II

Federal Home Loan Bank System

1. SUMMARY

AN ABUNDANCE of money was the most noteworthy development in the operations of both the twelve Federal Home Loan Banks and their member institutions during the fiscal year 1940.

The flow of private capital into member savings and loan associations was large enough to enable them to make new mortgage loans in the amount of $894,212,000—an increase of 30 percent over the preceding fiscal year—to retire investments of the U. S. Treasury and the Home Owners' Loan Corporation in the amount of $24,827,600, to reduce their net borrowings from the Federal Home Loan Banks by $11,564,516, and still to increase cash reserves substantially.

This situation was reflected in the reduction of Federal Home Loan Bank advances outstanding to $157,397,047 at the end of the fiscal year, and in the increase of member deposits in the twelve Banks to $33,114,867. On June 30, 1940, the Federal Home Loan Banks held $36,249,169 in cash available for advances, and the excess of security holdings over legal requirements was $41,334,671. The lower volume of advances outstanding was the principal cause for a decline in net income from $4,534,241 in the fiscal year 1939 to $3,236,727 in the reporting period.

The primary purpose of the Federal Home Loan Banks is to provide home-financing institutions with credit when the local demand for funds exceeds the local supply. The usefulness of such a secondary credit system must, of course, be measured by its potential credit capacity rather than by the actual volume of credit it extends in any given period. The public service and advantages accruing to members are also a better gauge of usefulness. It is to be expected that at a time when there is an abundance of local money flowing into member institutions, the credit facilities of the Federal Home Loan Banks will not be used to the fullest extent. The main benefits of a secondary credit system may be derived from the stabilizing effect of its mere existence and from its capacity to extend credit in periods of financial stress.

With respect to public service, the Federal Home Loan Banks, through advice and assistance given to members during an unusually difficult period, have been responsible in no small measure for the

rehabilitation and recovery of home-financing institutions during the last few years; for the modernization of plans of operation; and for higher standards in management, thereby assuring better services to investors and borrowers. This activity, while progressing satisfactorily, will continue for some time to come. Designed to benefit the entire home-financing structure, the Federal Home Loan Bank System is steadily building its membership into a more closely knit and sounder component group within the industry. The strength of a credit system depends chiefly on the strength of its member institutions. Hence, any improvement in the position of its members will reflect favorably on the Federal Home Loan Bank System as a whole.

Earnings of a credit institution naturally fluctuate with the volume of its lending activity. They will be low in "good times" when advances outstanding are also low, and will be higher in "bad times" when there is a great demand for reserve credit. During the eight years of their existence, the Federal Home Loan Banks have earned a net income of $24,536,800, of which $10,264,036 was allocated to reserves and undivided profits, thus strengthening the capital structure of the twelve Banks. The remainder, $14,272,763, was distributed in dividends to stockholders, of which $11,183,336 was paid to the U. S. Treasury and $3,089,427 to member institutions. Thus, eight years of experience have settled the doubts expressed during the legislative discussion of the Federal Home Loan Bank Act that a reserve system in the home-mortgage field could be operated on a self-supporting basis.

2. MEMBERSHIP

Changes in Membership

At the close of the fiscal year 1940, member institutions of the Federal Home Loan Bank System numbered 3,914 as compared with 3,946 a year previous. The aggregate assets of members were 7.1 percent above those on June 30, 1939, totaling approximately $4,930,000,000 as against $4,600,000,000 at the end of the preceding year.

