and home financing. The act approved May 28, 1935, provided that such sums should be used impartially in the promotion and development of local thrift and home financing institutions, whether State or federally chartered.

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

The act approved May 28, 1935, amended title IV of the National Housing Act so as to give the Insurance Corporation the free use of the mails and the same flexibility of expenditures enjoyed by Home Owners' Loan Corporation. This title was further amended by the same act extending the period for building 5-percent reserves to 20 years; and allowing the declaration of dividends if approved by the Insurance Corporation even though losses had been charged to reserves. An amendment was also made by it adjusting the language on the subject of admission fees and another amendment was made reducing the insurance premium to one-eighth of 1 percent and providing for credit for excess premiums paid by those theretofore insured. An amendment was made by this same act clarifying the language of section 406 (b) of title IV in reference to accounts transferred to the Insurance Corporation, and in reference to any uninsured portion of the accounts. An amendment was also made authorizing the Corporation to make loans to, or purchase the assets of, or make contribution to, insured institutions, in order to prevent defaults or restore insured institutions to normal operations.

SCHEDULE 8.—*Statement reflecting interest rates charged by the 12 Federal home loan banks as of June 30, 1935*

Federal home-loan bank	Rate in effect on July 1	Type of loan
	Percent	
1. Boston	3	All advances written for 1 year or less.
	3½	All advances for more than 1 year are to be written at 4 percent, but billed at 3½ percent.
2. Newark	3½	All advances for 1 year or less, and amortized within that time.
	4	All other advances.
3. Pittsburgh	4	All advances for 1 year or less; all advances for more than 1 year are to be written at 5 percent, but on authorization from borrowing members, the bank will credit the interest charged their accounts with the difference between 5 and 4 percent per annum.
	4	All advances secured by Home Owners' Loan Corporation bonds.
4. Winston-Salem	4	All advances for 12 months or less; all advances for more than 1 year are written at 4½ percent, but interest collected at 4-percent rate.
5. Cincinnati	3½	All advances written for 1 year or less; all advances written for longer periods will be at 4 percent, but billed at 3½ percent during the period in which short-term advances carry this rate.
6. Indianapolis	3	All secured advances for 1 year or less.
	3½	All unsecured advances, none of which may be made for more than 6 months.
7. Chicago	3½	All secured advances for more than 1 year.
	3½	All advances written for 1 year or less; all advances for more than 1 year are to be written at 4½ percent, but billed at 3½ percent during the period in which short-term advances carry this rate.
8. Des Moines	3½	All advances for 1 year or less.
	3½–4	All new advances for more than 1 year shall be written at 3½-percent interest rate for the first year and 4 percent for subsequent years; however, the rate of interest collectible quarterly after the first year shall be the same as the then effective rate on short-term advances; on all existing advances written at 4½ percent only 4 percent will be collected on and after May 1, 1935, so long as these lower rates remain in effect; further, all advances outstanding at May 1, 1935, written in excess of 3½ percent will, on Dec. 31, 1935, and semiannually thereafter, receive a refund of such portion of the interest collected above 3½ percent as the board of directors shall deem justifiable; such refund will be granted only on loans on which no payments in advance of maturity are made.
9. Little Rock	3	All advances to members.
	3½	All advances to nonmembers under title II of National Housing Act.
10. Topeka	3	All advances.
11. Portland	3½	Do.
12. Los Angeles	3	All advances to members.
	3½	All advances to nonmembers under title II of National Housing Act.

SCHEDULE 9.—*Statement of dividends paid by the 12 Federal home loan banks to and including June 30, 1935*

	Oct. 15, 1932–June 30, 1935		
	United States Government	Members	Total
Boston	$170,715.11	$29,736.99	$200,452.10
New York	401,915.07	93,865.30	495,780.37
Pittsburgh	328,545.21	21,086.67	389,631.88
Winston-Salem	184,493.14	50,089.31	234,582.45
Cincinnati	541,450.79	174,674.05	716,124.84
Indianapolis	240,795.14	73,995.27	314,790.41
Chicago	317,994.52	52,325.17	370,319.69
Des Moines	135,682.19	20,954.54	156,636.73
Little Rock	256,778.14	48,374.49	305,152.63
Portland	89,837.16	12,633.70	102,470.86
Los Angeles	22,575.35	6,184.27	28,759.62
Total	2,690,781.82	623,919.76	3,314,701.58

FEDERAL HOME LOAN BANK SYSTEM

The Federal Home Loan Bank System was established to provide local thrift and home-financing institutions with a central reservoir of credit. It is in structure, and in numerous phases of its operation, a counterpart of the Federal Reserve System in the field of commercial banking. The United States, including Puerto Rico and the Territories of Hawaii and Alaska, is divided into 12 districts, with a regional bank in each area. A map showing these divisions appears on the following page.

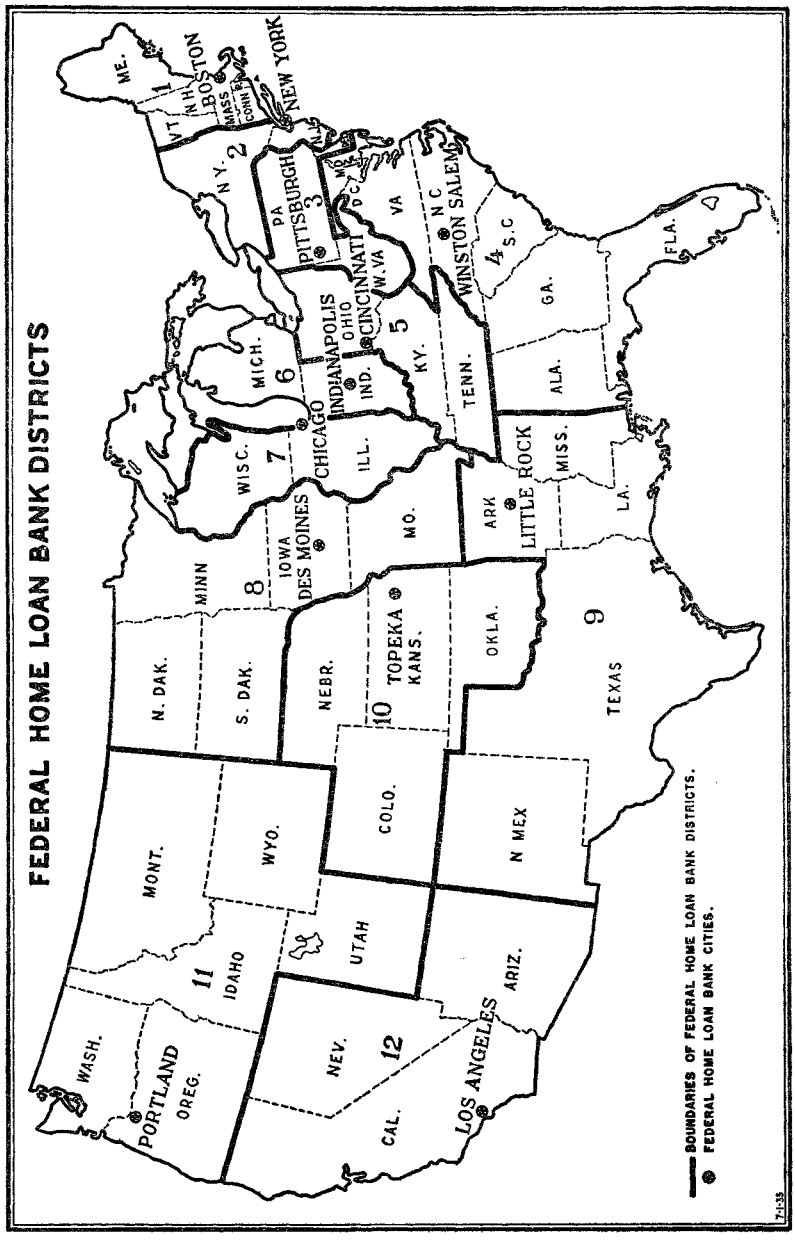
Under the law, membership in the Federal Home Loan Bank System is open to building and loan associations, savings and loan associations, homestead associations, cooperative banks, savings banks, and insurance companies making long-term home loans, and which desire to apply, and are found to be solvent, well-managed, and engaged in sound and economical home financing. Exhibit 1 is a complete list of the members of the System arranged alphabetically by States and location. The law requires all Federal savings and loan associations to be members of the System. Membership affords many advantages, but the following may be pointed out:

(1) *Prestige and distinction.*—The public already recognizes the advantage of doing business with institutions able to display the symbol of this Federal System. The System requires its members to conform to Nation-wide standards, provides them a reservoir of credit to furnish greater liquidity, and a source of additional funds should necessity require them.

(2) *Short-term advances.*—Where the credit obligations of a member institution (other than advances from a Federal home-loan bank) are less than 5 percent of its net assets, it may receive short-term credit from its regional Federal home-loan bank without collateral. Where its credit obligations are in excess of 5 percent of its net assets, it may still secure the credit but must deposit collateral. Advances of a short-term type are utilized primarily to care for seasonal needs and mature within a year.

(3) *Long-term advances.*—To accommodate members in the financing of their long-term program, advances are customarily made for periods up to a maximum of 10 years, repayable in equal periodical installments over the life of the advance. Home mortgages or Government bonds are assigned as collateral.

The membership of the System has shown continuous growth from its inception. During the past year there was a net increase of 316 members, which was accompanied by an increase in approximate resources of $49,000,000. The following statement of membership for the last 2 years shows this growth as classified according to type of member institutions:



	Number	June 30, 1936, approximate resources	Number	June 30, 1935, approximate resources
State-chartered building and loan associations, savings and loan associations, cooperative banks, homestead associations, etc.	2,513	$2,422,000,000	2,500	$2,722,000,000
Federal savings and loan associations	[1] 1,115	657,000,000	812	325,000,000
Savings banks	8	154,000,000	9	139,000,000
Insurance companies	4	17,000,000	3	15,000,000
Total	3,640	3,250,000,000	3,324	3,201,000,000

[1] In that portion of the report dealing with Federal savings and loan associations, the number of charters outstanding is reported as 1,135. At the date of this report, some 20 newly chartered Federal savings and loan associations were in process of qualifying as members of the Federal Home Loan Bank System.

SUBSCRIPTION TO STOCK OF FEDERAL HOME-LOAN BANKS

The Federal Home Loan Bank Act provides that each member institution must maintain an investment in the stock of the Federal home-loan bank of which it is a member of not less than 1 percent of the unpaid principal of its home mortgages. A borrowing member institution is required to increase that stock investment to an amount not less than one-twelfth of its net advances. As of June 30, the total subscription of member institutions to the capital stock of the 12 Federal home-loan banks was $26,745,700, of which $26,413,025 had been paid in. The difference represents the amount due on subscriptions from members who have been admitted recently and who are permitted under the act to complete their initial subscriptions in installments over a period of 1 year.

The Federal Home Loan Bank Act directed the Secretary of the Treasury to subscribe for the balance of the capital stock in the Federal home-loan bank, not subscribed for within 30 days by the members, in an amount not exceeding $125,000,000. Pursuant to that direction, he did subscribe for a total of $124,741,000. By the terms of the subscription the funds could be called for by the Board as required by the needs of the system, and at the date of this report $99,342,000 had been called, leaving a balance of $25,399,000 still available. The capital-stock structure of the system as of June 30, 1936, may, therefore, be summarized as follows:

	Member institutions	Secretary of the Treasury	Total
Subscriptions to capital stock	$26,745,700	$124,741,000	$151,486,700
Less amounts paid	26,413,025	99,342,000	125,755,025
Balance due on subscriptions	332,675	25,399,000	25,731,675

When this capital provided by the Treasury is exhausted, the chief present source from which the banks may obtain funds for purpose of home financing is the money market, in which they are by law permitted to sell debentures or bonds. These may be either the obligations of the individual bank or the consolidated obligations of all the banks.

ADVANCES OF THE FEDERAL HOME LOAN BANKS

Net advances to member institutions on June 30, 1936, amounting to $118,586,838, were the highest since the establishment of the System. This is a net increase of $39,354,324 over the $79,232,514 out-

standing at the close of the previous fiscal year. Total advances during the year amounted to $78,195,224, repayments to $38,840,900. In slightly less than 4 years advances to member institutions totaled $226,645,106, and repayments $108,058,268. These facts are presented in more detail on exhibit 2, which shows the distribution by States of the advances now outstanding, and in exhibit 3, which shows advances and repayments from the beginning of operations.

The Federal Home Loan Bank System has been of material assistance in reducing the cost of financing to the home owner. As a summarized statement of the rates charged by each district bank (exhibit 4) shows, through funds made available to the member institutions by the banks, they have been able to pass savings along to the individual borrower. The current rates charged by the Federal home-loan banks range from 3 to 3¾ percent per annum, most of the banks making long-term loans at 3 percent.

LOANS OF MEMBER INSTITUTIONS

The primary source of funds of the member institutions is in the savings of its local investors. This is apparent in the combined statement of the assets and liabilities of member institutions as of December 31, 1935. (See exhibit 5.)

It is clear from this statement that the great bulk of funds which has been used by the members has come from local sources and has in turn been used for meeting community needs. Out of more than $3,000,000,000 of assets, $2,000,000,000 had been invested in first-mortgage loans, $476,000,000 represented real estate owned, and cash investments consisted of $343,000,000.

As has been stated, membership in the Federal Home Loan Bank System is a means of supplementing funds secured locally. Although the use of the Bank System by its members has been gratifying, and the advances have been mounting rapidly every month since April 1934, the institutions are very far from having exhausted their legal borrowing capacity, which amounted on June 30, 1936, to $956,740,878. This was distributed by bank districts and by States as follows:

Borrowing capacities of members June 30, 1936

[Based on latest available information furnished by the banks]

District 1:	
Connecticut	$7,900,314
Maine	4,398,885
Massachusetts	78,294,914
New Hampshire	5,396,588
Rhode Island	5,367,851
Vermont	777,447
Total	102,135,999
District 2:	
New Jersey	115,000,000
New York	85,000,000
Total	200,000,000

Borrowing capacities of members June 30, 1936—Continued

District 3:	
Delaware	$476, 483
Pennsylvania	43, 482, 064
West Virginia	4, 112, 981
Total	48, 071, 528
District 4:	
Alabama	1, 647, 400
District of Columbia	29, 298, 600
Florida	4, 217, 200
Georgia	2, 997, 900
Maryland	9, 654, 900
North Carolina	8, 254, 600
South Carolina	2, 602, 700
Virginia	4, 607, 300
Total	63, 280, 600
District 5:	
Kentucky	20, 500, 000
Ohio	136, 000, 000
Tennessee	3, 500, 000
Total	160, 000, 000
District 6:	
Indiana	25, 616, 365
Michigan	18, 492, 835
Total	44, 109, 200
District 7:	
Illinois	66, 154, 970
Wisconsin	50, 002, 280
Total	116, 157, 250
District 8:	
Iowa	5, 350, 000
Minnesota	4, 340, 000
Missouri	17, 000, 000
North Dakota	1, 680, 000
South Dakota	530, 000
Total	28, 900, 000
District 9:	
Arkansas	3, 997, 118
Louisiana	32, 564, 366
Mississippi	1, 411, 168
New Mexico	1, 604, 111
Texas	24, 530, 538
Total	64, 107, 301
District 10:	
Colorado	3, 799, 817
Kansas	14, 502, 153
Nebraska	3, 321, 358
Oklahoma	15, 403, 783
Total	37, 027, 111

Borrowing capacities of members June 30, 1936—Continued

District 11:	
Idaho	$907,000
Montana	1,384,500
Oregon	3,124,000
Utah	2,245,500
Washington	7,357,100
Wyoming	396,500
Total	15,414,600
District 12:	
Arizona	298,434
California	76,260,198
Nevada	321,978
Hawaii	656,679
Total	77,537,289
Grand total	956,740,878

FINANCIAL OPERATIONS OF THE FEDERAL HOME LOAN BANKS

For the fiscal year ending June 30, 1936, the gross income of the 12 district banks amounted to $3,893,777.91, of which $3,281,995.74 was interest earned on advances, $483,386.64 interest earned on investments, and the remainder miscellaneous income. Deductions from income consisted of $771,642.13 representing the operating expenses of the 12 banks, $299,999.96 representing the assessments on the banks for the expenses of the Federal Home Loan Bank Board and the general expenses of the national system, $59,275.75 interest paid on members' deposits, and $45,247.46 interest paid on interbank deposits, or a total of $1,176,165.30. The net profit of the 12 banks amounted to $2,717,612.61. Of this amount, $543,522.53 was carried to reserves, $2,036,621.16 distributed in dividends, and the remaining $137,468.92 was carried to the unallocated surplus accounts of the banks. Detailed statements of condition and profit and loss reports on a combined basis as well as for each of the 12 district banks are attached to this report as Exhibits 6, 7, and 8. All of the Federal Home Loan Banks paid dividends during the fiscal period of from 1 to 2 percent per annum.

OTHER ACTIVITIES

During the year the Board created and filled the office of Governor of the Federal Home Loan Bank System and assigned to that office the responsibility of supervision of the operation of the 12 Federal home-loan banks and, to such extent as might be required, of the institutions comprising the membership of the System. At the same time the Board charged the Governor with the larger measure of responsibility of supervising the Federal savings and loan associations and the other State-chartered institutions whose accounts are insured by the Federal Savings and Loan Insurance Corporation. The officers of the Federal home-loan banks were designated as agents of the Board and of the Federal Savings and Loan Insurance Corporation for such supervision and are responsible to the Governor for all matters relating thereto. This supervision also protects the

investment of the Home Owners' Loan Corporation in the shares of many of these institutions.

The absence of uniform practices and accounting methods among the various types of institutions representing the major portion of the membership of the System has heretofore made it difficult to assemble comparable data with respect to their operations. Supervising authorities in the several States required a great variety of types of reports. Previous reports of this Board have referred to the problem of securing adequate information from members without unduly burdening them. During the past year, as a result of several conferences held by representatives of the Board, the National Association of Building and Loan Supervisors and the accounting division of the United States Building and Loan League, agreement was reached upon a standard report form for reflecting the financial condition of a savings and loan association. The uniform report blank which resulted from these conferences has been adopted by the Board for all of its agencies. All or a substantial portion of the standard report forms are reported to have been adopted by some 30 State supervisory authorities. The Board proposes to continue its cooperative efforts in this direction to improve the operating practices of member institutions through more accurate knowledge of their condition, standards of comparison, and reduction of their accounting burden by means of standardized reporting requirements.

FEDERAL SAVINGS AND LOAN ADVISORY COUNCIL

During the year two meetings were held by the Federal Savings and Loan Advisory Council created by Congress under the act of May 28, 1935. This council consists of 1 member elected by each of the 12 boards of directors of the Federal home-loan banks, and 6 members appointed by the Federal Home Loan Bank Board. It selects its chairman, vice chairman, and secretary, adopts its own method of procedure, and has power to confer with the Board and the board of trustees of the Federal Savings and Loan Insurance Corporation on general business conditions and on special conditions affecting the Federal home-loan banks and their members and the Insurance Corporation. It may request information and make recommendations with respect to matters within the jurisdiction of the Board and the trustees of the corporation. At both meetings, many matters of importance to the agencies under the Board's jurisdiction were discussed and recommendations made thereon.

The officers and membership of the council for the year were as follows:

Mr. I. Friedlander, chairman, ninth district; elected by bank.

Col. Charles B. Robbins, vice chairman, eighth district; appointed by Board.

Mr. H. F. Cellarius, secretary, fifth district; elected by bank.

Mr. B. J. Rothwell, first district; elected by bank.

Mr. Francis V. D. Lloyd (resigned and LeGrand Pellet elected by bank to take his place; Mr. Pellet attended second meeting).

Mr. Eustace Seligman, second district; appointed by Board.

Mr. Ernest T. Trigg, third district; elected by bank.

Mr. E. C. Baltz, fourth district; elected by bank.

Mr. Ivan Allen, fourth district; appointed by Board.
Mr. Harry S. Kissell, fifth district; appointed by Board.
Mr. F. S. Cannon, sixth district; elected by bank.
Mr. Morton Bodfish, seventh district; elected by bank.
Mr. Henry G. Zander, seventh district; appointed by Board.
Mr. H. R. Hanger, eighth district; elected by bank.
Mr. Charles W. Thompson, tenth district; elected by bank.
Mr. Frank S. McWilliams, eleventh district; elected by bank.
Mr. Ralph H. Cake, eleventh district; appointed by Board.
Mr. C. H. Wade, twelfth district; elected by bank.

BANK PRESIDENTS' COUNCIL

The bank presidents' council, created by resolution of the Board, and consisting of the executive heads of the 12 Federal home-loan banks, also held two meetings during this fiscal period. It, too, gave careful consideration to various problems which had arisen in the field or which were referred to it by the Federal Home Loan Bank Board for discussion. Its particular attention was directed to the detailed administration of the bank system and a discussion of the plans for supervision to be carried out by the officers of the banks. Each session resulted in recommendations to the Board.