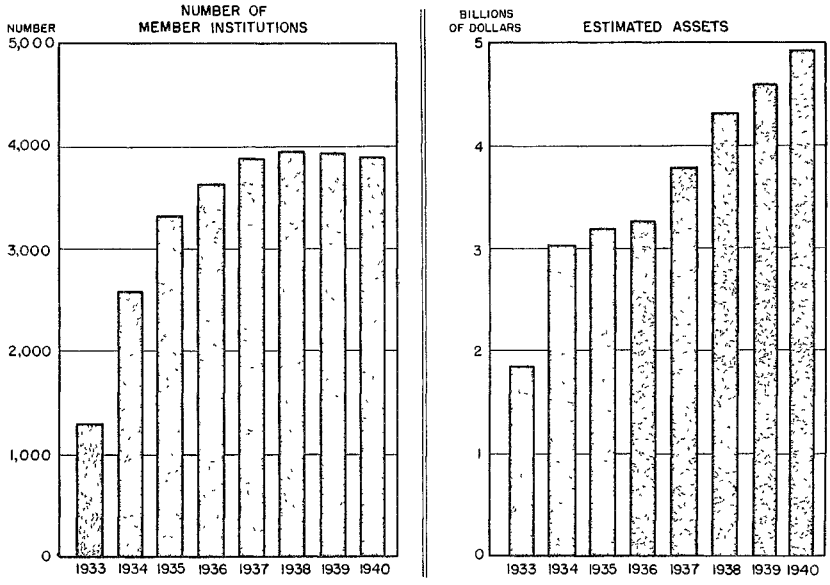
In the past three fiscal years, from July 1, 1937, to June 30, 1940, the membership of the Federal Home Loan Bank System has remained about constant in number, varying, within narrows limit, around 3,900 institutions. In the same three-year period, however, the combined assets of members have grown by more than $1,000,000,000 and they now approach the five billion dollar mark. This in itself is an indication of the fact that, in spite of little change in the number of members, the importance of the Federal Home Loan Bank System in our home-financing structure has increased rather than diminished. During the period from 1932 to 1937, in which the Bank System was built

up, its membership expanded rapidly in numbers as well as in assets. In the present stage of the System, growth is almost entirely in the resources of members; whatever contraction in numbers occurs is due primarily to the progressing consolidation in the savings and loan industry which constitutes the bulk of membership in the Federal Home Loan Bank System.

CHART XXII

NUMBER AND COMBINED ASSETS OF MEMBER INSTITUTIONS OF THE FEDERAL HOME LOAN BANK SYSTEM

AS OF JUNE 30 EACH YEAR



DIVISION OF RESEARCH AND STATISTICS
FEDERAL HOME LOAN BANK BOARD

This situation is clearly reflected in the record of admissions to, and withdrawals from, membership. During the reporting period, 90 thrift and home-financing institutions were admitted to membership in the Federal Home Loan Bank System as compared with 122 in the fiscal year 1939; and applications for membership pending on June 30, 1940, totaled 96 as against 105 at the close of the preceding fiscal year. The reduced volume of admissions and applications is indicative of the continuous decline in the number of savings and loan associations outside the Bank System that can meet the standards for admission to membership.

On the other hand, of the 122 terminations of membership during the reporting period, 56 were occasioned by merger or consolidation of member institutions and did not involve withdrawal of all their

assets from the System. In addition, 50 member institutions went into liquidation, 2 were removed from membership by the Board, and 14 member institutions, including 2 insurance companies, voluntarily withdrew.

The following table summarizes, by types of institutions, the changes in membership during the fiscal year 1940:

Number and assets of member institutions of the Federal Home Loan Bank System, June 30, 1940, compared with June 30, 1939

[Dollar amounts in millions]

	June 30, 1939		June 30, 1940		Net change in fiscal year	
	Number	Assets	Number	Assets	Number	Assets
Savings and loan associations [1]	3,897	$3,936	3,865	$4,233	−32	+$297
Insured associations:						
Federally-chartered	1,380	1,440	1,421	1,726	+41	+286
State chartered	786	896	812	979	+26	+83
Uninsured associations	1,731	1,600	1,632	1,528	−99	−72
Other members	49	664	49	694		+30
Savings banks	9	202	11	213	+2	+11
Insurance companies	40	462	38	481	−2	+19
Total	3,946	4,600	3,914	4,927	−32	+327

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

Among savings and loan members, associations insured by the Federal Savings and Loan Insurance Corporation now represent 57.8 percent of the number and 63.9 percent of the total assets of all savings and loan members of the Federal Home Loan Bank System. Exhibit 12 shows the number and estimated assets of member institutions, by Federal Home Loan Bank Districts and by States, as of June 30, 1939, and June 30, 1940.