In slightly less than 4 years the Federal Home Loan Bank System has made substantial progress toward its objectives, and has gathered around it a majority of the vigorous active associations of the savings and loan type. For these associations it provides a reservoir of credit and acts as a stabilizer, which activities should be effective in preventing or materially reducing the effects of any future depression. A major problem, still unsolved, is to so build up the System as to attract a larger membership among the savings banks and the insurance companies engaged in long-term home financing.

FEDERAL HOME LOAN BANK SYSTEM ANNUAL REPORT TO THE CONGRESS, JUNE 30, 1937

It will be recalled that the Federal Home Loan Bank System was created by the Congress in 1932 to provide a national reserve of credit for the local thrift and home-financing institutions, so that they might better serve their communities with a continuous supply of home-financing funds and furnish reasonable liquidity for investments in such institutions.

Prior to the establishment of this System, thrift and home-financing institutions were dependent upon commercial bank borrowings for funds to meet exceptional loan or emergency withdrawal demands. Commercial banks cannot provide the type of credit needed by thrift institutions whose funds are invested in long-term home mortgages, primarily because bank loans are generally restricted to 1 year or less. This was apparent during the years of normal business activity, but the depression brought into particularly sharp relief the need for a dependable Nation-wide Federal reserve of both long- and short-term credit for the thrift and home-financing institutions of the country.

Today, these institutions through the Federal Home Loan Bank System can secure either short- or long-term advances (10-year loans) to meet their credit needs. To the millions of present and future individual savers and home owners of the Nation, this means that the institutions which are members of this System have behind them a Federal reserve of home-mortgage credit which is not directly dependent upon irregular accumulations of savings within their own localities. Therefore such member institutions now can reasonably meet the borrowing and withdrawal needs of the citizens of their communities.

During the past year the 12 regional banks of the System passed an important milestone when they entered the capital markets for the first time to obtain funds by the sale of $24,700,000 principal amount of consolidated debentures, which are the joint and several obligations of the 12 banks. The ready acceptance of their first offering of debentures, described later, demonstrates that the banks constitute an appropriate channel through which accumulations of idle funds in other types of financial institutions can flow into the long-term lending institutions and be directly applied to the construction, modernization, and financing of homes. Surplus money in one section of the country can now readily be transferred to other sections where funds may be needed for home-financing purposes.

In addition to providing a central reservoir of credit for the savings and home-financing institutions, the Federal Home Loan Bank System is exerting great influence in the development of sounder and more economical policies and procedures under which long-term home-financing institutions make their funds available for the acquisition, refinancing, and modernization of homes and in the development of savings and investment plans which are simple, attractive, and safe, and tend to encourage thrift and the accumulation of savings.

In order that each section of the country may have convenient access to the facilities of the Federal Home Loan Bank System, the United States, including Puerto Rico, the Virgin Islands, and the Territories of Hawaii and Alaska, is divided into 12 Federal Home Loan Bank districts. Each district is served by a regional Federal Home Loan Bank managed by a board of directors selected from the district.

The board of each regional bank is composed of 12 directors, 8 of whom are elected by the member institutions and 4 appointed by the Federal Home Loan Bank Board to represent the public interest. For purposes of election, the member institutions are classified into three divisions in accordance with their size. Each of these divisions elects two directors and all members select two directors at large. This method gives all classes of institutions representation on the boards of directors of the banks.

This localization of the management of the regional banks assures each section of the country understanding consideration of its own peculiar problems. Coordination of the System and reasonable national uniformity are obtained by general supervision by the Governor of the Bank System and the Federal Home Loan Bank Board. A map showing the 12 Federal Home Loan Bank districts and the location of their banks appears as exhibit 10.

MEMBERSHIP IN THE SYSTEM

Membership in the Federal Home Loan Bank System is available to building and loan associations, savings and loan associations, cooperative banks, homestead associations, insurance companies, and savings banks, which are subject to public inspection and regulation under the laws of a State or of the United States and which make home-mortgage loans on a long-term, sound, economical basis. All Federal savings and loan associations are required to be members of the System. They are described in another section of this report. Federal associations are under the direct supervision of this Board.

Membership in the System is becoming increasingly advantageous. With its assurance of ample credit facilities it brings added prestige to the institutions which can display the insignia of bank membership. In addition, a member institution has access to a central source of thrift and home-financing knowledge and experience gained by the trained and specialized personnel of the banks and the Federal Home Loan Bank Board.

Practically every community in the Nation is now actively served by one or more member thrift and home-financing institutions. At the time the Federal Home Loan Bank System was created, it was estimated that there were more than 1,554 counties out of 3,072 counties in the United States in which no thrift and home-financing institution was located. The second Annual Report of the Federal Home Loan Bank Board at page 108 sets forth a map of the United States on which are shown the counties of the United States having domestic home-financing institutions on June 13, 1933. It also shows the areas serviced by Federal savings and loan associations established since the enactment of Home Owners' Loan Act of 1933, to January 1935.[1]

[1] On November 30, 1937, 2,863 counties out of the total of 3,072 counties of the United States were being served in whole or in part by Federal savings and loan associations, and of the 2,863 counties being served 1,382 of such counties had not previously had any thrift and home-financing institution located therein.

On June 30 there were 3,886 members serving more than 4,000,000 American families, either as custodians of their savings or as lenders of the funds with which they were buying, modernizing, or refinancing their homes. Based upon the total loans made, members of the Federal Home Loan Bank System represent the largest single factor in the institutional financing of homes in this country. Exhibit 9, based on reports of member institutions, shows their estimated volume of mortgage loans made during the fiscal year ended June 30, 1937. In that period loans amounting to $611,392,000 were financed. Of this total, $176,856,000 was spent for new construction and $36,555,000 for reconditioning, providing employment for labor and increased use of building materials. A large percentage of these loans started families on a program of amortized home purchase, with eventual debt-free home ownership as their goal. (Exhibit 9 also shows loans made during the year by districts and by type of member institutions.)

The report of the Federal Savings and Loan System, covering the calendar year 1936, previously published, shows the amount of mortgage loans held, and other asset and liability items, for each member Federal savings and loan association, as of December 31, 1936. Copies of this report may be obtained from the Governor of the Federal Home Loan Bank System. Similar reports reflecting pertinent statistics for member institutions under State charter are published by the various State supervising authorities.

Membership in the 12 Federal Home Loan Banks increased during the fiscal year by 246 institutions. On June 30, 1937, the classification and total estimated assets of members were as follows:

	Estimated assets
Savings and loan associations (including homestead associations and cooperative banks):	
State-chartered members (2,585)	$2, 484, 000, 000
Federal savings and loan associations (1,281)	986, 000, 000
Other members:	
Savings banks (8)	163, 000, 000
Insurance companies (12)	174, 000, 000
Total (3,886)	3, 807, 000, 000

Exhibit 1 gives a complete list of the members of the Federal Home Loan Bank System arranged alphabetically by States and cities.

LEGAL DEPARTMENT

The Legal Department of the Board determines each applicant's legal eligibility for membership. During the year it rendered more than 7,000 opinions upon various phases of corporate and regulatory law as it relates to the eligibility of applicants for membership in a Federal Home Loan Bank, the issuance of new Federal savings and loan charters, the conversion of State-chartered associations to Federal charters, the insurance of savings accounts, and the investments by the Home Owners' Loan Corporation in savings institutions.

REVIEW COMMITTEE

When the Legal Department has approved an applicant for membership, the Review Committee of the Board passes upon its financial condition and its ability to comply with the provisions of the act. This committee considered and reported on the application of 418

institutions during the year. In addition, it analyzed and made recommendations to the Board on all applications for Federal savings and loan charters, insurance of accounts, mergers and reorganizations, and Home Owners' Loan Corporation share investments.

SOURCES OF FUNDS

Demands on savings and loan associations for home-financing funds are greatest when the real-estate market and construction industry are most active. Likewise, the financial needs of savers in these associations vary with the season. These demands are reflected in requirements of the institutions for advances from their respective district Federal Home Loan Banks. Funds needed by these banks for these purposes are derived from the capital-stock investments in the System by the United States Treasury and by member institutions, from the deposits of member institutions, and from the sale of consolidated debentures of the 12 banks.

Under the Federal Home Loan Bank Act, the Secretary of the Treasury was directed to subscribe on behalf of the United States for such part of the minimum capital of each Federal Home Loan Bank as was not subscribed by members within 30 days after the stock-subscription books were opened. On this basis, the Secretary of the Treasury subscribed to $124,741,000 of stock in the 12 banks. Up to last June 30, the Treasury had paid in $120,514,000, leaving a balance of $4,227,000 awaiting the call of the banks. The combined capital-stock structure of the Federal Home Loan Banks on that date is summarized as follows:

Total stock subscriptions	$156, 574, 800
Members	31, 833, 800
U. S. Government	124, 741, 000
Payments received on stock subscriptions	152, 044, 510
Members	31, 530, 510
U. S. Government	120, 514, 000
Balance due on above stock subscriptions	4, 530, 290
Members	303, 290
U. S. Government	4, 227, 000

There is attached hereto as exhibit 2 a statement showing by districts and States the number of member institutions, amount of shares subscribed by each, the number of borrowing members, and the advances outstanding on June 30, 1937. Each member must maintain an investment in the stock of its member Federal Home Loan Bank to the extent of not less than 1 percent on the unpaid principal of its home mortgages but not less than $500. A borrowing member institution is required to have a stock investment in its Federal Home Loan Bank amounting to not less than one-twelfth of its outstanding advances from the bank. During the year member subscriptions to stock increased in the amount of $5,117,485, and their deposits in the Federal Home Loan Banks grew to a total of $14,747,559.29.

Perhaps the most striking evidence of the progress made by the Federal Home Loan Bank Board toward building a sound Federal home-mortgage reserve system during the year was the successful

flotation of the first issue of consolidated Federal Home Loan Bank debentures. In creating the System, Congress adopted the theory of a reserve system modeled after the Federal Reserve System for commercial and industrial credit. This System does not have the right of issuing currency notes. The statute provides that the capital of the 12 regional banks held by the Treasury of the United States is to be retired by further subscriptions to stock in the banks by the member institutions.

Until late in the fiscal year of 1937 the capital advanced by the United States Treasury and member institutions was sufficient to meet the financial requirements of the 12 banks. However, last spring it became necessary for the banks to enter the money market for funds. The public acceptance of the initial offering of $24,700,000 consolidated debentures of the 12 Federal Home Loan Banks was wholehearted, marking the passing of an important milestone in their history. The issue was oversubscribed many times within a few hours.[2]

Consolidated Federal Home Loan Bank debentures are the joint and several obligations of the Federal Home Loan Banks. The law limits outstanding debentures to five times the total paid-in capital of all the banks at time of issue, and, in any event, to an amount not in excess of the members' notes or obligations held by the banks, which are secured by mortgages, obligations of the United States, and obligations guaranteed by the United States. While any debentures are outstanding, no assets of the Federal Home Loan Banks may be pledged for any purpose, nor shall the Board or any bank voluntarily permit any lien to attach to the assets of the banks. The Board has placed additional limitations on issues of consolidated debentures having maturities of 1 year or less from date of issue.

LENDING ACTIVITIES OF THE FEDERAL HOME LOAN BANKS

During the fiscal year, the Federal Home Loan Banks continued to expand their advances to member home-financing institutions. Outstanding advances at the beginning of the year were $118,586,838. During the year $114,287,052.41 was advanced and $65,817,003.85 repaid. This left a balance of $167,056,886.56 outstanding on June 30. There is attached hereto as exhibit 3 a tabulation by months of the total advances made and repaid, and the balance outstanding, from the beginning of the operations of the Federal Home Loan Banks to last June 30.

The reasonable rates of interest charged by the 12 banks are shown in exhibit 4.

BORROWING CAPACITY OF MEMBER INSTITUTIONS

The 3,886 members of the System had a potential borrowing capacity of approximately $1,188,000,000 on June 30. This indicates the extent to which the 12 banks can be called upon to supply home-financing credit. This potential borrowing capacity is based on the approximate amount for which each member can legally obligate itself. Attached as exhibit 5 is a statement of the approximate borrowing capacity of members by districts and by States.

[2] Series B of these consolidated debentures was oversubscribed 10 times when issued July 27, 1937, and series C oversubscribed 8 times when issued November 16, 1937.

FINANCIAL CONDITION OF THE 12 FEDERAL HOME LOAN BANKS

During the fiscal year the consolidated gross income of the System amounted to $4,913,089.60, of which $4,472,810.05 was interest earned on advances, $337,064.31 interest on investments, and the balance miscellaneous items of income. The total deductions from income during the year amounted to $1,281,937.37, as shown in detail in exhibit 7, consisting of the following: Personal services, $492,750.34; travel expenses, $67,998.54; other administrative expenses, $489,130.45; net Federal Home Loan Bank Board assessment, $232,058.04; a total of $1,281,937.37.

The consolidated net income of the 12 banks during the year amounted to $3,631,152.23. On June 30 their surplus was $4,361,-239.55, of which $2,403,485.43 was the reserve required under section 16 of the Federal Home Loan Bank Act. The total capital stock and surplus on that date was $156,405,749.55. Detailed statements of condition on June 30, and of profit and loss for the fiscal year for each of the banks, as well as on a combined and consolidated basis, are attached as exhibits 6 and 7. There is also attached, as exhibit 8, an analysis of surplus and reserves of the banks, individually and collectively.

OFFICE OF THE GOVERNOR, FEDERAL HOME LOAN BANK SYSTEM

Under the direction of the Board, immediate supervision over the operations of the Federal Home Loan Bank System is vested in the Governor of the Federal Home Loan Bank System. For purposes of administration, his office functions through two major divisions, directed by the Comptroller and the Chief Supervisor. The Comptroller is responsible, under the direction of the Governor, for supervision over the operations of the 12 banks, and for the semiannual examinations of them, as required by law; and for the handling of the Board's internal fiscal operations, including the administrative audit of all disbursements.

SUPERVISION OF INSURED INSTITUTIONS

By statute, the Board is responsible for the supervision of Federal savings and loan associations, all of which are insured institutions. The Board, acting as the board of trustees of the Federal Savings and Loan Insurance Corporation, is likewise responsible for the supervision of State-chartered insured institutions necessary to protect the Corporation's interests and to accomplish the purposes for which the Corporation was created.

SUPERVISORY FUNCTIONS

Under the direction of the Governor, the supervisory function is exercised by the Chief Supervisor in Washington and through the officers of the Federal Home Loan Banks, who act as agents of the Board for this purpose. The Office of Assistant Governor has been created to act as a liaison between the 12 regional banks and the Governor in connection with supervision of member institutions.

The objectives of the Board's supervision are: (1) Compliance with the statutes and the regulations governing the institutions supervised;

(2) development and maintenance of sound and economical home-financing and sound thrift policies among institutions supervised; and (3) the maintenance of solvent, well-managed institutions.

EXAMINING DIVISION

The Examining Division of the Board, which acts solely as a fact-finding body, ascertains the facts regarding the financial status and policies of all such supervised institutions, and such other facts as may be required for a determination as to whether these institutions are operating within the law and regulations.

This Division is responsible for all examinations required by the Federal Home Loan Bank Board, the Federal Savings and Loan Insurance Corporation, the Federal Home Loan Banks, and the Home Owner's Loan Corporation (in connection with requests for investments by that Corporation pursuant to section 4 (a) of the Home Owners' Loan Act of 1933 as amended). It prepares analyses of such examinations and of all investment requests. While primarily for the benefit of the proper functioning of the Board, these activities are of especial value to examined institutions themselves in assisting them to solve their internal management problems.

Representatives of the Examining Division counsel with the executives of an examined institution only on subjects relating to accounting methods. Its findings are submitted to and reviewed by supervisory authorities, who take necessary supervisory action. The Chief Examiner is in the Washington office of the Board. A regional office in charge of a district examiner is located in each of the 12 bank districts, and quartered in or near the Federal Home Loan Bank of the district.

The Examining Division makes at least one complete examination annually of each Federal savings and loan association and each State-chartered insured institution. The numbers of both types are continually increasing, adding to the responsibilities of the Division.

During the past year 5,189 individual examinations or analyses were made by the Examining Division. Approximately half of these were in connection with supervisory work or with the eligibility of institutions for membership, conversion to Federal charter, and insurance of accounts. The remainder were in connection with the investment of Home Owners' Loan Corporation funds in member or insured institutions.

Since loans upon real estate comprise the principal assets of the institutions supervised by the Board, the Examining Division occasionally requires physical appraisals of the real estate underlying portions of these loans. These are generally made by independent fee appraisers under the direction of the examining officials.

LEGAL OPERATIONS

Due to the increase in the number of member and federally and State-chartered insured institutions and in the volume of Home Owners' Loan Corporation investments in savings institutions, the supervisory law work increased more rapidly than any other phase of legal work during the year. Through coordination with the counsels for the 12 Federal Home Loan Banks, and, wherever possible, with the

legal representatives of State supervisory authorities, economies consistent with the supervisory responsibilities of the Board are being obtained. As a result, the consolidated Legal Department of the Board has no field personnel or administrative expenses other than a minimum for travel expenses.

This legal activity is contributing toward the uniformity of operations of members of the Bank System, Federal savings and loan associations, and other insured institutions, bringing about closer compliance with the laws and regulations of the various jurisdictions and substantially reducing supervisory difficulties. Interpretative opinions are made available to the entire membership of the Federal Home Loan Bank System through the Board's monthly publication, the Federal Home Loan Bank Review.

DIVISION OF RESEARCH AND STATISTICS

By consolidating all statistical and economic research activities of the Board and its agencies in one division, efficient operation at low cost is obtained.

The Division of Research and Statistics conducts its activities under three major categories: (1) The preparation and analysis of operating reports; (2) special studies in the field of economic research; and (3) surveys of local communities, with particular reference to real-estate finance.

The preparation and analysis of routine reports include the collection, compilation, and summarization of monthly records of mortgage-lending activity from savings and loan associations in every State. These reflect the volume of new mortgage loans segregated by purpose of loan and by type of institution. A complete and detailed file record of the resources of institutions of the savings and loan type, as well as all other home-financing institutions, is maintained, from which quarterly reports are prepared reflecting the changes and progress in membership in the Federal Home Loan Bank System, and the growth in Federal and insured institutions. Periodically throughout the year, analytical reports are compiled from available data reflecting changes in the resources of all State-chartered nonmember savings and loan associations, mutual savings banks, and insurance companies eligible for membership. In addition, each year, this Division prepares a summary, containing analytical exhibits and comments, of the annual reports of all members of the Federal Home Loan Bank System.

The research program, so far as it pertains to the Bank System, includes studies of member savings and loan associations by size of institution and by locality, with consideration given to the trend of the major balance-sheet items over a period of years. Special studies are made of Federal associations and State-chartered insured institutions as an aid to supervision. The growth and progress of savings and loan associations, mutual savings banks, and insurance companies are compared and analyzed, and the movement of various balance-sheet items studied.

In addition to this research work, which pertains specifically to financial institutions, special studies of real-estate and home-financing conditions, specifically applicable to the operations of the Federal Home Loan Bank System, are made. These include the volume and rate of residential construction by locality in actual terms and on a

seasonally adjusted basis over a period of years. Regular reports on building activity, real-estate foreclosures, and the cost of residential construction are prepared. Special studies show the growth and variation in resources and the volume of mortgage-lending activity of insurance companies. Reports on the progress of savings in various types of financial institutions are now nearing completion. Additional studies on real-estate financing, now in process, will greatly increase the available information and will supply material of considerable value and use in the supervision of Bank System operations.

Real-estate operations and home-mortgage financing require that full consideration be given to prevailing local conditions. In order that the Board and the administrative officers may formulate sound policies in regard to the approval of financial institutions for membership in the Bank System, for federalization, for insurance of shares, and for H. O. L. C. share investments, intimate knowledge of all the factors and trends affecting home-mortgage financing in the respective local communities is necessary. Unless an examination report of an institution is analyzed in relation to the local economic, mortgage, and real-estate conditions, erroneous decisions may be reached.

The Division of Research and Statistics prepares and maintains survey reports for all cities of 40,000 population and over, which are designed to give current, accurate, and comprehensive information of local economic and mortgage conditions. These reports include such subjects as community income, stability of manufacturing, wholesale and retail-trade activity, type of population and trends, labor and employment conditions; taxation and bonded debt; real-estate activity; amount of the overhang of large real-estate holdings; the trend of foreclosure and property acquisitions; the need for new housing; the mortgage policies and programs of other financial agencies; comparison of volume of mortgage lending, policies, and terms, by type of lending institutions for the period 1929–37, and the effects of Government home-financing activity; current home-mortgage volume, demand and activity, interest and dividend rates on mortgages and savings; and the relative position in the home-mortgage field by group and type of lender.

An adequate number of copies of all city-survey reports are furnished administrative and operative officials in the home and field offices, including the Federal Home Loan Banks. Field work supplemented by all usable material already existing and available from other Government and private sources is employed in the preparation of these reports.

FEDERAL HOME LOAN BANK REVIEW

The Federal Home Loan Bank Review, the publishing of which is an activity of the Public Relations Department, was created in October 1934, to be a regular monthly medium of communication with member institutions of the Federal Home Loan Bank System. It has five major objectives:

1. To maintain a permanent official record of the current operations of the four agencies under the Board.

2. To provide the Board a regular means of contact with member institutions of the Bank System, and to give a sense of unity to, and raise the standards of, the Nation's principal home-financing institutions.

3. To provide a channel for the dissemination of sound principles and sound techniques for home financing and related activities.

4. To present through the medium of statistical tables, indexes, and charts a factual picture of current activities in home financing and home construction in the United States.

5. As a last broad general objective, to help in correlating the activities of the various Federal agencies active in the fields of home financing, home construction, and housing.

Each issue of the Review groups its material under three general headings. A general section is devoted to informative material based upon analysis of current research in the field of housing and home financing. Its purpose is to present clearly and accurately the soundest principles and techniques developed for home finance, and to analyze and evaluate basic trends. A second general portion of the Review is made up of an analysis of residential construction and home financing based upon selected statistical material developed by the Federal Home Loan Bank Board's Division of Research and Statistics, and by other governmental and private agencies. Each month the most important trends are discussed and related to the activities of the four agencies under the Board. The third general section is essentially reportorial. It makes available information concerning the activities of the four agencies under the Board; transmits Board resolutions, counsel's opinions, and administrative rulings; and maintains a current directory of member, Federal, and insured institutions.

On June 30 the circulation list of the Review comprised an extremely representative cross section of the whole field of urban home-mortgage finance, reflecting the interest not only of home-financing institutions but also of appraisers, real-estate dealers, material suppliers, educators, research analysts, and of the many other people and institutions which require useful and accurate information upon current trends in the urban home market. It is also extensively studied by classes in economics in colleges and universities throughout the country. The guiding policy of the Review is to give an increasingly comprehensive and accurate picture of residential construction and home financing.

BUDGET FOR ADMINISTRATIVE EXPENSE

Although the Board did not operate under a congressional appropriation during the fiscal year, its expenditures were in accordance with a budget approved by the Director of the Budget. Beginning with the new fiscal year, the administrative expenses of the Board and its agencies will be governed by the provisions of the Independent Offices Appropriation Act, 1938.

ADMINISTRATIVE EXPENSES OF THE FEDERAL HOME LOAN BANK BOARD

Except for funds appropriated for the organization and development of Federal savings and loan associations, the Federal Home Loan Bank Board has not required any Government appropriation since July 1, 1933. It has been operated entirely on a self-supporting basis through assessments made against the 12 Federal Home Loan Banks, the Home Owners' Loan Corporation, the Federal Savings and Loan Insurance Corporation, the savings and loan promotion fund, and the associations examined.

The following tabulation shows the administrative receipts and disbursements for the fiscal year:

Balance as of June 30, 1936		$343, 685. 47
Receipts:		
Assessments upon—		
Federal Home Loan Banks	$232, 003. 40	
Home Owners' Loan Corporation	221, 948. 32	
Federal Savings and Loan Insurance Corporation	82, 442. 05	
Savings and loan promotion, Federal Home Loan Bank Board	24, 106. 11	
Examining receipts	469, 444. 52	
Miscellaneous refunds	1, 331. 32	
		1, 031, 275. 72
Total cash and receipts		1, 374, 961. 19
Disbursements:		
Salaries	$847, 416. 40	
Supplies and materials	4, 460. 96	
Communications	14, 872. 96	
Travel	134, 617. 25	
Transportation of things	272. 33	
Printing and binding	12, 804. 11	
Photographing and duplicating	2, 890. 83	
Rents	13, 805. 69	
Equipment, furniture and fixtures	4, 189. 95	
Special and miscellaneous	8, 036. 92	
Total disbursements	1, 043, 367. 40	
Repayments to Home Owners' Loan Corporation and Federal Savings and Loan Insurance Corporation for partial retirement of amounts previously advanced by the 2 Corporations	75, 000. 00	
		1, 118, 367. 40
Balance as of June 30, 1937		256, 593. 79

The status of the savings and loan promotion fund, as of June 30, is in the report of the Savings and Loan Division.

FEDERAL SAVINGS AND LOAN ADVISORY COUNCIL

During the year two meetings were held by the Federal Savings and Loan Advisory Council, created by the Congress under the act of May 28, 1935. This council consists of 1 member elected by each of the 12 boards of directors of the Federal Home Loan Banks, and 6 members appointed by the Federal Home Loan Bank Board. It selects its chairman, vice chairman, and secretary, and adopts its own method of procedure. It confers with the Board and the board of trustees of the Federal Savings and Loan Insurance Corporation on general business conditions and on special conditions affecting the Federal Home Loan Banks, their members, and the Insurance Corporation. It may request information and make recommendations on matters within the jurisdiction of the Board and the trustees of the Corporation. The council made many helpful recommendations and suggestions during the year.

The officers and membership of the council, as of June 30, were as follows: I. Friedlander, chairman, ninth district, elected by bank; Col. Charles B. Robbins, vice chairman, eighth district, appointed by Board; H. F. Cellarius, secretary, fifth district, elected by bank; Edward H. Weeks, first district, elected by bank; LeGrand W. Pellet,

second district, elected by bank; James Bruce, second district, appointed by Board; J. J. O'Malley, third district, elected by bank; George W. Bahlke, fourth district, elected by bank; George W. West, fourth district, appointed by Board; T. H. Tangeman, fifth district, appointed by Board; F. S. Cannon, sixth district, elected by bank; Morton Bodfish, seventh district, elected by bank; Charles E. Broughton, seventh district, appointed by Board; John F. Scott, eighth district, elected by bank; George E. McKinnis, tenth district, elected by bank; Frank S. McWilliams, eleventh district, elected by bank; Ralph H. Cake, eleventh district, appointed by Board; Edwin M. Einstein, twelfth district, elected by bank.

BANK PRESIDENTS' COUNCIL

The Bank Presidents' Council, created by resolution of the Board, and consisting of the executive heads of the 12 Federal Home Loan Banks, also held two meetings during this fiscal period. It considered various problems in the field or referred to it by the Federal Home Loan Bank Board. Its particular attention was directed to the detailed administration of the bank system and plans for supervision. Recommendations and suggestions of constructive value in the administration of the banks were made to the Board.

FEDERAL HOME BUILDING SERVICE PLAN

The Federal Home Building Service Plan, formally adopted by the Board on September 25, 1936, is a program to improve underlying mortgage security by obtaining good design and sound construction. It is being developed, in cooperation with the regional Federal Home Loan Banks, through the facilities of the several agencies under the Board, particularly the Reconditioning Division of the Home Owners' Loan Corporation.

Substantial progress is being made toward the initial objective of placing the program under operation in at least one important city in each regional bank area. At the close of the year the program was under development in some 30 cities.

Excellent cooperation has been given both nationally and locally by the organized architectural profession. The plan was described in detail in the March 1937 issue of the Octagon, published by the American Institute of Architects. At the convention of the institute in June 1937 resolutions were adopted commending the Board for its efforts to promote sound construction policies in the small-house field and instructing its Housing Committee to continue its cooperation with the Board.

III

Federal Home Loan Bank System

WHY A NATIONAL RESERVE SYSTEM?

PRIOR to 1930, home-mortgage finance was seldom regarded as a national problem. As the result of local efforts, considerable progress had been made in the promotion of thrift and in the provision of funds for the financing of homes. This progress was evidenced by the growth of savings and loan associations and similar institutions throughout the country. However, as the country developed, these institutions provided neither a sufficiently standardized system of thrift and home financing nor a sufficiently regular supply of funds for mortgage lending on reasonable terms.

The terms and conditions of lending funds on home mortgages varied greatly in different parts of the country. In many communities the flow of money into the home-financing field was uncertain and unsatisfactory. Moreover, practically every thrift and home-financing institution in the country was an isolated unit with no permanent reservoir of credit at its command. Thrift and home-financing institutions were dependent largely upon borrowings from commercial banks to meet any extraordinary demand for loans and withdrawals. In times of disturbance and distress, however, commercial banks themselves were in need of money and tended to call their loans, thus aggravating rather than mitigating difficult situations. It took the sad experience of the years 1930 to 1933 to bring about the realization that the welfare of home ownership as well as the economic position of the country was seriously in danger as a result of these conditions.

FUNCTIONS OF THE SYSTEM

The Federal Home Loan Bank System, established by the Federal Home Loan Bank Act of 1932, was created to effect a much needed reform in the field of home finance. Its primary purpose is to furnish

local thrift and home-financing institutions with a permanent reservoir of credit. The Federal Home Loan Bank System is thus designed to perform the same function in the field of home-mortgage credit that the Federal Reserve System, created in 1913, performs as a credit reserve for commercial banks, and that the Federal Land Banks, set up in 1917, perform in the field of farm finance.

In the history of our monetary system, the Federal Home Loan Banks represent another constructive step toward the achievement of stability in the country's financial structure, and greater resistance against the evils of booms and slumps. Through its discount facilities, the Bank System provides protection against sudden withdrawals of funds from member institutions. Through the issuance of debentures, it is in a position to tap the general credit resources of the country. The System has become an important factor in the supply of mortgage funds and thereby in the promotion of housing. The Federal Home Loan Bank System, furthermore, provides a means of equalizing the distribution of mortgage credit throughout the country by shifting funds to those localities and areas in which they are most needed. To the Nation as a whole, therefore, the System has brought an increase in the volume of credit available for home finance and also a better distribution of home-mortgage funds over the country.

At the same time the Federal Home Loan Bank System has been influential in the development of sound and economical policies for the operation of home-financing institutions. It has played an important part in securing widespread adoption of savings and investment plans which are simple, attractive, and safe, and which tend to encourage the accumulation of savings.

In order to give each section of the country access to the facilities of the Bank System, the United States, including Puerto Rico, the Virgin Islands, and the Territories of Alaska and Hawaii, has been divided into twelve districts with a Federal Home Loan Bank in each area, as shown on the map opposite page 21. The Board of each District Bank is composed of twelve directors, eight of whom are elected by member institutions and four appointed by the Federal Home Loan Bank Board to represent the public interest.

GROWTH OF MEMBERSHIP AND RESOURCES

At present, the twelve Federal Home Loan Banks and their 3,956 members, holding total assets of $4,308,104,000, constitute the largest

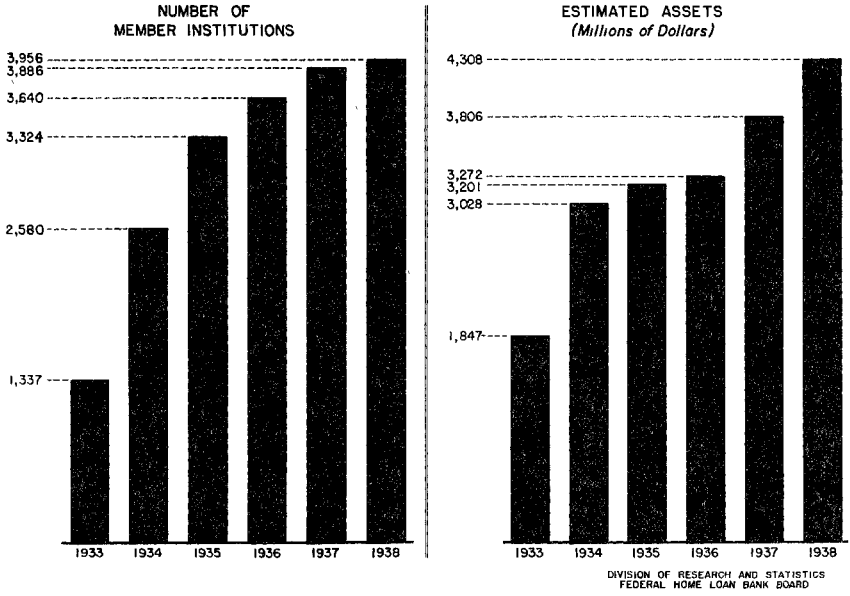
home-mortgage credit pool in the world. Practically every community in the Nation is now actively served by one or more member thrift and home-financing institutions.

The following graph shows the continuous growth of membership and total assets of member institutions:

CHART VI

GROWTH OF MEMBERSHIP AND RESOURCES OF THE FEDERAL HOME LOAN BANK SYSTEM

FIGURES AS OF JUNE 30



Membership in the Federal Home Loan Bank System is open to building and loan associations, savings and loan associations, homestead associations, cooperative banks, savings banks, and insurance companies, which are engaged in making long-term home loans. The bulk of present membership consists of savings and loan associations. Only those institutions are selected which, upon application for membership, are found to be solvent, well-managed organizations engaged in sound and economical home financing. Under the law, all Federal savings and loan associations (further reference to which is made in another section of this report) are required to be members of the System.

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The following table presents a comparison of the number and estimated assets of members, by type of institution, as of June 30, 1937, and June 30, 1938:

	June 30, 1937		June 30, 1938		Net increase in fiscal year	
	Number	Assets (millions of dollars)	Number	Assets (millions of dollars)	Number	Assets (millions of dollars)
Savings and loan associations [1]	3,866	3,470	3,909	3,700	43	230
State-chartered	2,585	2,484	2,572	2,487	−13	3
Federally-chartered	1,281	986	1,337	1,213	56	227
Other members	20	337	47	608	27	271
Savings banks	8	163	9	203	1	40
Insurance companies	12	174	38	405	26	231
Total	3,886	3,807	3,956	4,308	70	501

[1] Includes homestead associations and cooperative banks.

During the fiscal year ended June 30, 1938, membership of the Federal Home Loan Bank System showed a net increase of 70 institutions, of which 26 were insurance companies. The decrease in number of State-chartered savings and loan associations was in large part due to conversions from State to Federal charter and to mergers and consolidations.

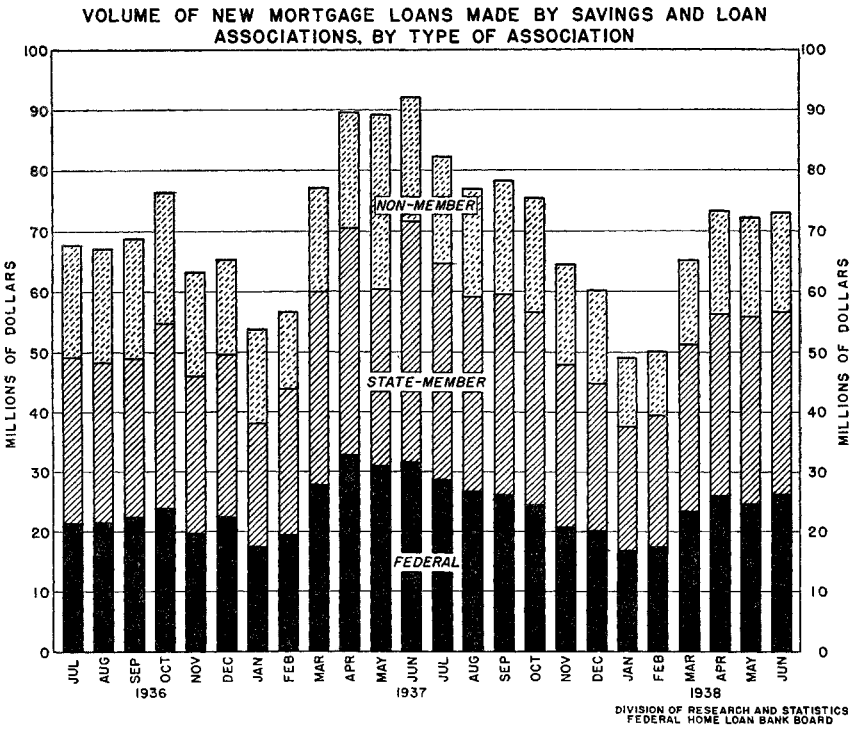
Exhibit 6 gives the number and estimated resources of member institutions for each Federal Home Loan Bank District by fiscal years.

LENDING ACTIVITY OF MEMBER INSTITUTIONS

With its present membership, the Federal Home Loan Bank System represents a considerable percentage of the volume of home-mortgage lending by all financial institutions. The estimated total amount of home-mortgage loans made by financial institutions (savings and loan associations, commercial banks, savings banks, insurance companies) in the fiscal year ended June 30, 1938, was approximately $1,474 million. Of this total, $563 million was loaned by member savings and loan associations. In other words, approximately 40 percent of the amount of home-mortgage loans written by institutional lenders in that period was loaned by member institutions of the Federal Home Loan Bank System. Since the average mortgage loan made by savings and loan associations is smaller than that made by other financial institutions, the lending activity of member associations was even higher in terms of the number of loans or the number of homes financed.

The following Chart shows the estimated volume of new loans made by savings and loan associations in the fiscal years 1937 and 1938, by type of institution:[1]

CHART VII



Over the last two fiscal years, total member associations accounted for 75 percent of the amount of all loans made by savings and loan associations, both member and nonmember—a measure of the significance of the Bank System in the savings and loan field.

The peak of recent lending activity of savings and loan associations was reached in June 1937 with total loans of $92,211,000. From July 1937 to January 1938, the monthly volume of new loans showed a gradual decline. Since January, lending activity has increased again,

[1] The Chart includes loans for "other purposes" as well as home-mortgage loans.

reaching $73,067,000 in June 1938. During the fiscal year 1938, total loans made by all savings and loan associations amounted to about $820,686,000 as compared to $868,345,000 during the preceding fiscal year, a decrease of 5.5 percent. In view of the sharp decline in other business indices, this is a very slight decrease of activity.

Exhibits 7 and 8 give a detailed account of the volume of new loans made by savings and loan associations in the fiscal year 1938, classified by type of loan and type of institution.

The following table shows the distribution of total loans made by member institutions for construction, home purchase, refinancing, reconditioning, and other purposes in each of the fiscal years 1937 and 1938:

Distribution of new mortgage loans made by members of the Federal Home Loan Bank System, according to purpose

Purpose of loan	Fiscal year 1937		Fiscal year 1938	
	Dollars	Percent	Dollars	Percent
Construction	185,388,000	28.4	177,548,000	28.2
Home purchase	217,518,000	33.4	209,272,000	33 2
Refinancing	146,582,000	22 5	134,558,000	21.4
Reconditioning	39,535,000	6.1	41,981,000	6 7
Other	63,003,000	9.6	66,201,000	10 5
Total	652,026,000	100.0	629,560,000	100.0

Construction and reconditioning loans were approximately 35 percent of total loans throughout the period under consideration. One-third of total loans went for home purchase, and about 21 to 23 percent was used for refinancing purposes.

CONDENSED BALANCE SHEET ITEMS OF MEMBER INSTITUTIONS

Member institutions of the Federal Home Loan Bank System are required to submit to the Banks reports covering their operations during each calendar year. On the basis of these reports, the Division of Research and Statistics of the Federal Home Loan Bank Board has prepared a consolidated statement of balance sheet items reflecting the business trend of member institutions during the year 1937. This information is presented in Exhibit 9, which shows actual dollar amounts, and Exhibit 10, which gives the percentage distribution of balance sheet items.

Generally, movements during 1937 were favorable in most of the major balance sheet items. In each type of member institution, first-mortgage loans outstanding increased in proportion to total resources; the ratio of second mortgages to total assets dropped; the ratio of real estate owned likewise decreased, except for the nine savings banks covered in the report. The decrease in the ratio of cash to total assets reflects the feeling that liquidity at present is not so essential as it was in past years, and that there are sufficient mortgage risks good enough to prompt a shift of available funds from cash to first mortgages.

Member institutions of the Federal Home Loan Bank System at the end of 1937 held first-mortgage loans amounting to nearly $2.8 billion. This total was distributed among the several types of institutions as follows:

Type of member institution	Amount of first mortgages held at end of 1937	Percent of total	Ratio to total assets of members of same type
Federal savings and loan associations	$872,513,000	31.64	79 39
Insured State-chartered associations	472,429,000	17.13	72.03
Noninsured State-chartered associations	1,238,345,000	44.90	69.07
Savings banks	59,376,000	2.15	29.45
Insurance companies	115,193,000	4.18	31.34
Total	2,757,856,000	100.00	

The ratio of first mortgages to total assets naturally is higher for Federal and State-chartered savings and loan associations than for savings banks and insurance companies, since the latter invest only part of their funds in home mortgages.

The $2,583,000,000 of first-mortgage loans held by Federal Home Loan Bank members of the savings and loan type represents approximately 70 percent of the $3,700,000,000 in mortgages held by all savings and loan associations.

During 1937, the ratio of real estate owned to total assets decreased from 15.74 percent to 12.54 percent for all member institutions. With the rate of foreclosures still above normal, this decrease indicates a favorable movement in the real-estate market. A substantial portion of the real estate disposed of, however, was sold "on contract"; that is, on an installment contract without immediate transfer of title. The ratio of real estate sold on contract to total resources increased from 2.82 percent to 3.20 percent during the year.