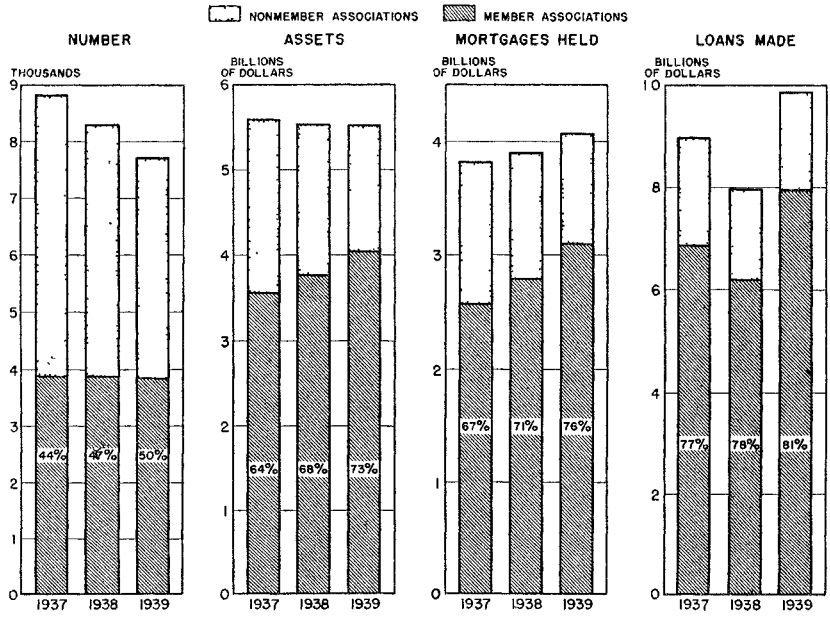
The savings and loan membership of the Federal Home Loan Bank System today comprises a larger proportion of the entire savings and loan industry than ever before. Although including less than one-half the number of all savings and loan associations, member associations, at the end of 1939, accounted for more than two-thirds of total assets and for approximately three-fourths of the first mortgage loans held by all savings and loan associations in the country; and in the past fiscal year they were responsible for more than four-fifths of all loans made by savings and loan associations. (Chart on opposite page.)

At the close of the fiscal year 1940, member institutions of the Federal Home Loan Bank System were operating in 2,000 cities and towns, comprising about 85 percent of the urban population of the United States. They served an estimated 7,000,000 individuals,

either savers or borrowers or both. The majority of investors and borrowers of savings and loan associations are, of course, heads of families; hence, it is roughly estimated that 6½ million out of some 23 million nonfarm families in the United States benefit from the facilities offered by member institutions of the Federal Home Loan Bank System.

CHART XXIII[1]

MEMBER SAVINGS AND LOAN ASSOCIATIONS COMPARED WITH ALL OPERATING SAVINGS AND LOAN ASSOCIATIONS
(BY CALENDAR YEARS)



DIVISION OF RESEARCH AND STATISTICS
FEDERAL HOME LOAN BANK BOARD

Members of the Bank System, while distributed over cities of all sizes, are relatively more numerous in small communities which in so many other respects have been stepchildren of the American financial system. Approximately 50 percent of all member institutions are located in cities of 25,000 or less, which explains in part the relatively small average size of home-financing institutions. It is in the smaller communities that home ownership is most common among all classes of the population; in the larger cities, home ownership is less widespread and savings and loan associations are fewer in number, though larger in size.

[1] For actual figures, see Exhibit 13.

Distribution of savings and loan members of the Federal Home Loan Bank System, by size of community, June 30, 1940

Size of community	Number of members	Percent of total members
Less than 10,000	1,422	36.8
10,000 to 25,000	568	14.7
25,000 to 50,000	323	8.3
50,000 to 100,000	285	7.4
100,000 to 250,000	212	5.5
250,000 to 500,000	378	9.8
500,000 and over	677	17.5
Total	3,865	100 0

The Consolidation in the Savings and Loan Industry

As already mentioned, the savings and loan industry is at present in a process of consolidation which, although reducing the number of member associations, on the other hand exerts a wholesome effect on our home-financing system. The Bank Board and the twelve Federal Home Loan Banks have supported this process by assisting in mergers and reorganizations with subsequent insurance of accounts by the Federal Savings and Loan Insurance Corporation, and by encouraging the sale of assets of those member associations which are too small or weak to survive as independent units. They were guided in these efforts by a policy of developing a membership of sound and strong institutions capable of meeting the vastly increased needs for economical and efficient home financing.

Essentially, the present trend toward larger and stronger home-financing institutions, within the bounds of local conditions, is a parallel to developments in other sectors of our national economy and, more specifically, in the banking field. However, the consolidation in commercial banking, extending practically over the last two decades and culminating in the suspension of thousands of institutions after the bank holiday in 1933, preceded the comparable process in the savings and loan industry. In the banking field, failures, liquidations, and mergers led to a reduction in the number of active banks throughout the Twenties, despite the general business expansion in that period. Difficulties of the early Thirties accentuated, of course, the trend toward contraction. As a result, the number of active banks in 1939 was only half that in 1921—15,035 as against 30,560.