At the end of 1937, the ratio of private share investments ("other free shares" and "pledged shares") to total resources was 62.89 percent in Federal and 66.14 percent in State-chartered member associations. Approximately 20 percent of total assets of Federal associations and 1.5 percent of total assets of State-chartered members were represented by Government share subscriptions (HOLC and Treasury). Nearly 10 percent of the resources of Federal associations were obtained by advances from the Federal Home Loan Banks to these associations, as compared with 7.67 percent at the close of 1936. In the case of State-chartered member associations, this ratio was 3.92 percent and 3.50 percent, respectively. The ratio of other borrowed money to total resources has constantly decreased in the past few years and is now almost negligible.

The ratio of reserves to total assets decreased in 1937. This decline was due mainly to the fact that the increase in total resources has outrun the accumulation of reserves.

ADVANCES OF THE FEDERAL HOME LOAN BANKS

By means of advances, the Federal Home Loan Banks provide their member thrift and home-mortgage institutions with additional funds. They thus increase the liquidity of member institutions and contribute to the expansion or maintenance of their lending activities. Advances are made on a secured or unsecured basis. Secured advances are collateralized by home mortgages or obligations of or guaranteed by the United States. Advances secured by home mortgages may be made up to 90 percent of the unpaid principal of home mortgages insured under Title II of the National Housing Act and up to 65 percent of the unpaid principal of other home mortgages, but not in excess of 60 percent of the appraised value of the home. Unsecured advances for not more than one year may be made to members whose creditor liabilities (not including advances from the Federal Home Loan Banks) do not exceed 5 percent of their net assets. All advances, whether secured or unsecured, are further collateralized in each case by an investment of the borrower in the stock of the Bank of at least one-twelfth of total outstanding advances to such borrower. It will thus be seen that the margin of protection behind these advances is substantial.

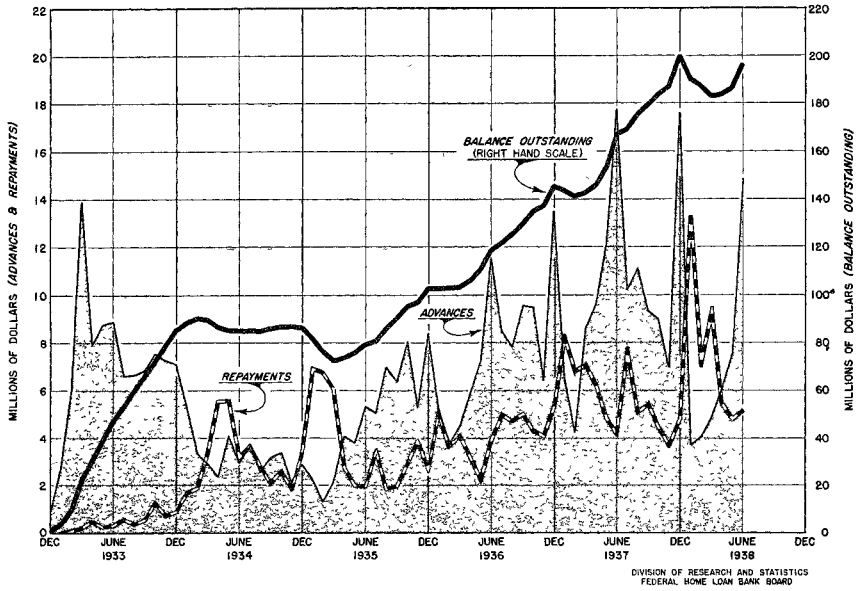
During the fiscal year ended June 30, 1938, the total amount of advances made was $105,432,158, and the total amount repaid,

$76,264,107. The balance of advances outstanding as of June 30, 1938, was $196,224, 937, as compared to $167,056,887 on June 30, 1937.

The following Chart illustrates the growth of lending activities of the twelve Federal Home Loan Banks from the beginning of operations to June 30, 1938:

CHART VIII

ADVANCES AND REPAYMENTS BY MONTHS AND BALANCE OF ADVANCES OUTSTANDING



During the past fiscal year, the volume of advances outstanding reached a new high. Such advances amounted to $200,000,000 at the end of 1937, but fell off during subsequent months as a result of heavy repayments of member institutions which, in turn, reflected the reduced demand for mortgage loans. Advances outstanding decreased to $183,125,490 at March 31, 1938, increased in the following months, and reached $196,224,937 on June 30, 1938.

Exhibit 11 presents a tabulation showing by months, from the beginning of operations, the amount of advances and repayments, and the balance of advances outstanding. The total volume of gross advances of the Banks in the 6 years of operation was $446,364,316. Exhibit 12 shows advances outstanding of each of the twelve Banks at the close of each fiscal year.

Of the $196,224,937 outstanding on June 30, 1938, $163,386,013 was collateralized by mortgages, obligations of or guaranteed by the United States Government, and capital stock of the Banks, while $32,838,924 was noncollateralized, except for capital stock of the Banks paid in by borrowing members. Exhibit 13 gives detailed information on the trend of collateralized and noncollateralized advances by half-year periods.

The following figures show the percentage of long-term and short-term advances at the end of each fiscal year, long-term advances being loans up to 10 years, and short-term advances being loans up to 1 year. The data reveal an increasing tendency of the member institutions to borrow on a long-term basis.

Percentage of long-term and short-term advances to members as of June 30

	Long-term	Short-term		Long-term	Short-term
1933	36.6	63.4	1936	63.0	37.0
1934	68.0	32.0	1937	70.8	29.2
1935	64.4	35.6	1938	76.0	24.0

The growing credit requirements of the members in recent years are reflected in the increasing number of borrowing members as compared to non-borrowing members. The ratio of borrowing members to total membership was 54.6 at the close of the fiscal year 1935, 63.6 at June 30, 1936, 67.3 at June 30, 1937, and 67.8 at June 30, 1938. Exhibit 14 indicates the changes in the percent of members borrowing from each of the twelve Banks.

The borrowing capacity of the members is far from being exhausted by the present volume of advances. On June 30, 1938, the 3,956 members of the Federal Home Loan Bank System had a potential borrowing capacity of approximately $1,454,000,000, or seven times the present borrowings. The potential borrowing capacity represents the approximate amount for which each member can legally obligate itself or 50 percent of its net assets whichever amount is lower. The amount of potential borrowing capacity does not necessarily mean that the members of the System can borrow to that limit, since lines of credit may be established for lesser amounts. However, it does give an indication of the maximum extent to which the twelve Federal Home Loan Banks may be called upon to supply credit in the home financing field.

CAPITAL STOCK OF THE FEDERAL HOME LOAN BANKS

The sources of funds which may be advanced to members are the capital stock of the Federal Home Loan Banks, debentures of the Banks, deposits of member institutions in the Banks, and interbank deposits.

The capital stock of the Federal Home Loan Banks is made up by subscriptions of member institutions and of the Federal Government. Each member institution must subscribe to the capital of the Federal Home Loan Bank of which it is a member to the extent of one percent of the aggregate unpaid principal of its home mortgages, but not less than $500. A borrowing member institution is required to have paid in an amount not less than one-twelfth of its outstanding advances from the Bank.

Realizing the need for the creation of a national mortgage reserve system and in order to give the system its initial financial impetus, the Congress committed the Treasury to subscribe to the capital of the Federal Home Loan Banks up to a total amount of $125,000,000. During the fiscal year ended June 30, 1938, the Secretary of the Treasury paid $4,227,000 on this commitment with the result that the entire Treasury subscription amounting to $124,741,000 was paid in at the end of the fiscal year.

During the fiscal year 1938, there was a net increase in members' subscriptions to stock in the Federal Home Loan Banks of $5,038,200; total payments on members' stock subscriptions aggregated $5,240,695.

As of June 30, 1938, the members of the Federal Home Loan Banks had subscribed to 368,720 shares of stock in the Banks, against which $36,771,205 had been paid to that date, leaving a balance of $100,795 still due on account of such subscriptions.

The combined capital stock structure of the Federal Home Loan Banks may be summarized as follows:

	June 30, 1937	June 30, 1938
Total stock subscriptions:		
Members	$31,833,800	$36,872,000
United States Government	124,741,000	124,741,000
Payments received on stock subscriptions:		
Members	31,530,510	36,771,205
United States Government	120,514,000	124,741,000
Balance due on above stock subscriptions:		
Members	303,290	100,795
United States Government	4,227,000	

There is attached as Exhibit 15 a statement, as of June 30, 1938, reflecting by districts and States the number of member institutions, their estimated resources, the amount of shares subscribed by such institutions, the balance of advances outstanding, the number of borrowing member institutions, and the estimated borrowing capacity of such member institutions.

DEBENTURE ISSUES

Up to the middle of 1937, the capital of the Federal Home Loan Banks was sufficient to meet the members' demands for advances. With the constantly increasing requirements resulting from the growth of the System and the rising activity of its member institutions, however, the Federal Home Loan Banks found it necessary to enter the financial markets in order to raise additional money. It may well be said that with this independent financing, the Federal Home Loan Bank System has come of age.

From the outset, the Congress anticipated access by the Bank System to the financial resources of the country. According to the Federal Home Loan Bank Act, each Federal Home Loan Bank has power, subject to rules and regulations prescribed by the Bank Board, to issue debentures, bonds, or other obligations upon such terms and conditions as the Board may approve. The Act also provides that the Board may issue consolidated Federal Home Loan Bank bonds which shall be the joint and several obligations of all the Federal Home Loan Banks, and shall be secured and be issued upon such terms and conditions as the Board may prescribe. In addition, the Act provides that the Board may issue consolidated Federal Home Loan Bank debentures which shall be the joint and several obligations of all Federal Home Loan Banks. The issuance of such debentures has been safeguarded by special restrictions. According to the Act, no debentures shall be issued at any time if any of the assets of any Federal Home Loan Bank are pledged to secure any debts or subject to any lien, and neither the Board nor any Bank shall have power to pledge any of the assets of any Federal Home Loan Bank, or voluntarily to permit any lien to attach to the same while any of such debentures are outstanding. Debentures outstanding shall at no time exceed five times the total paid-in capital of all Federal Home Loan Banks as of the time of issue of such debentures, and it is the duty of the Board not to issue debentures in excess of the notes or obligations of member institutions

held by all Federal Home Loan Banks and secured by home mortgages or obligations of or guaranteed by the United States.

The securities issued to date are consolidated Federal Home Loan Bank debentures. The advantage of a consolidated issue appeared compelling from the various viewpoints of convenience, expense, and rate obtainable in the market.

Up to July 1, 1938, five issues of these debentures have been offered amounting to a total of $142,700,000, of which two issues amounting to $52,700,000 were repaid at maturity. The total amount outstanding as of July 1, 1938, was $90,000,000. The debentures were immediately accepted by the financial community. Each of the offerings was heavily oversubscribed, and the market for all issues has been generally at a premium over the original offering price.

Debenture issues of the Federal Home Loan Banks

No of series	Date of issue	Maturity	Amount	Interest rate
				Percent
A [1]	Apr. 1, 1937	Apr. 1, 1938	$24,700,000	1½
B [1]	July 1, 1937	July 1, 1938	28,000,000	1¾
C	Dec. 1, 1937	Dec. 1, 1940	25,000,000	2
D	Apr. 1, 1938	Apr 1, 1943	23,500,000	2
E	July 1, 1938	July 1, 1939	41,500,000	1

[1] Series A and B have been repaid.

Detailed information with respect to the participation of the twelve Banks in the debenture issues is set forth in Exhibit 16.

DIVIDENDS PAID AND INTEREST CHARGED

In the fiscal year ended June 30, 1938, each of the Federal Home Loan Banks declared dividends ranging from one percent to two percent per annum. The annual dividend rate on the average capital stock of the twelve Banks for the fiscal year ended June 30, 1938, amounted to 1.57 percent.

The United States Government is receiving annually the same return on its capital as is received by the member institutions. From the beginning of operations through June 30, 1938, the twelve Banks have declared dividends totalling $10,296,705, of which $8,184,586 went to the United States Government, and $2,112,119 to private member institutions. Exhibit 17 shows the dividends declared by each Bank to members and to the Government.

On June 30, 1938, the twelve Federal Home Loan Banks were charging interest on advances to members ranging from 3 percent to 3¾ percent. Such rates are set out in detail in Exhibit 18.

Apart from consolidated debentures, borrowings of the twelve Federal Home Loan Banks have been in the nature of interbank deposits. Such deposits may be termed to be on a demand basis and bear rates of interest ranging from 1½ percent to 2 percent per annum.

SUMMARY OF FINANCIAL OPERATIONS OF THE FEDERAL HOME LOAN BANKS

During the fiscal year ended June 30, 1938, the consolidated gross income of the Federal Home Loan Banks was $7,260,623. Total expenses during the period in question were $2,504,733. The net income of the twelve Federal Home Loan Banks for the fiscal year 1938, therefore, amounted to $4,755,890, as compared with $3,630,236 in the preceding year. The Banks were earning about 3 percent on their capital.

Consolidated profit and loss account of the twelve Federal Home Loan Banks

	Fiscal year 1937	Fiscal year 1938
Gross operating income:		
Interest earned on advances	$4,472,810	$5,952,844
Interest earned on investments	335,578	751,354
Gross operating income	4,808,388	6,704,198
Less—Operating charges:		
Compensation, travel, etc	774,326	890,255
Interest on debentures	52,481	935,179
Debenture expense—commissions	9,590	101,874
Debenture expense—other	10,105	42,719
Interest on deposits—members	149,175	162,109
Assessment for expenses of FHLBB	382,352	302,440
Total operating charges	1,378,029	2,434,576
Net operating income	3,430,358	4,269,622
Add—Nonoperating income:		
Profit on sale of investments	98,965	403,306
FHLB Board assessment refund	150,294	152,440
Miscellaneous	726	680
Total nonoperating income	249,985	556,426
Less—Nonoperating charges:		
Loss on sale of investments	462	375
Premium charged off on investments	49,646	69,782
Total nonoperating charges	50,108	70,157
Net nonoperating income	199,877	486,269
Net income	3,630,236	4,755,890

There is attached as Exhibit 19 a detailed statement of profit and loss for each of the Banks for the period July 1, 1937, through June 30, 1938.

On June 30, 1938, the total assets of the twelve Banks stood at $265,770,804, an increase of $68,807,254 during the fiscal year. Total capital stock, surplus, and undivided profits of the twelve Federal Home Loan Banks aggregated $167,981,331 as against $156,404,833 at the end of the preceding fiscal year. An analysis of the surplus and undivided profits of the twelve Federal Home Loan Banks individually and collectively, as of June 30, 1938, is given in Exhibit 20.

Consolidated statement of condition of the twelve Federal Home Loan Banks

	June 30, 1937	June 30, 1938
ASSETS		
Cash:		
On hand	$115,849	$46,742
On deposit with:		
U. S. Treasurer	5,752,210	28,917,145
Commercial banks	2,096,497	5,346,433
Federal Home Loan Bank of New York, agent	15,000	15,000
Other Federal Home Loan Banks		
In transit	22,496	9,536
Total cash	8,002,052	34,334,856
Deposit with U. S. Treasurer for matured obligations		6,302
Investments:		
U. S. Government obligations and securities guaranteed by U. S.	21,244,449	34,445,173
Advances outstanding:		
Members	167,053,742	196,222,132
Nonmembers	3,145	2,805
Total advances outstanding	167,056,887	196,224,937
Accrued interest receivable:		
Deposits—other Federal Home Loan Banks		
Investments	171,526	186,384
Advances to members	417,040	453,707
Advances to nonmembers	27	24
Total accrued interest receivable	588,593	640,115
Deferred charges:		
Prepaid debenture expense	51,785	106,161
Prepaid assessment—Federal Home Loan Bank Board	5,929	
Prepaid surety bond and insurance premiums	8,520	7,777
Other	66	66
Total deferred charges	66,300	114,004
Other assets:		
Accounts receivable	4,492	4,440
Miscellaneous	775	975
Total other assets	5,267	5,415
Total assets	196,963,548	265,770,802
LIABILITIES AND CAPITAL		
Liabilities:		
Deposits:		
Members—time	12,329,633	16,668,818
Members—demand	2,417,925	3,204,538
Applicants	207,525	117,725
Other Federal Home Loan Banks		
Prepayment on advances	240,602	
Total deposits	15,195,685	19,991,081

Consolidated statement of condition of the twelve Federal Home Loan Banks—Contd.

	June 30, 1937	June 30, 1938
LIABILITIES AND CAPITAL—continued		
Liabilities—Continued.		
Accrued interest payable:		
Deposits—members	$21,246	$26,603
Deposits—other Federal Home Loan Banks		
Debentures	92,625	334,167
Total accrued interest payable	113,871	360,770
Dividends payable:		
U. S. Government	422,904	642,153
Members	125,030	207,145
Total dividends payable	547,934	849,298
Accounts payable	1,226	6,500
Premiums on debentures		75,521
Debentures outstanding	24,700,000	[1] 76,500,000
Matured obligations:		
Consolidated debentures		5,000
Interest on consolidated debentures		1,302
Total matured obligations		6,302
Total liabilities	40,558,717	97,789,472
Capital:		
Capital stock (par):		
Members (fully paid)	31,336,700	36,653,700
Members (partially paid)	497,100	218,300
Total	31,833,800	36,872,000
Less unpaid subscriptions	303,290	100,795
	31,530,510	36,771,205
U. S. Government subscription	124,741,000	124,741,000
Less amount uncalled	4,227,000	
Total paid in on capital stock	152,044,510	161,512,205
Surplus:		
Reserve as required under section 16 of Act	2,403,301	3,354,480
Reserve for contingencies		8,952
Total surplus	2,403,301	3,363,432
Undivided profits	1,957,020	3,105,693
Total surplus and undivided profits	4,360,321	6,469,125
Total capital	156,404,831	167,981,330
Total liabilities and capital	196,963,548	265,770,802

[1] On July 1, 1938, Series B, amounting to $28,000,000, was repaid and a new Series E issued, in the amount of $41,500,000, making a total amount outstanding of $90,000,000 as of July 1, 1938.

A detailed statement of condition on June 30, 1938, for each of the Banks is attached as Exhibit 21. A significant trend in the operations of the Federal Home Loan Banks during the past fiscal year has been the increase in liquidity. On June 30, 1938, cash and investments (which consist of obligations of or guaranteed by the United States) were $68.78 million as against $29.24 million at the end of the preceding fiscal year, a net gain of almost $40 million.

In the reporting period, the proportion of Government capital in the Banks to their combined resources has continued to decrease. From January 1934 to June 30, 1938, the percentage of Government funds has dropped from 82 percent of their combined assets to 46.9 percent, while the percentage of private funds has risen correspondingly. This increase of private funds was due to the augmented purchase of stock in the Banks by member institutions, to mounting deposits of the latter in the Banks, and to the sale of consolidated debentures of the Bank System.

ADMINISTRATION OF THE FEDERAL HOME LOAN BANK SYSTEM

Under the direction of the Board, immediate supervision over the operations of the twelve Federal Home Loan Banks is vested in the Governor of the Federal Home Loan Bank System. Each Bank is being examined at least twice a year. The supervision of member institutions is exercised by the Chief Supervisor in Washington and through the officers of the Federal Home Loan Banks, who act as agents of the Board for this purpose. Each member institution is required to furnish at least annually a report of its financial condition and operations. In addition, the Examining Division of the Board makes annual examinations and audits of Federal savings and loan associations, insured State-chartered savings and loan associations and member institutions where such members are not subject to State examination and supervision. Examinations are handled by the Washington office with a Chief Examiner in charge and 12 district offices, located in each of the Federal Home Loan Bank districts, with district examiners in charge.

On June 1, 1938, a revised codification of the rules and regulations for the twelve Federal Home Loan Banks was issued to comply as to form with the Act of June 19, 1937, amending the Federal Register Act. In the process of revision, only a few changes were made, all of which were of minor importance. The new codification has been filed with the Codification Board and will be published in the Federal Register.

As of July 1, 1938, total personnel of the Federal Home Loan Bank Board numbered 313 as against 359 on July 1, 1937. This includes, however, nine general departments which serve all agencies under the Board.

The Federal Home Loan Bank Board operates on a self-supporting basis through assessments made upon the twelve Federal Home Loan Banks, the Home Owners' Loan Corporation, the Federal Savings

and Loan Insurance Corporation, and through fees received from savings and loan associations examined.

In the fiscal year 1938, total receipts of the Federal Home Loan Bank Board amounted to $1,298,015 as compared with $1,031,275 in the preceding period. Disbursements totaled $1,262,132 as against $1,118,367 in the fiscal year 1937. The balance as of June 30, 1938, including a cash balance of $256,594 carried over from the previous year, amounted to $292,477. Exhibit 22 presents a tabulation showing in detail the administrative receipts and disbursements for the last two fiscal years.

FEDERAL SAVINGS AND LOAN ADVISORY COUNCIL

The Federal Savings and Loan Advisory Council, created by the Congress under the Federal Home Loan Bank Act, as amended, held two meetings during the year. It is the function of this Council to confer with the Federal Home Loan Bank Board on general business conditions and on special conditions affecting the Federal Home Loan Banks, their members, and the Federal Savings and Loan Insurance Corporation. It may request information and make recommendations on matters within the jurisdiction of the Board affecting the Federal Home Loan Banks, their members, and the Federal Savings and Loan Insurance Corporation. The Council consists of one member elected by each of the twelve Boards of Directors of the Federal Home Loan Banks and six members appointed by the Bank Board. At the meetings held during the year, the Council discussed numerous matters of importance to the agencies under the Board and made valuable suggestions.

The officers and membership of the Council in the last fiscal year were as follows: I. Friedlander, chairman, ninth district, elected by bank; Col. C. B. Robbins, vice chairman, eighth district, appointed by Board; H. F. Cellarius, secretary, fifth district, elected by bank; E. H. Weeks, first district, elected by bank; LeGrand W. Pellet, second district, elected by bank; James Bruce, second district, appointed by Board; J. J. O'Malley, third district, elected by bank; G. W. Bahlke, fourth district, elected by bank; G. W. West, fourth district, appointed by Board; T. H. Tangeman, fifth district, appointed by Board; F. S. Cannon, sixth district, elected by bank; Morton Bodfish, seventh district, elected by bank; H. G. Zander, seventh district, appointed by Board (at the second meeting, F. O. Schneider served as alternate); J. F. Scott, eighth district, elected by bank;

G. E. McKinnis, tenth district, elected by bank; F. S. McWilliams, eleventh district, elected by bank; R. H. Cake, eleventh district, appointed by Board; and E. M. Einstein, twelfth district, elected by bank.

BANK PRESIDENTS' COUNCIL

The Bank Presidents' Council, created by a resolution of the Board and consisting of the executive heads of the twelve Federal Home Loan Banks, also held two meetings during the reporting period. It considered current problems in the operation of the Banks and the supervision of member institutions, and contributed a number of helpful recommendations on these phases of the Bank Board's activities.

FEDERAL HOME BUILDING SERVICE PLAN

Sound mortgage lending depends closely on sound construction. If houses are jerry-built or poorly designed, property values and confidence in home ownership are threatened, and, finally, the security of mortgage loans representing the savings of millions of people is endangered. It was only a logical step forward in the fulfilment of its program, therefore, when the Federal Home Loan Bank Board in 1936 adopted the Federal Home Building Service Plan.

A marked improvement in home construction can be effected by this Plan. Technical control, while the basis of all other types of construction, has generally been lacking and usually unavailable in small house building. In the course of the reconditioning operations of the Home Owners' Loan Corporation, the disastrous effects of poor design and shoddy construction upon home ownership, resulting in loss of values and shrinking equities, have been revealed. The Federal Home Building Service Plan provides a way of avoiding such uneconomical practices.

The facilities of the Plan enable member institutions of the Federal Home Loan Bank System, or other approved lenders, to provide prospective home owners with a complete home-building service, including sound financial and architectural advice and supervision of construction. The Plan is especially designed to serve those lower income families who had usually not been able to afford the services of an architect.

Lending institutions are being supplied with a portfolio of home designs in which economical and attractive designs are arranged according to size and cost of construction. The lender accordingly is

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enabled to be of practical assistance to home owners and to all those who undertake to supply small houses to the public. By virtue of the Plan, the lender can assume an active role in promoting sound housing, and at the same time is being supplied with desirable mortgage opportunities and with a means of competing successfully for the better loans in an increasingly competitive market.

The Plan is being operated in cooperation with the Regional Home Loan Banks, using the facilities of the agencies under the Board. While sponsored and promoted by the Board, the Plan is essentially a local undertaking. Once established with the facilities and material provided by the Board and the Regional Banks, the Plan is carried out by approved lenders and architects and technicians in accordance with prevailing local home building practices and local financing policies. However, the procedure provides a Certificate of Registration to be issued to the home owner reciting the protective measures under which the house has been built and serving as a testimonial of its sound construction and worth. This Certificate is registered by the Board for the protection of home owner and mortgagee.

Where the Plan has been put into operation, local architects and technicians have been willing to provide suitable advisory and supervisory services at a moderate fee. This service includes advice in the selection of an economical design, suitable to the site and neighborhood and meeting family requirements, supply of complete and detailed working drawings and specifications, checking of quotations and bids, and what is most important, inspection of materials and periodic supervision of construction.

In a number of the larger communities technical service is being developed through local formation of groups of architects or technical bureaus, generally sponsored or supported by the organized architectural profession. While the formation of such groups or bureaus has been encouraged to provide technical service for lending institutions under the Plan, their facilities are available to other users. Hence, this effort is providing fundamentally needed services capable of making an appreciable contribution to the improvement of small home building practices. In many localities response to the Plan has prompted an association of building-material manufacturers and distributors working with a committee of prominent architects to consider development of a design and supervision service for general use in all home building, however sponsored or financed.

The past year saw the Federal Home Building Service Plan pass into the operating phase. At the close of the fiscal year 1938, the use of the Plan was in prospect by over 150 member institutions in about 50 localities. Applications for approval have been received from about 250 architects, and approval has been given to 281 home designs developed especially for use in this service by leading architects throughout the country. At the end of the 1938 building season, about 400 designs will have been approved and made available within the localities for which designed or in other localities where suitable to local customs and building practices.

UNIFORM SAVINGS AND LOAN ACT

Through the supervision of member institutions by the Federal Home Loan Bank Board and the provision of uniform Federal charters for the Federal savings and loan associations,[2] much has been done to establish sound and standardized practices in the field of home finance. However, the Board supervises only a portion of all the existing institutions of the savings and loan type. One of the basic difficulties in the operation and supervision of State-chartered associations is the large variety of State laws under which they operate. In many instances, moreover, State legislation is now obsolete in the light of good mortgage lending practice. There is an urgent need, therefore, for greater uniformity and for a review of State laws to the end of perfecting legislation in the light of recent experience.

To serve as an illustrative guide for those States engaged in developing new legislation or revising their old laws in accordance with present-day conditions, the Legal Department of the Board, in cooperation with the Supervisory Committee on State Legislation of the United States Building and Loan League, has prepared a Uniform Savings and Loan Act. This draft has been made available to all State savings and loan supervisory authorities and to State legislatures in those States where there is at present no adequate savings and loan legislation. The act has recently been passed in somewhat modified form by the State of Georgia.

[2] See Section IV of the present report.

III

Federal Home Loan Bank System

1. OPERATIONS OF THE FEDERAL HOME LOAN BANKS

Changes in Membership

AFTER the rapid expansion in membership during the first six years of its existence, the Federal Home Loan Bank System has entered into a phase characterized by more normal growth. Consolidations and mergers of member institutions, which tended to strengthen the home-financing system, resulted in a net decrease in membership from 3,956 on June 30, 1938, to 3,946 on June 30, 1939. However, the combined resources of member institutions increased from approximately $4,308,000,000 at the close of June 1938 to approximately $4,600,000,000 on June 30, 1939, or by 6.8 percent. This growth of resources is all the more remarkable when it is taken into consideration that the assets of a number of member savings and loan associations have been revised downward as the result of consolidations and reorganizations and by the decrease in assets arising from the elimination of mortgage-pledged shares, attendant upon the more general adoption of the direct-reduction loan plan.

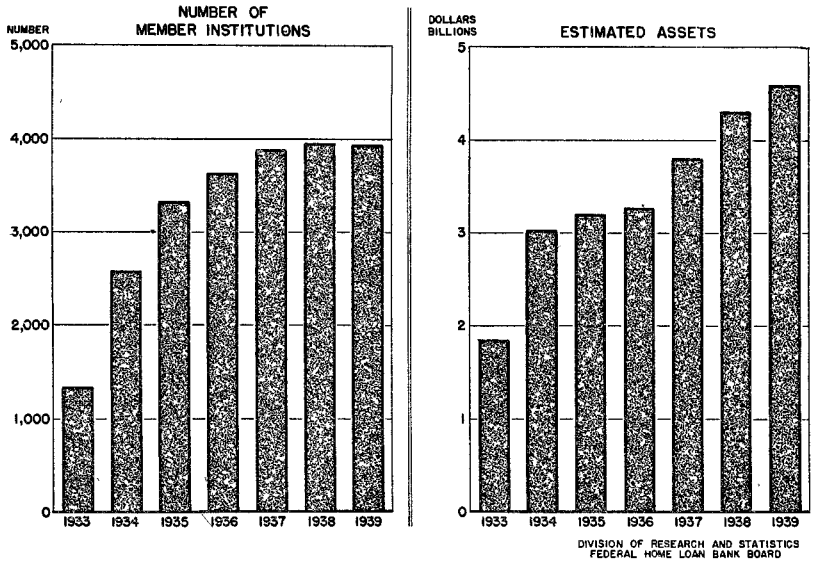
During the fiscal year ended June 30, 1939, there were 122 thrift- and home-financing institutions admitted to membership, and withdrawals from membership numbered 132. These withdrawals represent 56 institutions which were merged or consolidated with other members, 58 member institutions which went into liquidation, 2 institutions which were removed from membership because of failure to comply with the Federal Home Loan Bank Act and/or the regulations of the Board, and 16 member institutions which withdrew voluntarily.

On June 30, 1939, there were 105 applications for membership in the Federal Home Loan Bank System on file. In the majority of these cases, final action had not been taken because the applicants had not been able to comply with the necessary requirements.

CHART XX

GROWTH OF MEMBERSHIP AND RESOURCES OF THE FEDERAL HOME LOAN BANK SYSTEM

AS OF JUNE 30 EACH YEAR



The following table presents the number and assets of members, by types of institutions, as of June 30, 1938, and June 30, 1939:

	June 30, 1938		June 30, 1939		Net change in fiscal year	
	Number	Assets (millions of dollars)	Number	Assets (millions of dollars)	Number	Assets (millions of dollars)
Savings and loan associations [1]	3,909	$3,700	3,897	$3,936	−12	+$236
State-chartered	2,572	2,487	2,517	2,496	−55	+9
Federally-chartered	1,337	1,213	1,380	1,440	+43	+227
Other members	47	608	49	664	+2	+56
Savings banks	9	203	9	202	0	−1
Insurance companies	38	405	40	462	+2	+57
Total	3,956	4,308	3,946	4,600	−10	+292

[1] Includes savings and loan associations, building and loan associations, homestead associations, and cooperative banks.

Federal savings and loan associations are required by law to be members of the Federal Home Loan Bank System. Membership is also open to State-chartered savings and loan associations, savings banks, and insurance companies. Exhibit 12 shows the number and estimated assets of member institutions, by Federal Home Loan Bank Districts and by States, as of June 30, 1938, and June 30, 1939.

Savings and loan associations constitute the bulk of the present membership of the Federal Home Loan Bank System, and the great majority of eligible institutions of the savings and loan type are now included in the System's membership. Reports from the Presidents of the twelve Federal Home Loan Banks indicate that on June 30, 1939, member savings and loan associations represented more than 70 percent of the total number of potential members in the savings and loan industry. The assets of these member institutions comprised about 84 percent of the aggregate assets of all potential members of the savings and loan type.

Volume of Advances

The fiscal year 1939 was marked by a considerable increase in the liquidity of member institutions, caused by the large flow of private savings into share investments in home-financing institutions. As a result, the demand for Federal Home Loan Bank advances was reduced, and many borrowing members were in a position to make substantial repayments on their outstanding advances during the year.

Advances made by the Federal Home Loan Banks during the fiscal year 1939 totaled $76,659,075. Repayments of advances aggregated $103,922,449. In consequence, the balance of advances outstanding was reduced from $196,224,937 at the end of the preceding fiscal year to $168,961,563 on June 30, 1939. Exhibit 13 shows the aggregate amount of advances and repayments and the balance of advances outstanding from the beginning of operations of the Bank System to June 30, 1939.

During the reporting period, the demand for advances varied greatly among the twelve Federal Home Loan Bank Districts (Chart XXII on page 59). On June 30, 1939, the Des Moines and Los Angeles Districts showed an increase in advances outstanding over the preceding fiscal year. Advances outstanding in the New York, Pittsburgh, and Topeka Districts were slightly lower. The Federal Home Loan Banks of Boston, Winston-Salem, Cincinnati, and Little Rock recorded a substantial decrease in outstanding advances ranging from about 20 to 30 percent. A summary of advances outstanding at the end of each fiscal year from 1934 to 1939, by Federal Home Loan Bank Districts, appears in Exhibit 14.

The generally reduced demand for advances was reflected in a decreasing number of members borrowing from the Federal Home Loan Banks. On June 30, 1938, borrowing members numbered 2,681, or 67.8 percent of the total number of member institutions. On June 30, 1939, the number of borrowing members was only 2,385, or 60.4 percent of the total number of member institutions at that

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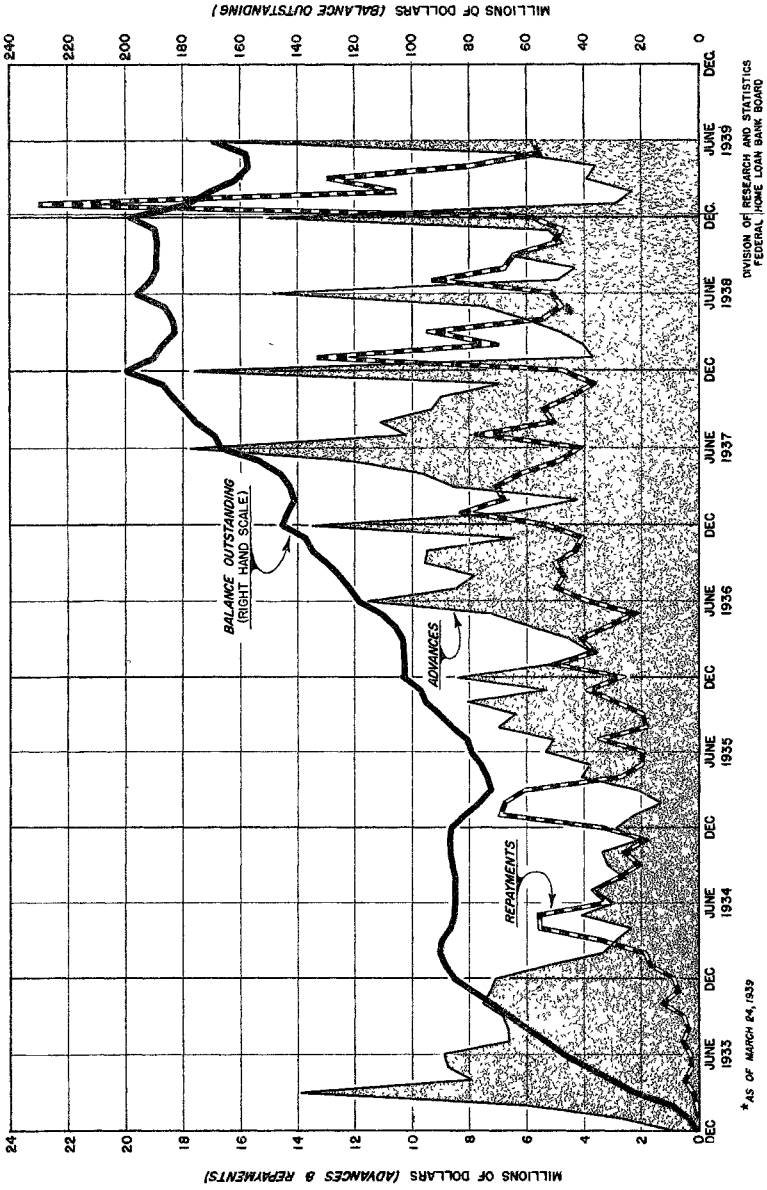
CHART XXI

ADVANCES AND REPAYMENTS BY MONTHS AND BALANCE OF ADVANCES OUTSTANDING



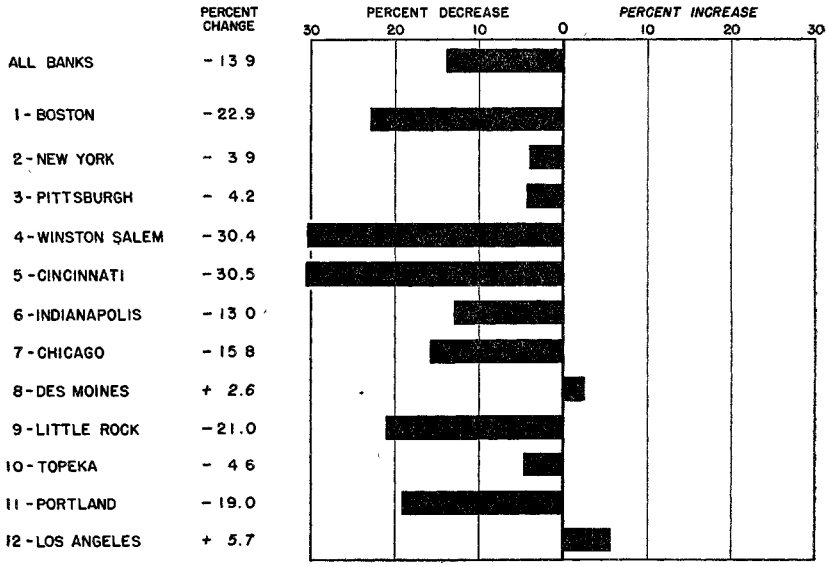
date. Exhibit 15 indicates the changes in the percentage of borrowing members to total members for each of the twelve Federal Home Loan Bank Districts, from the fiscal year 1935 to the fiscal year 1939.

Types of Advances

Federal Home Loan Bank advances are made up to ten years on the security of home mortgages, or obligations of or guaranteed by the United States, and up to one year on an unsecured basis. All ad-

CHART XXII

PERCENT CHANGE IN THE AMOUNT OF BANK ADVANCES OUTSTANDING DURING THE FISCAL YEAR 1939 BY FEDERAL HOME LOAN BANK DISTRICTS



DIVISION OF RESEARCH AND STATISTICS
FEDERAL HOME LOAN BANK BOARD

vances, whether secured or unsecured, are collateralized by an investment of the borrower in the stock of the Bank to the extent of at least one-twelfth of the total outstanding advances to such borrower. A detailed description of the various types of advances is given in Exhibit 16.[1]

[1] Through an amendment to the Federal Home Loan Bank Act of May 28, 1935, Congress authorized the Federal Home Loan Banks to make advances to nonmember mortgagees approved under Title II of the National Housing Act. The amendment provided that such advances were not to be subject to the other provisions and restrictions of the Federal Home Loan Bank Act, but were to be made upon the security of mortgages insured under Title II of the National Housing Act. To June 30, 1939, Federal Home Loan Banks made advances to three nonmember mortgagees in the aggregate amount of $159,400, all of which, with the exception of $2,805, had been paid in full prior to the fiscal year 1939. During the year the balance of $2,805 was repaid in full and no advances to nonmember mortgagees were made.

An analysis of the collateral securing Federal Home Loan Bank advances demonstrates that there is a substantial margin of protection behind these advances. Of the total amount of advances outstanding at the end of the reporting period, $145,442,668, or 86.1 percent, was secured by mortgages, obligations of or guaranteed by the United States Government, and capital stock of the Banks, while $23,518,895, or 13.9 percent, was unsecured, except for the amount of capital stock of the Banks paid in by borrowers. Unsecured advances were made exclusively to members whose creditor liabilities did not exceed 5 percent of their net assets.

The secured advances were collateralized by 146,958 home mortgages with unpaid balances of $333,934,883, and obligations of the United States Government (direct or fully guaranteed) aggregating $2,210,625. As additional collateral for both secured and unsecured advances, borrowing members had paid in $22,456,725 on subscriptions to the Banks' capital stock. Exhibit 17 gives detailed information on the trend of secured and unsecured advances by fiscal-year periods, since the beginning of operations to June 30, 1939.

Further indication of the soundness of Federal Home Loan Bank advances is the fact that the Federal Home Loan Banks have sustained no losses on their outstanding advances and that on June 30, 1939, there was only one borrowing member (exclusive of those in liquidation) which was delinquent over thirty days, in the nominal amount of $702. At the same date, eleven borrowing institutions were in liquidation, the liquidation in all but three of these cases being voluntary. These eleven borrowers, as of June 30, 1939, had a total indebtedness to the Banks of $421,304 which was secured by home mortgages with an estimated value of $603,857, and by paid-in stock in the Banks aggregating $72,200. No loss is anticipated on the indebtedness of any of the liquidating borrowers.

In accordance with the character of the operations of home-financing institutions, most of the Federal Home Loan Bank advances are on a long-term amortized basis. On June 30, 1939, almost four-fifths of the total amount of outstanding advances was for terms from one to ten years, and only one-fifth for terms up to one year. This is in contrast to the early period of the Federal Home Loan Bank System when a larger portion of the advances outstanding was on a short-term basis.

Distribution of Federal Home Loan Bank advances outstanding, by long-term and short-term advances, as of June 30

Year	Dollar amounts		Percent distribution	
	Long-term	Short-term	Long-term	Short-term
1933	$17,460,425	$30,203,405	36 6	63.4
1934	57,885,363	27,262,991	68 0	32.0
1935	51,020,430	28,212,084	64 4	35 6
1936	74,653,428	43,933,410	63 0	37 0
1937	118,257,717	48,799,169	70 8	29 2
1938	149,227,685	46,997,252	76 0	24.0
1939	133,919,650	35,041,913	79 3	20 7

Since the Federal Home Loan Banks have been operating but a little over six years, complete data on the actual life of the long-term advances up to ten years are not yet available. However, there are many indications that the average life of these advances will be considerably less than the stipulated period. Reports obtained from the Federal Home Loan Banks evidence that repayments received on long-term advances have been considerably in excess of the amount of repayments due on such advances. During the past fiscal year, in particular, the increased liquidity of home-financing institutions induced many borrowers to make repayments in excess of amortization requirements or to retire their indebtedness in full. This has naturally contributed to the decline in advances outstanding.