In contrast, the number of savings and loan associations increased through the greater part of the Twenties, reaching a peak in 1927, and decreased slowly in subsequent years. Only recently has their number been reduced in substantial measure as a belated consequence

of the depression period from 1929 to 1933. The slow effect of unfavorable economic conditions on urban mortgage loans and real estate, the long-term character of investments in savings and loan associations, and the possibility of restricting repurchases operated to delay consolidation in the savings and loan field and to carry it over to a period of recovery. In fact, this process is not yet completed. More than 2,000 of the 7,737 associations existing at the end of 1939, although not in process of formal dissolution, are, in effect, in a state of gradual liquidation. They make no new loans and receive no new share investments, and restrict their operations to the collection of interest and principal on mortgage loans and to the disposition of real estate owned.

Number of commercial banks and savings and loan associations in the United States

Year	Operating banks [1]	Operating savings and loan associations [2]	Year	Operating banks [1]	Operating savings and loan associations [2]
1921	30,560	9,255	1931	19,966	11,442
1922	30,158	10,009	1932	18,390	10,990
1923	29,505	10,744	1933	15,011	10,561
1924	28,806	11,844	1934	16,039	10,838
1925	28,257	12,403	1935	15,837	10,478
1926	27,367	12,626	1936	15,628	9,779
1927	26,416	12,804	1937	15,393	8,840
1928	25,576	12,666	1938	15,206	8,300
1929	24,630	12,342	1939	15,035	7,737
1930	22,769	11,777			

[1] Federal Reserve Board, Annual Report, 1937, page 106, and Federal Reserve Bulletin, June 1940.
[2] Savings and loan associations, building and loan associations, homestead associations, and cooperative banks. For the period 1921 to 1931: Building and Loan Annals; for later years: Division of Research and Statistics, Federal Home Loan Bank Board.

The table demonstrates that the contraction in number of operating savings and loan associations has continued steadily during the past several years. The declining number of savings and loan associations does not imply that there have been too many institutions of that type in all parts of the country. When the Home Owners' Loan Act of 1933 authorized the organization of Federal savings and loan associations, it was discovered that approximately one-half of the counties in the United States had no local home-financing institutions whatsoever. This situation has subsequently been improved. It is true that in certain areas, however, too many savings and loan associations had been chartered and developed. It is this condition which has largely contributed to the contraction which is now under way. In many communities located in these areas, there have been an excessive number of associations struggling for existence, for the most part too small in size, unable to support competent management and satisfactory office quarters, offering neither a safe investment channel for savers

nor a modern home-financing service for mortgage borrowers. The elimination or absorption of these institutions, together with the concomitant development of associations in areas that previously had too little home-financing facilities, will eventually bring about a more balanced distribution of thrift and home-financing institutions over the country. The savings and loan industry as a whole will emerge from this transition as a stronger and more potent constituent of our financial system.

Within the membership of the Federal Home Loan Bank System, the trend toward fewer associations has resulted in the merger or consolidation of 276 members from the beginning of operation in 1932 through June 30, 1940; in the same period, 135 savings and loan members went into liquidation. The bulk of liquidations in the savings and loan industry have taken place outside the Bank System among those associations that had been unable to meet the eligibility requirements for membership in the System.

The process of consolidation naturally results in larger associations, although size in itself is not a guarantee of strength. The trend toward larger associations has certain advantages as measured in terms of the community and area served by each association. Institutions of reasonably large size are better able to support expert, full-time management which is important to the successful operation of financial institutions. Likewise, the maintenance of a full-time office located in the business center of the community and separated from a confusing and often injurious association with other enterprises is difficult for many small institutions. In addition, the sharp competition in the home mortgage market requires modern business methods and streamlined services that can be more adequately provided by larger institutions.

From these points of view, it is significant that on December 31, 1939, the average size of savings and loan members of the Federal Home Loan Bank System was $1,047,000 as compared with $400,000 for nonmembers. Exhibit 14, which shows the distribution of member savings and loan associations by asset size groups, evidences in greater detail the trend toward larger institutions. On June 30, 1939, member associations with assets of $500,000 or less represented 55.6 percent of all members. On June 30, 1940, this proportion was reduced to 52.4 percent. The percentage of associations with assets of $1,000,000 or more, on the other hand, rose from 24.6 to 27.3.