Advances from Federal Home Loan Banks are used by member institutions for a variety of purposes, but for the most part, they are obtained to enable home-financing institutions to meet the needs of their communities for mortgage loans on homes when the demand is running at a greater rate than the local supply of funds. Reports from various Federal Home Loan Banks indicate that during the fiscal year 1939 the major portion of the long-term advances, which constitute approximately 80 percent of total advances outstanding, was for the purpose of making mortgage loans, whereas the remainder was used for liquidity purposes. In many cases, of course, the funds advanced for liquidity purposes helped indirectly to maintain normal mortgage-lending activities of member institutions.

Interest rates on advances to members are determined by the Boards of Directors of the respective Banks within a range approved by the Federal Home Loan Bank Board. At the end of the fiscal year 1939, such interest rates ranged from 1½ to 3½ percent for short-term, and from 3 to 3½ percent for long-term advances. These rates reflect various reductions made during the year. The Federal Home Loan Banks of Boston and New York revised their rates for short-term advances from 3 to 2½ percent, and on June 28, 1939, the Federal Home Loan Bank Board approved a further reduction on short-term

amortized advances by the New York Bank to 1½ percent. During the fiscal year 1939, the New York Bank also lowered its rate on long-term advances from 3¾ to 3 percent. The Federal Home Loan Bank of Portland reduced the interest rates on all advances from 3½ to 3 percent. The Federal Home Loan Bank of Pittsburgh likewise reduced its rates on all advances from 3½ to 3¼ percent, and the Federal Home Loan Banks of Cincinnati and Des Moines from 3¼ to 3 percent. The Federal Home Loan Bank of Chicago decreased the interest rate charged on secured advances from 3¼ to 3 percent and the rate on unsecured advances from 3½ to 3¼ percent. Exhibit 18 contains detailed information on interest rates charged by each Federal Home Loan Bank as of July 1, 1939.

At the end of the fiscal year 1939, the borrowing capacity of member institutions—which is the approximate amount for which each member may legally obligate itself, or 50 percent of its net assets, whichever amount is the lower—was close to $1,700,000,000, or about ten times the present volume of advances outstanding. Within the borrowing capacity, each Federal Home Loan Bank has established lines of credit for the individual member institutions, and such credit lines are revised at least annually or more often if deemed necessary.

Increase in Liquidity of the Federal Home Loan Banks

Financial operations of the twelve Federal Home Loan Banks during the fiscal year 1939 were characterized by a continued growth in total resources, on the one hand, and by the aforementioned decline in advances to member institutions, on the other. As a result, the Federal Home Loan Banks as a whole and each of the Banks separately experienced a substantial increase in liquidity.

On June 30, 1939, the consolidated resources of the twelve Federal Home Loan Banks were $296,629,853, compared with $265,770,804 at the end of the preceding fiscal year—a growth of 11.6 percent. The main changes in assets and liabilities which occurred during the reporting period are illustrated in Charts XXIII and XXIV, and a detailed statement of condition for the Banks as a whole and for each of the Banks separately, as of June 30, 1939, is presented in Exhibit 19.

The larger liquidity of the Federal Home Loan Banks is shown in the marked increase of cash and investment holdings. On June 30, 1939, cash held by the Banks amounted to $78,205,795 as against $34,334,856 the year before. Investments, which consisted exclusively of United States Government obligations and securities guaranteed by the United States Government, increased from $34,445,173

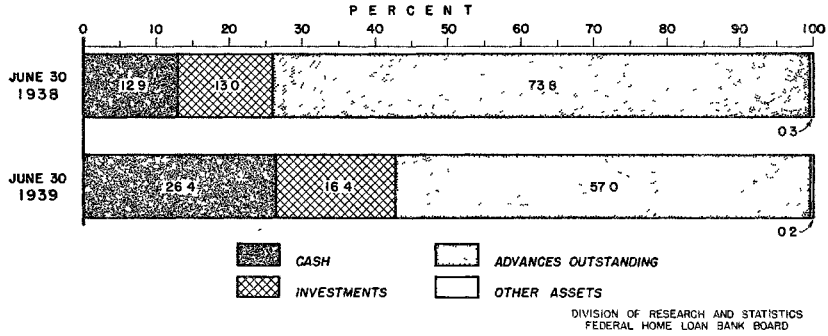
to $48,702,247. The par value of these investments as of June 30, 1939, was $47,663,875 and the market value $50,627,051.

At the end of the fiscal year 1939, cash and investments totaled $126,908,042, or 42.8 percent of the consolidated assets of the twelve Federal Home Loan Banks; at the close of the preceding fiscal year they were only 25.9 percent of the consolidated assets. Through the retirement of $41,500,000 debentures on July 1, 1939, a substantial portion of the excess cash was absorbed. However, an ample volume of liquid funds remained available to meet the demand for advances by member institutions.

CHART XXIII

COMPOSITION OF COMBINED ASSETS OF THE TWELVE FEDERAL HOME LOAN BANKS

AS OF JUNE 30,1938 and JUNE 30,1939



The following table shows the distribution of securities held by the Federal Home Loan Banks on June 30, 1939, grouped by maturity dates and yields:

Distribution of securities held by the twelve Federal Home Loan Banks, as of June 30, 1939

Maturity	Amount	Percent of total	Average weighted yield [1]
			Percent
Under 1 year	$1,653,000	3.5	1.05
1 to 5 years	15,311,000	32.1	1.26
5 to 10 years	9,954,000	20.9	1.72
10 to 15 years	10,327,000	21.7	2.44
15 to 20 years	6,114,000	12.8	2.71
20 years and over	4,305,000	9.0	2.60
Total	47,664,000	100.0	1.91

[1] Based on cost to maturity/callable dates.

A detailed statement of security holdings of the twelve Banks, as of June 30, 1939, is presented in Exhibit 20.

Growth of Capital Stock

The growth of resources of the Federal Home Loan Banks was due to increases in capital-stock subscriptions, proceeds from the sale of debentures, and an increased amount of member deposits. On June 30, 1939, the total paid-in capital stock of the twelve Banks stood at $164,327,175, as compared with $161,512,205 the year before. As subscriptions of the United States Treasury to the capital stock have ceased since November 19, 1937, this increase was entirely due to member subscriptions. As of June 30, 1939, the capital stock of the twelve Banks consisted of $124,741,000, or 75.9 percent of the total, paid in by the United States Treasury under the terms of the Federal Home Loan Bank Act,[2] and of $39,586,175, or 24.1 percent of the total, paid in by private member institutions. Each member institution is required to maintain an investment in the stock of the Federal Home Loan Bank of which it is a member to the extent of at least one-twelfth of advances outstanding and in an amount of not less than 1 percent of the unpaid principal of its home-mortgage loans, but not less than $500. Despite the decrease in advances, the average amount of Federal Home Loan Bank stock held by each member institution rose from $9,320 to $10,038 during the past fiscal year.

The combined capital-stock structure of the Federal Home Loan Bank System, as of June 30, 1938, and June 30, 1939, may be summarized as follows:

	June 30, 1938	June 30, 1939
Total stock subscriptions:		
Members	$36,872,000	$39,609,100
United States Government	124,741,000	124,741,000
Payments received on stock subscriptions:		
Members	36,771,205	39,586,175
United States Government	124,741,000	124,741,000
Balance due on above stock subscriptions:		
Members	100,795	22,925
United States Government		

From the beginning of their operations through June 30, 1939, all capital stock of the Federal Home Loan Banks has been sold at par and will continue to be sold at par unless and until a price in excess thereof has been designated by the Federal Home Loan Bank Board.

The reserves of the Federal Home Loan Banks have been strengthened materially during the reporting period. On June 30, 1939,

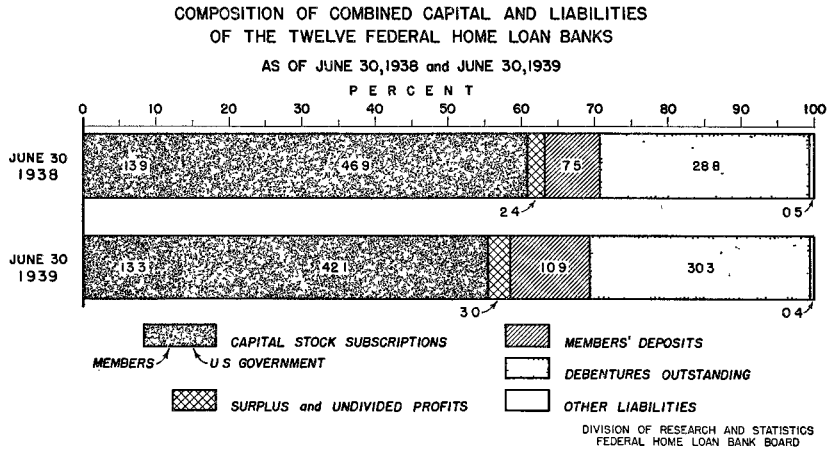
[2] Under the terms of the Federal Home Loan Bank Act, the Secretary of the Treasury was required to subscribe on behalf of the United States for such part of the minimum capital stock of each Federal Home Loan Bank as was not subscribed for by members within a period of 30 days from the date stock-subscription books were opened by the Board. On this basis, the Secretary of the Treasury was committed to subscribe for $124,741,000 of stock in the twelve Federal Home Loan Banks, all of which had been paid in prior to November 19, 1937.

surplus and undivided profits of the Federal Home Loan Banks amounted to $8,801,440 as against $6,469,125 the year before.

Debentures and Member Deposits

Consolidated Federal Home Loan Bank debentures outstanding increased from $76,500,000 to $90,000,000 during the year. Because of the reduced demand for Federal Home Loan Bank advances and the high liquidity of the Banks, Series E, which matured on July 1, 1939, was retired on that date, leaving a balance of debentures outstanding of $48,500,000. While under the terms of the Federal Home

CHART XXIV



Loan Bank Act each Bank may issue its own debentures, the issues heretofore placed on sale have been consolidated debentures representing the joint and several obligations of all Federal Home Loan Banks. A summary of these issues (including retired series) is presented in the following table:

Consolidated debentures of the Federal Home Loan Banks

Number of series	Date of issue	Term	Maturity	Amount	Interest rate
		Years			*Percent*
A [1]	Apr. 1, 1937	1	Apr. 1, 1938	$24,700,000	1½
B [1]	July 1, 1937	1	July 1, 1938	28,000,000	1¼
C	Dec. 1, 1937	3	Dec. 1, 1940	25,000,000	2
D	Apr. 1, 1938	5	Apr. 1, 1943	23,500,000	2
E [1]	July 1, 1938	1	July 1, 1939	41,500,000	1

[1] Series A, B, and E were retired at their maturity dates.

The success of the five offerings made to June 30, 1939, has been most gratifying. Each offering was heavily oversubscribed, and the financial community has quickly become acquainted with the type of security offered by Federal Home Loan Bank debentures. In order to further familiarize bankers and investment dealers with the Federal Home Loan Bank System, a series of meetings was held in financial centers of the country during the fiscal year 1939. The better understanding of the Bank System and the goodwill created through these meetings will be of great value whenever the demand for Federal Home Loan Bank advances increases and new debenture issues may become necessary.

Data on the participation of each Federal Home Loan Bank in the debenture issues outstanding on June 30, 1939, are given in Exhibit 21.

The liquidity of member institutions during the reporting period was reflected in a substantial increase of member deposits in the Federal Home Loan Banks. On June 30, 1939, such deposits were $32,191,666 as compared to $19,873,357 the year before.

Of the total member deposits held by the Federal Home Loan Banks on June 30, 1939, $4,462,258 was in demand deposits and $27,729,408 in time deposits. In view of the increase in the amount of deposits, and the declining demand for advances, several of the Banks found it necessary during the reporting period to limit the amount of the total interest-bearing time deposits of any one member and also to lower the rates of interest paid on such deposits. Exhibit 22 shows the rates of interest paid on time deposits by each of the Federal Home Loan Banks as of July 1, 1939. No interest is paid on demand deposits.

Interbank deposits outstanding as of June 30, 1939, totaled $3,300,000, as compared with $15,150,000 at the close of the preceding fiscal year. Such deposits from one Federal Home Loan Bank with another have been arranged to provide an interregional exchange of funds when one or more Banks may have demand for additional funds while others have surplus funds on hand. From the beginning of operations to June 30, 1939, the total amount of interbank deposits aggregated $67,250,000, of which $63,950,000 had been repaid, leaving the above-mentioned amount of $3,300,000 outstanding.

Income and Expenses

The consolidated gross income of the twelve Federal Home Loan Banks during the fiscal year 1939 was $7,274,390, as compared with $7,260,623 in the preceding period. Expenses, including nonoperating charges, moved slightly upward from $2,504,733 to $2,740,149. This left a net income of $4,534,241 as against $4,755,891 during the

preceding fiscal-year period. The following table presents the consolidated profit and loss account of the twelve Federal Home Loan Banks for each of the fiscal years 1938 and 1939; a detailed statement of profit and loss for each of the Banks for the period July 1, 1938, through June 30, 1939, is given in Exhibit 23.

Condensed consolidated statement of profit and loss of the twelve Federal Home Loan Banks

	Fiscal year 1938	Fiscal year 1939
Income:		
Interest earned on advances	$5,952,844	$5,669,103
Interest earned on investments	751,354	891,301
Nonoperating income	556,426	713,986
Gross income	7,260,624	7,274,390
Less—Charges:		
Compensation, travel, and other administrative expenses	890,255	922,523
Interest on deposits	162,109	250,276
Interest on debentures	935,179	1,120,292
Assessments for expenses of Federal Home Loan Bank Board	302,440	300,000
Other expenses	144,593	83,168
Nonoperating charges	70,157	63,890
Total deductions	2,504,753	2,740,149
Net income	4,755,891	4,534,241

The decrease in interest earned on advances reflects the lower volume of advances and the reduction of interest rates, while the increased earnings on investments resulted from the larger security holdings during the year. Nonoperating income consisted chiefly of profits on the sale of securities. Among charges to income, interest on debentures and member deposits absorbed considerably larger amounts than in the preceding fiscal-year period, due to the increase of debentures and deposits outstanding.

The net income of the twelve Federal Home Loan Banks for the fiscal year 1939 was distributed as follows:

Allocation to reserves:	
To legal reserves	$906,848
To reserve for contingencies	473,656
Total to reserves	1,380,504
Dividends paid:	
United States Government	1,664,559
Members	537,367
Total dividends paid	2,201,926
Balance to undivided profits	951,811
Total net income (consolidated)	4,534,241

An analysis of the surplus and undivided profits of the Federal Home Loan Banks, individually and collectively, as of June 30, 1939, is given in Exhibit 24.

Because of the decrease in the volume of advances and the reduction of interest rates charged on such advances, total earnings of some of the Federal Home Loan Banks were lower than in the preceding fiscal year, and five of the twelve Banks reduced their dividend rates. As a result, the annual dividend rate on the average capital stock of the twelve Federal Home Loan Banks for the fiscal year 1939 was approximately 1.36 percent as compared with 1.57 percent in the preceding year. The United States Government is receiving the same annual rate of return on its investment in the capital stock of the Banks as is received by the member institutions. Exhibit 25 shows the dividends declared by each Bank to stockholders for the fiscal year 1939 and cumulative from the beginning of operations to June 30, 1939.

Administration of the Federal Home Loan Bank System

Under the direction of the Board, the chief responsibility for the administration of the Federal Home Loan Bank System and the supervision of the twelve Federal Home Loan Banks is vested in the Office of the Governor.

Each Federal Home Loan Bank is examined twice a year. These semi-annual examinations are conducted in considerable detail for the purpose not only of ascertaining the actual condition of the Banks, but also for the purpose of determining that all disbursements were proper and all requirements of the Federal Home Loan Bank Act and the Rules and Regulations of the Federal Home Loan Bank Board have been adhered to in every respect.

After the completion of each semi-annual examination of a Federal Home Loan Bank, a copy of the report of examination, together with a letter of criticism based on such report, is transmitted to the Bank with the request that the Board's Comptroller be promptly advised of the action taken by the Bank to correct the situation which may have been discussed in the report and letter of criticism. The President of the Bank is also requested to present the report of examination and the letter of criticism to the Board of Directors of the Bank and to incorporate the Comptroller's letter of criticism as well as the Bank's reply thereto in the minutes of the next meeting of the Board of Directors.

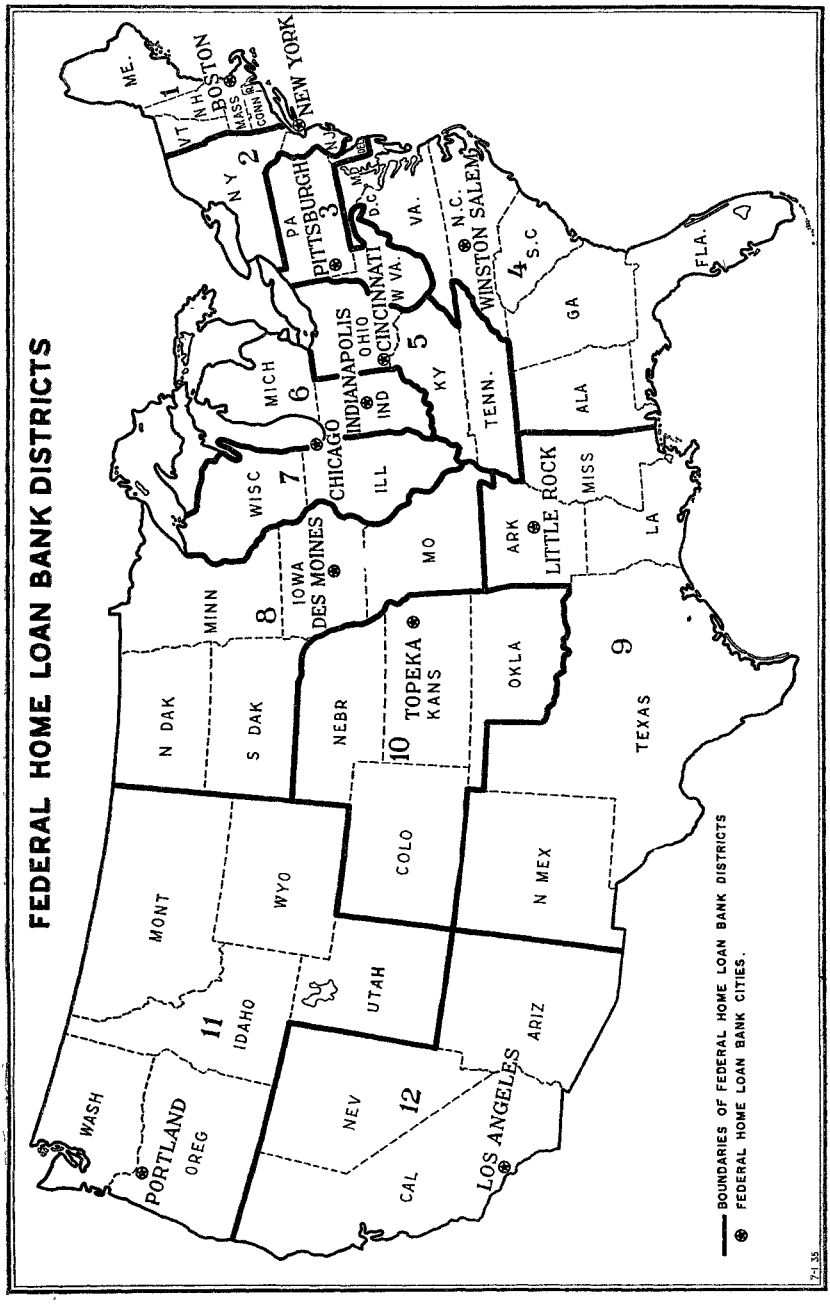
In addition to the close supervision by virtue of these semi-annual examinations, each Bank is required to furnish the Board's Comptroller with a daily statement reflecting its lending and other transac-

tions, as well as with a detailed monthly report on the operations and condition of the Bank. Each Bank is also required to furnish copies of the minutes of the meetings of its Board of Directors, Executive Committee and Stockholders, and copies of reports of its Advisory and Reviewing Committees. On the basis of this information, the Federal Home Loan Bank Board is able to conduct current analyses of the activities of the twelve Federal Home Loan Banks. Such current analyses are designed to bring to light any undesirable trends or conditions which may be found to exist and enable the Board to keep in close touch with the operations of the Banks, so that such changes in its Rules and Regulations or policies as may be deemed desirable may be made from time to time.

The management of each of the Federal Home Loan Banks is vested in a Board of twelve Directors, four of whom are appointed by the Federal Home Loan Bank Board to represent the public interest, while eight Directors are elected by the member institutions in each Bank District in accordance with the terms of the Federal Home Loan Bank Act and the Rules and Regulations prescribed by the Federal Home Loan Bank Board. The respective Boards of Directors elect the executive officers of the Banks subject to the approval of the Federal Home Loan Bank Board.

The Bank Presidents' Conference, established by Resolution of the Board and consisting of the executive heads of the twelve Federal Home Loan Banks, held two meetings during the year ended June 30, 1939. At these meetings, administrative and supervisory problems, credit policies, and home-financing conditions in each of the Bank Districts were considered, and in view of the growing importance of Government bonds in the total assets of the Banks, proper investment procedures were discussed.

The Federal Savings and Loan Advisory Council, created by the Federal Home Loan Bank Act, also held two meetings during the year. This body consists of one member elected by each of the twelve Boards of Directors of the Federal Home Loan Banks and six members appointed by the Federal Home Loan Bank Board. The meetings of the Federal Savings and Loan Advisory Council were helpful in the formulation of the Board's policies and in the maintenance of a close contact between the management of home-financing institutions in the various parts of the country and the central administration in Washington. During the year ended June 30, 1939, the discussions of the Advisory Council were focused upon the liquidity of home-financing institutions, the determination of interest and dividend rates, and the questions of supervision, competition, and taxation. The



Council also considered the Banks' policies with respect to the establishment of lines of credit for member institutions and endorsed the legislative proposals sponsored by the Federal Home Loan Bank Board. A list of members of the Federal Savings and Loan Advisory Council attending the two meetings during the fiscal year 1939 is presented in Exhibit 26.

Proposed Federal Legislation

In order to increase the usefulness of the agencies under the Federal Home Loan Bank Board to thrift- and home-financing institutions, the Board has supported a series of proposed amendments to the Federal Home Loan Bank Act and other laws governing the activities of the Federal Home Loan Bank Board. These proposals are based on more than six years' experience and deliberation. During these years, the Federal Home Loan Bank Board has made a thorough study of the effects of the existing legislation and has carefully considered improvements regarded as desirable. The amendments now before Congress represent a program which, in the opinion of the Board, will assist greatly in a more efficient performance of the functions of the agencies under the Board, and which will better enable these agencies to meet future emergencies.

With respect to the Federal Home Loan Bank System, the proposed amendments include two major items:

1. *Broadening of the collateral base for Federal Home Loan Bank advances.*—Under the existing law, mortgages eligible as collateral for Federal Home Loan Bank advances are confined to mortgages on one- to four-family dwellings with a maturity limit of twenty years. Under the amendatory legislation as introduced in Congress, any first mortgage would be acceptable as collateral, the maturity limit would be extended to twenty-five years, and the present $20,000 limit on mortgages eligible as collateral for advances to members would be removed. In addition, the Federal Home Loan Banks would be allowed to make advances to members on obligations of the Banks themselves and those of the Federal Savings and Loan Insurance Corporation, as well as on any other obligations, acceptable to the Board, which such members may lawfully have available. The House Committee on Banking and Currency, in reporting the proposed legislation, amended these provisions so that eligible mortgages would have to be on properties designed principally for residential use, and so that a $100,000 limit would be substituted for the $20,000 limit.

The pending legislation would broaden the power of the Federal Home Loan Banks to accept as collateral, without undue restriction, those mortgages and obligations which are legal investments for mem-

ber institutions. It would also enable the Banks to extend more useful services to savings banks and insurance companies which are eligible for membership in the Federal Home Loan Bank System, since savings banks and insurance companies have only a small portion of their funds invested in the types of mortgages and obligations which are at present eligible for acceptance as collateral by the Federal Home Loan Banks.

2. *Purchase of Federal Home Loan Bank obligations by the Treasury.*—In order to enable the Federal Home Loan Banks to meet unexpected emergencies, the amendment provides that the Secretary of the Treasury shall be authorized to purchase, at his discretion, obligations of the Federal Home Loan Banks. While other financial systems of the country are protected against unforeseen developments—the commercial banks through the authority of the Federal Reserve System to issue currency; and the farm-credit structure through a 2 billion dollar revolving fund guaranteed by the Government to support Federal Land Banks and other corporations of the Farm Credit Administration—no such provision has been made for the credit reserve system created on behalf of thrift and home-financing institutions. Under normal conditions, such aid to the Federal Home Loan Bank System is unnecessary. However, to prevent the recurrence of a freezing up of financial institutions and the resulting deflationary effects, safeguards are essential in order to enable the Federal Home Loan Banks to obtain funds for advances in times of financial stress when their securities might not be readily marketable.

Other provisions of the proposed legislation are designed to clarify the powers of the Federal Home Loan Bank Board with reference to annual reports by, and examination, audit, and supervision of, member institutions; to extend the criminal provisions of the Federal Home Loan Bank Act for the protection of the Banks and member institutions against circulation of false statements in regard to their financial condition; and to strengthen the penal provisions pertaining to misconduct by examiners of the Banks and of member institutions and to the unauthorized disclosure of confidential information concerning the institutions examined.

2. OPERATIONS OF MEMBER INSTITUTIONS

Increase in Assets

Operations of member institutions during the fiscal year 1939 showed distinct improvements. Total assets and private investments in member savings and loan associations increased. Mortgage lending

was more active than in the preceding fiscal year. Real estate owned continued to decline. A better liquidity position was indicated by larger cash holdings which permitted substantial repayments of Federal Home Loan Bank advances.

On the other hand, the keen competition in the mortgage market referred to in the "Survey of Housing and Mortgage Finance" naturally created new operating problems. The general reduction of interest rates on home mortgages which resulted from such competition required changes in lending policies and dividends paid to investors; and greater efforts had to be made to retain old loans as well as to add new sound loans to the mortgage portfolio. The record of 1938–39 indicates that, in general, member institutions of the Federal Home Loan Bank System were in a position to meet these new conditions successfully.

During the fiscal year 1939, all types of member savings and loan associations showed gains in assets. This is revealed by the following figures for an identical group of 2,605 savings and loan members of the Federal Home Loan Bank System, representing approximately 75 percent of the total assets of member savings and loan associations:

Growth in assets of 2,605 identical member savings and loan associations, from July 1, 1938, to June 30, 1939

[In thousands of dollars]

Number and types of associations	Total assets		Increase during year	
	June 30, 1938	June 30, 1939	Amount	Percent
2,605 identical member associations	$2,740,385	$2,953,605	$213,220	7 8
1,286 Federal savings and loan associations	1,169,083	1,337,693	168,610	14.4
596 insured State-chartered associations	700,008	729,838	29,830	4.3
723 noninsured State-chartered associations	871,294	886,074	14,780	1.7

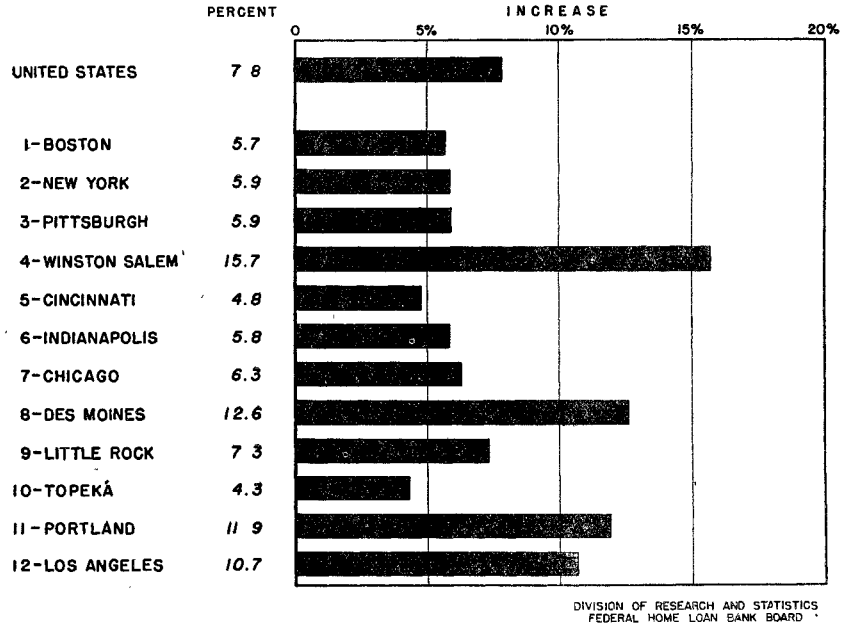
In this group, Federal savings and loan associations recorded the largest increase in assets during the year, namely 14.4 percent. Insured State-chartered associations ranked next with a gain of 4.3 percent. The 1.7 percent growth in assets of noninsured State-chartered member associations, although small, is significant because it marks the reversal of the downward trend which this type of member institution had experienced in preceding years.

The growth in assets was general throughout the country, but the rate of growth varied among the different Federal Home Loan Bank Districts. Within the group of 2,605 identical member savings and loan associations, assets of member institutions in the Winston-Salem District showed the largest gain—15.7 percent. Members in the

Des Moines District ranked next with an increase of 12.6 percent. Assets of member associations in the Portland and Los Angeles Districts likewise increased more than 10 percent. The smallest increases—slightly below 5 percent—were recorded in the Cincinnati and Topeka Districts.

CHART XXV

PERCENT INCREASE IN ASSETS OF 2,605 IDENTICAL MEMBER SAVINGS & LOAN ASSOCIATIONS DURING FISCAL YEAR 1939 BY F.H.L.B. DISTRICTS



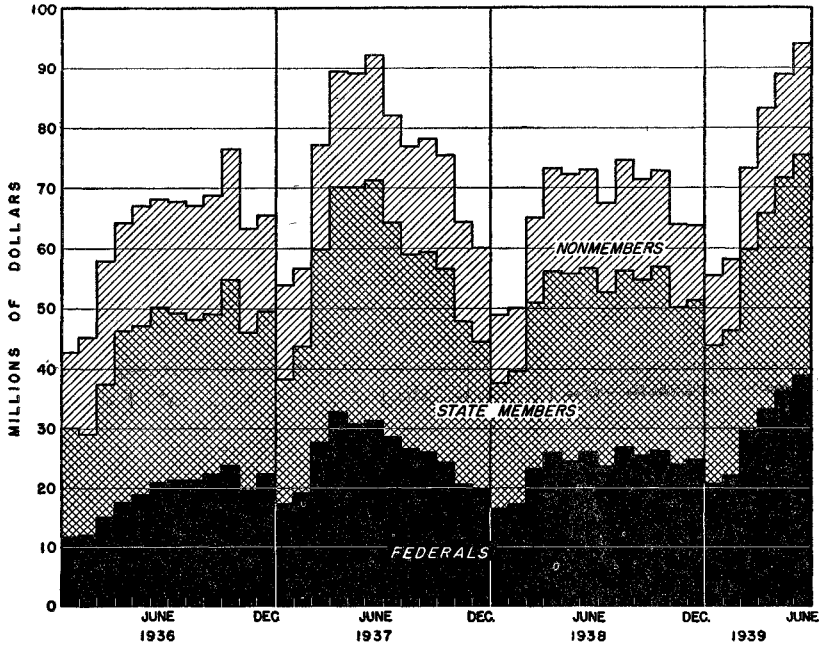
Lending Activity

The estimated amount of new mortgage loans made by member savings and loan associations of the Federal Home Loan Bank System from July 1, 1938, to June 30, 1939, was $686,697,000, as compared with $629,560,000 in the preceding fiscal year—an increase of more than 9 percent. On the other hand, the estimated amount of mortgage loans made by nonmember associations dropped from $191,126,000 in the fiscal year 1938 to $182,189,000 in the fiscal year 1939. All in all, the estimated volume of mortgage loans made by all savings and loan associations during the reporting period aggregated $868,886,000, compared with $820,686,000 in the preceding fiscal-year period.

While the total increase in lending activity was small, there was a definite improvement over the preceding year for each month from January through June 1939. In the six months' period from January to June 1939, the lending activity of member institutions was 22.3 percent higher than in the first half of 1938, and the lending activity of nonmember associations was 5.3 percent above that period. In

CHART XXVI

VOLUME OF NEW MORTGAGE LOANS MADE BY SAVINGS AND LOAN ASSOCIATIONS BY TYPE OF ASSOCIATION



DIVISION OF RESEARCH AND STATISTICS
FEDERAL HOME LOAN BANK BOARD

June 1939, the volume of new mortgage loans made by all savings and loan associations reached a post-depression high. The above chart shows the estimated lending activity of savings and loan associations since January 1936, by months, by types of institutions.[3]

During the fiscal year 1939, loans made by member savings and loan associations of the Federal Home Loan Bank System accounted for approximately 79 percent of the total amount of mortgage loans made by all savings and loan associations throughout the country. Among the various types of member associations of the Federal Home

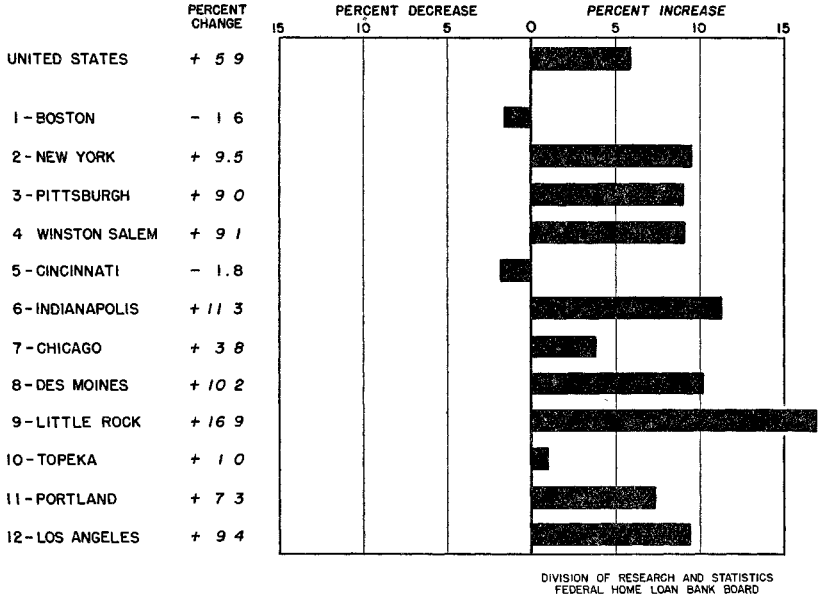
[3] For actual figures, see Exhibit 27.

Loan Banks, Federal savings and loan associations accounted for 48.6 percent of the total volume of loans made by members of the savings-and-loan type. State-chartered insured member associations were responsible for 22.3 percent and noninsured member associations for 29.1 percent.

The lending activity of savings and loan associations varied widely among the different Federal Home Loan Bank Districts during the year. The largest percent increases in loan volume were in the

CHART XXVII

PERCENT CHANGE IN ESTIMATED NEW MORTGAGE LENDING ACTIVITY BY SAVINGS & LOAN ASSOCIATIONS DURING THE FISCAL YEAR 1939 BY F.H.L.B. DISTRICTS



Little Rock District where new building was particularly active, and in the Indianapolis, Des Moines, New York, and Los Angeles Districts. The Winston-Salem District, which also recorded an unusual expansion of construction activity, led in the dollar increase over the 1938 volume of mortgage lending. A survey of the lending activity of savings and loan associations in each of the fiscal years 1938 and 1939 by Federal Home Loan Bank Districts, and the percent change, is presented in Exhibit 28.

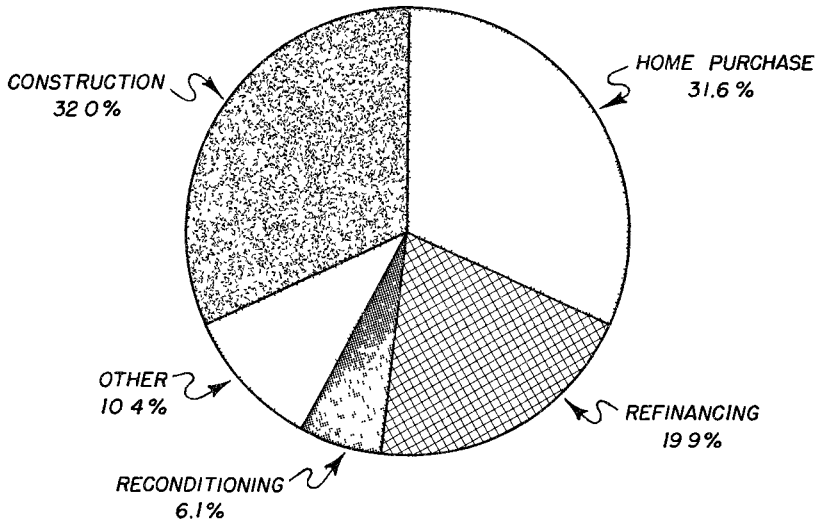
Of the total amount of loans made by member associations of the Federal Home Loan Bank System in the fiscal year 1939, loans for new construction were $219,726,000, or 32 percent, as compared to 28 percent in the preceding fiscal year—a reflection of the increasing

volume of home construction during the reporting period. The proportion of loans for home purchase and refinancing, on the other hand, decreased from 33 to 32 percent, and from 21 to 20 percent, respectively. The following chart shows the distribution of new mortgage loans made by member associations of the Federal Home Loan Bank System during the fiscal year 1939, classified by purpose of loan:

CHART XXVIII

DISTRIBUTION OF NEW MORTGAGE LOANS MADE BY MEMBERS OF THE FEDERAL HOME LOAN BANK SYSTEM

ACCORDING TO PURPOSE
FISCAL YEAR 1939



DIVISION OF RESEARCH AND STATISTICS
FEDERAL HOME LOAN BANK BOARD

Exhibit 29 gives a detailed account of the distribution of new mortgage loans made by member associations of the Federal Home Loan Bank System, classified by purpose of loan.

Reduction of Real Estate Holdings

A very significant improvement in the financial condition of member savings and loan associations was the decrease of real-estate holdings, corresponding to the general reduction of the so-called real-estate overhang described in an earlier chapter of this report.[4] Consolidated balance sheets of member savings and loan associations for the calendar

[4] Survey of Housing and Mortgage Finance, pp. 27 to 29.

year 1938 evidence a slow but continuous decrease of the absolute amount of real estate involuntarily owned by member institutions, as well as a decline of property holdings in proportion to total assets.

Real-estate holdings of all reporting member savings and loan associations of the Federal Home Loan Bank System [1]

Date	Number of members	Amount	Proportion of total assets
			Percent
December 31, 1936	3,746	$512,116,000	16.49
December 31, 1937	3,890	488,517,000	13.77
December 31, 1938	3,894	450,139,000	11.99

[1] Excluding office buildings.

The reduction in real-estate holdings marked a definite reversal of the trend from 1929 to 1936, when, as a result of the depression, property holdings mounted to unprecedented levels. On account of such holdings, home-financing institutions in many instances had become frozen and unable to meet withdrawals and maturities of share accounts, or to make new mortgage loans. Low or negative net yields on property owned had seriously affected earnings, while depreciation and obsolescence had also taken their toll. The gradual disposition of real-estate holdings in the last two or three years is perhaps one of the most important symptoms of the successful rehabilitation of home-financing institutions.

The progress made in recent years reflects, in part, improved conditions in the real-estate market, but it is also due to a more realistic attitude of home-financing institutions toward the solution of the problem. In the past, many institutions have been reluctant to dispose of real estate at a loss. Only slowly has it been recognized that large real-estate holdings are a drag on the active operation of such institutions, that previous book values in many cases were out of line with market prices, and that losses must be absorbed by utilizing reserves already created for this very purpose. Realizing the necessity for more constructive action, many home-financing institutions have recently revised their sales prices and instituted aggressive real-estate sales campaigns. Further progress along these lines is necessary to strengthen the position of savings and loan associations in the field of home-mortgage finance and to restore the full confidence of savers and investors.

The ratio of repossessed real estate to total assets varies widely among the different types of member institutions. At the end of 1938, Federal savings and loan associations, a large number of which were organized after 1933 and have, therefore, been spared the flood of

repossessions in the early Thirties, showed a low ratio of 7.5 percent. On the same date, the ratio for State-chartered insured associations was 11.2 percent, and for State-chartered noninsured associations, 16.1 percent.

Other Financial Operations

The consolidated statements of balance-sheet items for member savings and loan associations as of December 31, 1937, and December 31, 1938 (Exhibits 30 and 31), show further significant changes.

During the calendar year 1938, the private repurchasable capital of member associations grew by $197,000,000, with the result that the ratio of private capital to total resources increased from 71.03 percent at the end of 1937 to 72.40 percent at the end of 1938. Government holdings of shares in member savings and loan associations, on the other hand, rose only by $6,000,000, and their proportion to total resources declined from 7.13 to 6.90 percent.