While the small- and medium-sized associations still predominate in number, the larger associations hold an overwhelming proportion of the total assets of savings and loan members. On June 30, 1940, associations with assets of $1,000,000 or more accounted for only 27.3 percent

of total members, but their assets were 75.4 percent of the aggregate assets of all members.

It should not be assumed that the tendency toward larger savings and loan associations means that small associations are not equally capable of meeting the thrift and home-financing needs of their communities. The optimum size of savings and loan associations, in fact of all financial institutions, must be gauged primarily by the size of the community in which they are located and the volume of business which normal requirements demand. Local institutions which outgrow their communities are subject to operating difficulties which may well be quite as serious as those confronting very small institutions in larger cities.

3. OPERATIONS OF MEMBER INSTITUTIONS

Most characteristic features of member operations during the fiscal year 1940 were increased lending activity and substantial retirements of Treasury and HOLC investments—both accelerated by the large amounts of private capital placed in member savings and loan associations.

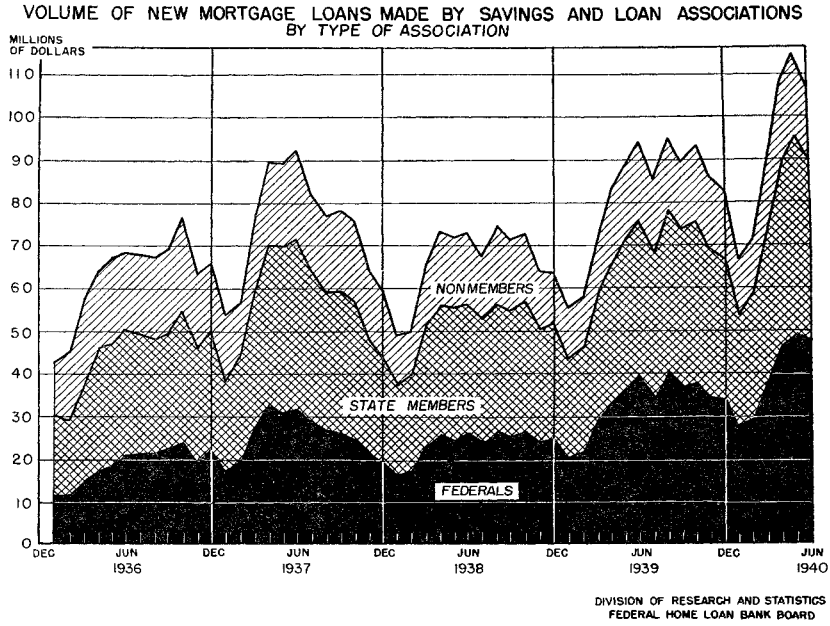
New High of Lending Activity

The estimated amount of new mortgage loans made by member savings and loan associations totaled $894,212,000 during the fiscal year 1940 as compared with $686,697,000 in the preceding fiscal-year period, a growth of $207,515,000, or 30 percent. Estimated lending activity of nonmember associations rose at the rate of 8 percent, with $196,576,000 in new mortgage loans made during the fiscal year 1940 as against $182,189,000 the year before. The combined lending volume of all savings and loan associations passed the billion dollar mark, reaching a new post-depression high of $1,090,788,000, which was one-quarter above the level of the fiscal year 1939.

The distribution of total lending activity over the various types of savings and loan associations has greatly changed during the last three years. In the fiscal year 1937, member savings and loan associations accounted for 75 percent and nonmember associations for 25 percent of all loans made by savings and loan associations. For the fiscal year 1940, these ratios were 82 percent and 18 percent, respectively. Within the membership of the Federal Home Loan Bank System, Federal associations were responsible for only 34 percent of all savings and loan mortgages written in 1937, whereas in the fiscal year 1940, their share in the total had increased to 42 percent, and the proportion of their lending volume to that of all member associations had risen to not less than 51 percent. These shifts reflect in part, of

course, the growth in membership of the Federal Home Loan Bank System over the five-year period and the increasing number of Federal associations due mainly to conversions from State to Federal charter. At the same time, they are indicative of the concentration of the more active savings and loan associations in the Federal Home Loan Bank System as demonstrated by the fact that during the reporting

CHART XXIV



period member associations loaned $221 for each $1,000 in assets and nonmembers only $117.