The following table shows the increase of private investments in an identical group of 2,757 member savings and loan associations:[5]

Private investments in 2,757 identical member savings and loan associations, as of Dec. 31, 1937, and Dec. 31, 1938

[Dollar amounts in thousands]

Number and types of associations	Dec. 31, 1937	Dec. 31, 1938	Increase during year	
			Amount	Percent
2,757 member associations	$1,716,162	$1,892,797	$176,635	10.3
1,309 Federal savings and loan associations	678,202	822,322	144,120	21.3
547 insured State-chartered associations	462,278	492,019	29,741	6.4
901 Noninsured State-chartered associations	575,682	578,456	2,774	0.5

Private investments in this group of identical member associations increased 10.3 percent. Of the various types of member institutions, Federal savings and loan associations made the best showing with a growth in private investments at the rate of 21.3 percent. State-chartered noninsured members recorded a gain of 0.5 percent. Insured State-chartered associations, with a rise of private investments by 6.4 percent, occupied an intermediate position.

Mortgage-pledged shares as reported in the consolidated balance sheets show a decrease of approximately $25,000,000, or more than 12 percent, during 1938. As pledged shares indicate the extent to which associations are operating under the old share-account sinking-fund plan, their reduction reveals the gradual abandonment of this

[5] By the exclusion of newly admitted member institutions and of such associations as were converted from state to Federal charter or were insured during the year, comparisons are on a more equitable basis

loan plan in favor of the direct-reduction plan which is more advantageous to borrowers and more adequate to meet the present competition for mortgage loans.

Borrowings of member savings and loan associations remained almost unchanged in absolute amount, but because of the increase in total resources, the ratio of borrowed money to total resources declined from 6.09 to 5.77 percent.

The condensed balance sheets reflect an increased tendency to build up larger reserves. During the year, member institutions added $28,000,000 to their general reserves and undivided profits, and the ratio of general reserves and undivided profits to total resources increased from 6.76 to 7.15 percent.

On the asset side of the ledger, first-mortgage loans increased by $209,000,000, or from 72.8 to 74.4 percent of total assets—a significant improvement both from the standpoint of lending volume and of earnings. The $2,800,000,000 in first mortgages held by member associations of the Federal Home Loan Bank System is an increase of 8 percent over the balance at the end of 1937, and represents approximately 72 percent of the total amount of mortgages held by all savings and loan associations, both member and nonmember.

The reduction of repossessed real estate was accompanied by an increase in real estate "sold on contract"; the ratio of real estate sold on contract to total assets increased from 3.61 percent at the end of 1937 to 3.78 percent at the end of 1938. Sale of property on installment contracts at liberal terms has proved an effective instrument in the disposition of real estate, particularly for low-priced homes.

As a result of the ample flow of funds into member institutions, cash on hand rose by $32,000,000, or more than 25 percent, and the ratio of cash to total assets increased from 3.54 to 4.20 percent.

Exhibit 32 shows operating ratios for member savings and loan associations based on reports from 3,094 members for the calendar year 1938. Of the gross operating income of these institutions, 84.24 percent was derived from interest on mortgage loans, 3.82 percent from interest on real-estate contracts, and 3.44 percent from real estate owned and 8.50 percent from other sources. Compensation to directors, officers, and employees absorbed 12.71 percent of gross operating income, interest charges, 9.19 percent, advertising, 2.06 percent, and various other items, 11.17 percent, leaving a net operating income of 64.87 percent. After inclusion of nonoperating income and deduction of nonoperating charges, the net income for the year was 64.31 percent of the total income. Almost four-fifths of this went to shareholders in the form of dividends and bonuses, and more than one-fifth was added to reserves and undivided profits.

3. STRUCTURAL CHANGES IN THE SAVINGS AND LOAN INDUSTRY

Rehabilitation

The current improvement in the condition of home-financing institutions obtains its appropriate perspective through a broader review of the revolutionary changes which occurred in this sector of our financial structure during the last five or six years.

After the collapse in the early Thirties, rehabilitation of the financial organization of the country was the prime task. Drastic measures were taken in the field of commercial banking, culminating in the temporary closing of all banks in March 1933. Many banks went into liquidation, and a large number of banks were reorganized as individual units or through merger, with the aid of the Reconstruction Finance Corporation and with other Government assistance. Finally, Federal insurance of deposits for the majority of banks, effective from January 1, 1934, helped to revive confidence, but as an aftermath of the depression there were still hundreds of banking institutions closed, liquidated, and reorganized since that date.

Likewise, the thrift- and home-financing institutions of the country have gone through a process of rehabilitation. In some respects, this process has been similar to that in the field of commercial banking. Through liquidation of inactive or insolvent institutions and through merger of small or weak institutions, the number of savings and loan associations operating in the country has been reduced from approximately 10,500 in 1933 to approximately 8,400 in June 1939. However, a number of the existing associations are inactive and will either be reorganized, absorbed by other institutions, or formally liquidated. These associations are largely concentrated in a few States where the rehabilitation of the savings and loan industry has not as yet come to a close. In connection with its program for insurance of accounts, the Federal Home Loan Bank Board has for some time given particular attention to those problem areas and has cooperated with State supervisory authorities in the execution of rehabilitation plans. In several areas a definite improvement is under way.

Within the membership of the Federal Home Loan Bank System, the rehabilitation process in the savings and loan industry has been reflected in the liquidation of 107 member associations from the inception of the Bank System to June 30, 1939; and 185 member associations have been merged or absorbed by other members, partly in combination with financial reorganization. Of the associations which have obtained insurance of accounts, 284 associations were insured after reorganization.[6]

[6] For further information on reorganization of savings and loan associations, see the report of the Federal Savings and Loan Insurance Corporation, pp. 117 to 121.

However, the elimination of weak or small associations, and mergers and reorganizations were of comparatively minor importance in the rehabilitation of the savings and loan industry. Much more significant have been the fundamental changes in the structure and operations of thrift- and home-financing institutions and the integration of these institutions into a national system of home-mortgage finance. Some of these changes are outlined in the following sections.

Improvements in Management

The savings and loan associations of the country have grown out of small community organizations. Neighbors in small communities banded together and pooled their resources to assist each other in the acquisition of a home. In the more than 100 years of their existence, while still preserving their essential local character, the savings and loan associations have gained a place of real importance in the financial structure of the Nation. Their management and operations, however, have only slowly been adjusted to the modern age. The majority of associations existing in the early Thirties were still operating under part-time management, at private meeting places or part-time offices, and under antiquated, varying, and complicated loan plans which had served a useful purpose in the past, but were not adapted to the quick and simple handling of financial transactions which is required today.

The last few years have witnessed a gradual but radical evolution of the savings and loan industry. Particularly among the member associations of the Federal Home Loan Bank System, part-time, poorly compensated management has been replaced by full-time management through responsible and trained officers who give their undivided attention to the associations' affairs. A clearer division of functions between the manager as the executive officer and the directorate as the policy-determining and supervising body has evolved. In connection with the granting of Federal charters, and with insurance of accounts by the Federal Savings and Loan Insurance Corporation, more strict and uniform management requirements have been set up, and close supervision of Federal and insured associations has operated to maintain and strengthen standards of management in a large sector of the savings and loan industry. The general level of management in the industry has thereby been raised considerably. Accounting practices have been improved, and a standard accounting system is now used by all Federal savings and loan associations as well as a large number of insured and noninsured State-chartered

associations. Obscure and inconvenient meeting places for the "pay night" or office combinations with other businesses have given way to modern independent offices in ground-floor locations situated in business centers of the community. While many of the smaller associations, particularly in small localities, have still preserved their traditional pattern, the more progressive and larger institutions have definitely set the pace, and stimulated by their success, the industry as a whole shows much evidence that it will soon follow their example.

Along with these changes has come the realization of the fact that many existing associations are too small to be efficiently operated. Size is not an objective in itself, but to obtain the benefits of full-time management and independent offices, a minimum size is required which, in many cases, is above the present size of home-financing institutions. To maintain and strengthen the position of savings and loan associations in the home-financing field, further progress in this direction through merger and other means would appear to be desirable, particularly in the larger communities.

Exhibit 33 shows the number and asset distribution of member savings and loan associations of the Federal Home Loan Bank System, by size groups. On June 30, 1939, almost 33 percent of all member associations had assets of less than $250,000, but these small institutions held only 4.6 percent of the total assets of all member associations. More than one-half of the member savings and loan associations were in the asset groups below $500,000, with aggregate assets equal to 12.7 percent of the total assets of all member associations. The remainder of 87.3 percent was held by the member associations having assets in excess of $500,000, although these institutions represented only 44.4 percent of the total number of member savings and loan associations.

Improvements in Plans of Operation

Other changes in operations of savings and loan associations are marked by the gradual disappearance of "serial" associations which issue series of shares at stated intervals. The "permanent" plan of operation under which shares are issued at any time desired has become the standard plan under which the most progressive associations operate today. All Federal savings and loan associations are required to operate under this plan, and when insurance of accounts is granted to State-chartered associations by the Federal Savings and Loan Insurance Corporation, these associations are also urged to adopt the permanent plan.

Together with this change in operations, a clearer separation has evolved between the lending activity of savings and loan associations, on the one hand, and their function as custodians of savings, on the other. In the early days of the savings and loan associations, when the urge to build a home was dominant among their members, investors and borrowers were more or less an identical group. In many cases investors who were not prospective borrowers were not accepted, and vice versa. Today, with a more complex structure of society, with millions of members who want to save for an undefined purpose, and millions of other members who need funds to buy or build a home, conditions are entirely different. In consequence, a large number of savings and loan associations have revised their plans of operation so that they may receive savings from individuals who have excess funds, and lend such funds to other individuals who need loans upon mortgage security. In savings and loan associations operating under Federal charter, the borrowers are not required to be investors or vice versa, and many State-chartered associations have adopted a similar practice.

Loan plans of savings and loan associations have also changed considerably. In the past, the majority of savings and loan associations have operated under two loan plans, the share-account sinking-fund plan and the cancel-and-endorse plan. Under the share-account sinking-fund plan, the borrower subscribes to shares, paid for in monthly installments, which will mature and cancel his loan. Interest is paid on the full amount of the loan until the value of the entire share subscription, plus earnings credited to the account, equals the amount of the loan. The cancel-and-endorse plan is similar except that as regular payments accrue to the value of one share, that share is canceled and the principal outstanding is reduced by a like amount. Under either of these plans, the term of the loan depends on the time required to mature the shares.

In the last few years, chiefly under the influence of the Federal Home Loan Bank Board, these plans have gradually been abandoned and the "direct-reduction plan" has become the standard loan plan under which an increasingly large number of associations operate. Under the direct-reduction plan, the borrower does not subscribe to any shares. His monthly payments are immediately applied to a reduction of the loan and interest is charged only on the diminishing balance of the loan. This type of loan plan is not only less expensive to the borrower, but is also more simple and easily understood. The amortization period is not dependent on factors over which the borrower has no control, such as the maturity of shares and the profits the association is able to make.

The adoption of the direct-reduction plan has greatly assisted savings and loan associations in meeting the increased competition of other home-mortgage lenders during the last few years.

By their charter, all Federal savings and loan associations are required to operate under the direct-reduction plan of amortization, with the exception of straight loans permitted up to 15 percent of assets. An increasing number of State-chartered insured associations are adopting this plan for their new lending operations, and in many cases their existing mortgage loans are being recast to conform to the plan. Likewise, State-chartered noninsured associations are changing from their old loan plans, which are no longer competitive, to a direct-reduction schedule. It is roughly estimated that two-thirds of all mortgage loans currently made by savings and loan associations are direct-reduction loans.[7]

In recent years, a number of savings and loan associations have also adopted the variable-interest-rate plan. Under this plan, the rate charged on each loan is determined on the basis of the risk involved in such loan, the risk being measured by the location of the property, the type of construction, its age and desirability, the income and credit rating of the borrower, the ratio of loan to the appraised property value, the amortization period, and similar factors. By charging variable interest rates, associations are in a position to attract borrowers with the highest type of security in competition with other mortgage-lending institutions, and can at the same time serve worthy borrowers who have good but less desirable security.

In the past, many savings and loan associations were accustomed to levy a number of charges on both investors and borrowers. Investors were charged membership fees, fines, and forfeitures for late payments, and fees for the withdrawal of accounts. Originally designed to encourage regular savings, these charges not only were a burden on savers, but complicated procedures and caused confusion and misunderstandings. Borrowers were charged premiums, discounts, and commissions in addition to regular interest payments. All these charges resulted in a considerable step-up of effective interest rates above nominal rates and are no longer competitive today.

In the last few years these practices have been revised to an increasing extent. Charges to borrowers and investors have either been eliminated or reduced. Federal savings and loan associations are not permitted to charge fees and fines for late payments by their savers,

[7] This estimate is based on the fact that Federal savings and loan associations and State-chartered insured associations account for 55 percent of the total amount of mortgage loans currently made by savings and loan associations, and that a portion of the new mortgage loans made by State-chartered noninsured associations are also direct-reduction loans.

and they must not penalize borrowers who are behind in their contractual payments except by a proper charge for interest on the unpaid balance of the loan. They are not allowed to charge excessive premiums or any withdrawal fees. Similarly, the Federal Savings and Loan Insurance Corporation requires that where such charges exist, they must not exceed equitable amounts if insurance of accounts is to be granted.

More Adequate Reserves

Another vital improvement in the operations of savings and loan associations is the greater emphasis given to adequate reserves. In the early days of the industry, reserves were neither required by State laws nor regarded as necessary by the industry itself. Under the conception that savings and loan associations were cooperative organizations designed to provide each member with a mortgage loan, profits were not distributed periodically, and any losses were charged against the common fund. Later, when the savings and loan associations developed into a permanent type of institution, most State laws still failed to recognize the vital importance of reserves. In consequence, many associations had inadequate reserves at their command when they suffered severe losses during the depression, and in some States, they were forced to recapture accumulated profits.

This experience, together with more progressive legislation in a number of States and Federal regulation in recent years, has completely changed the attitude of the industry toward reserves. Today it is generally recognized that savings and loan associations, like any other type of financial institution, should have sufficient reserves to provide a cushion against losses and contingencies, and many savings and loan associations have built up reserves substantially in excess of the minimum required by Federal or State regulation.

By the revised Federal charter, Federal savings and loan associations are required at each dividend date to set aside at least 5 percent of net earnings before dividends are distributed, until they build up aggregate reserves equal to 10 percent of total share capital. Legislation authorizing insurance of savings and loan accounts provides that all insured associations, whether operating under Federal or State charter, shall build reserves equivalent to 5 percent of all insured accounts within a reasonable period, not exceeding twenty years. Under regulation of the Federal Savings and Loan Insurance Corporation, insured associations must transfer each year to a reserve for losses at least three-tenths of 1 percent of the aggregate of the insured accounts standing on the books of the association at the beginning of the fiscal year until such reserve equals 5 percent of all insured accounts, which ratio must be maintained thereafter.

With respect to State legislation, it is significant that during the twenty-year period, 1919 to 1938, 21[8] States and the Territory of Hawaii established mandatory reserve requirements for the first time. Of those measures, 12 were initiated from 1919 to 1929 and 10 during the period from 1931 to 1938. During the latter period, 14 States strengthened their reserve requirements. Prior to the 1939 legislative sessions, 39 States and the Territory of Hawaii had established mandatory reserve requirements, while 9 States and the District of Columbia, Alaska, and Puerto Rico still lacked such requirements. At the 1939 legislative sessions, and prior to the end of the fiscal year, Iowa and Vermont adopted mandatory requirements, while Colorado, Michigan, Texas, and Hawaii strengthened the provisions of their laws, and Pennsylvania increased the maximum limits of reserves permitted without special approval by the Department of Banking.

Among the State statutes, there is a growing uniformity in reserve requirements. A large and increasing number of jurisdictions require that a minimum of 5 percent of net earnings be transferred periodically to reserves. More than half the States set a minimum measure for the accumulation of ultimate reserves at 5 percent or more of assets or share capital, with a recent trend toward a 10 percent requirement.[9]

Greater Emphasis on Liquidity

Finally, present operations of savings and loan associations give more attention to the maintenance of liquidity. During the early development of savings and loan associations, liquidity was not considered important. As the assets of such associations were invested in long-term mortgage loans, members were required to wait until funds were available to meet withdrawal requests, and penalties were imposed when savers desired to withdraw before the shares matured. Later these penalties were reduced and particularly during the easy-money period of the Twenties, the practice of paying on demand was more widely adopted. The depression, however, brought such unusually heavy withdrawals that many institutions were compelled to place withdrawals on a restricted basis and to withhold the payment of matured shares. With the exception of a few States where savings and loan associations still have pent-up maturities and withdrawals, such unpaid claims have been reduced to negligible amounts in the last few years.

[8] This figure includes two States (Tennessee and West Virginia) whose statutes, though mandatory in nature, do not set a minimum measure, and one (Georgia) in which the reserve requirements are set forth in regulations promulgated by the Secretary of State pursuant to statutory authority.

[9] For detailed information on statutory reserve requirements and reserve policies of savings and loan associations, see Federal Home Loan Bank Review, September 1938, November 1938, December 1938, and May 1939.

Today it is generally recognized that shareholders in savings and loan associations, although their investments are of a long-term nature, desire and are entitled to a reasonable availability of cash funds in case of need. From the point of view of the association, the payment of withdrawals in a manner satisfactory to the investor is necessary for the maintenance of confidence and public support. From the point of view of home-mortgage finance, institutions specializing in long-term home financing will not obtain sufficient funds to serve the needs of home builders or purchasers unless some degree of liquidity is assured. The Federal charter for savings and loan associations provides for a liberal withdrawal schedule,[10] and the Federal Savings and Loan Insurance Corporation expects insured associations in general to meet reasonable withdrawal requests promptly.

Liquidity of home-financing institutions, however, presents peculiar problems. The overwhelming portion of the resources of savings and loan associations is invested in long-term home mortgages which naturally do not constitute liquid assets. In this respect, the liquidity of such institutions is necessarily limited. It is in regard to liquidity that the Federal Home Loan Bank System performs one of its important services. The Bank System enables member institutions to obtain, without delay, cash on mortgage collateral and thus to meet withdrawals required by investors who are temporarily in need of money. The availability of funds in a central reserve bank reduces the necessity and costs of maintaining large liquid funds within each member institution. By supplementing their own liquidity with a large liquidity reserve, the Bank System places its member institutions in a position to meet any current or future needs with a greater degree of success than in the past.

Federal Aid

The above review reveals the considerable influence which the agencies under the direction of the Federal Home Loan Bank Board have exerted on the improvements in practices and operations of home-

[10] Charter K contains the following provisions for repurchases of shares: "Holders of share accounts shall have the right to file with the association their written applications to repurchase their share accounts, in part or in full, at any time. Upon the filing of such written applications to repurchase, the association shall number and file the same in the order received and shall either pay the holder the repurchase value of the share account, in part or in full as requested, or, after 30 days from the receipt of such application to repurchase, apply at least one-third of the receipts of the association from holders of share accounts and borrowers, to the repurchase of such share accounts in numerical order; provided, that if any holder of a share account applies for the repurchase of more than $1,000 of his share account or accounts, he shall be paid $1,000 in order when reached, and his application shall be charged with such amount as paid and shall be renumbered and placed at the end of the list of applications to repurchase, and thereafter, upon again being reached, shall be paid a like amount, but not exceeding the value of his account and until paid in full shall continue to be so paid, renumbered, and replaced at the end of the list."

financing institutions. However, the establishment of these agencies in itself was perhaps an even greater factor in the restoration of such institutions. Through the Federal Home Loan Bank System, savings and loan associations have been provided with a central source of financing, the absence of which proved so disastrous during the first few years of the depression. Through the establishment of a national system of savings and loan associations operating under a uniform Federal charter, the Federal savings and loan associations, a more complete geographic distribution of home-financing institutions over the country was achieved. Insurance of accounts through the Federal Savings and Loan Insurance Corporation has helped to revive and maintain confidence in the security and safety of thrift- and home-financing institutions.

Along with the establishment of Federal agencies in the field of home finance, direct Federal assistance, in the form of investments, has largely contributed to the rehabilitation of thrift- and home-financing institutions. Primarily designed to supply immediate funds for home finance at a time when private money sources had dried up, they have helped to develop a better system of home-financing institutions, to encourage the flow of private money into such institutions, and to stabilize the home-mortgage structure of the country. The following table presents a summary of Federal investments in thrift- and home-financing institutions and in permanent agencies under the Federal Home Loan Bank Board designed to assist such institutions:

Government investment in home-financing institutions and related Federal agencies, June 30, 1939

Federal Home Loan Bank System [1]	$124, 741, 000
Federal Savings and Loan Insurance Corporation [2]	100, 000, 000
Federal savings and loan associations [3]	217, 025, 500
Insured State-chartered savings and loan associations [4]	42, 917, 010
State-chartered noninsured member associations of the Federal Home Loan Bank System [4]	508, 000
Total	585, 191, 510

[1] Investment of United States Treasury in the capital stock of the 12 Federal Home Loan Banks.

[2] Investment of the Home Owners' Loan Corporation in the capital stock of the Federal Savings and Loan Insurance Corporation.

[3] Investment of the United States Treasury and the Home Owners' Loan Corporation in shares of Federal savings and loan associations.

[4] Investment of the Home Owners' Loan Corporation in shares of such institutions.

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