Percentage distribution of new mortgage loans made by savings and loan associations over the various types of associations, fiscal year figures

Type of association	1937	1938	1939	1940
All savings and loan associations	100.00	100.00	100.00	100.00
Member savings and loan associations	75.08	76.71	79.03	81.98
Federal associations	33.62	34.34	38.44	41.97
State-chartered associations	41.46	42.37	40.59	40.01
Nonmember associations	24.92	23.29	20.97	18 02

Exhibit 15 shows the monthly volume of new mortgage loans made by savings and loan associations, separated by types of associations, from January 1936 to June 1940, and Exhibit 16 presents the dollar

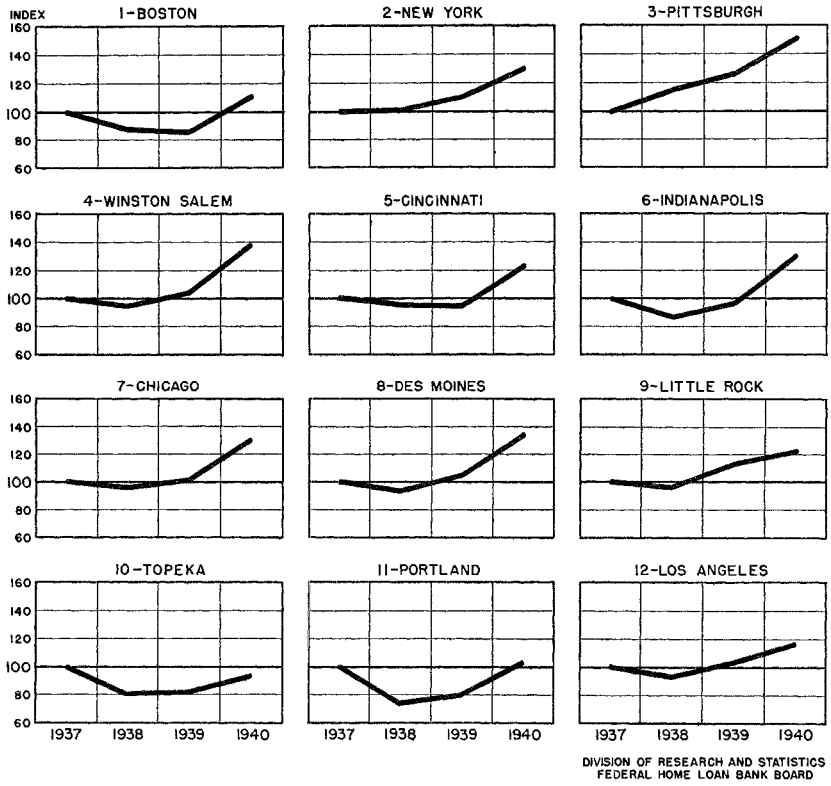
amount and percentage distribution of such loans, by Federal Home Loan Bank Districts, for the fiscal years 1939 and 1940.

All Federal Home Loan Bank Districts, without exception, participated in the higher lending volume during the fiscal year 1940, and it is notable that those Districts which had shown less activity or little increased activity from the fiscal year 1938 to the fiscal year 1939 evidenced a substantial recovery in 1940. This is true, for example, in the case of the Boston, Cincinnati, and Chicago Districts. The largest percent increase in the fiscal year 1940 was in the Indianapolis District, and the Winston-Salem District was a close second.

CHART XXV

INDICES OF MORTGAGE LENDING ACTIVITY BY SAVINGS AND LOAN ASSOCIATIONS, BY F. H. L. B. DISTRICTS

FISCAL YEAR 1937=100



The distribution of mortgage loans made by member savings and loan associations according to purpose of loan followed closely the pattern for all savings and loan associations (p. 33). The share

of construction loans increased from 32.0 percent in the fiscal year 1939 to 33.4 percent in the fiscal year 1940, home purchase absorbed 31.6 percent of the total loan volume last year as against 33.2 percent during the reporting period, and the share of refinancing loans declined from 19.9 to 18.6 percent. Reconditioning loans and loans "for other purposes" showed only minor changes. A detailed account of the distribution of new mortgage loans made by member savings and loan associations, classified by purpose of loan, is given in Exhibit 17.

Retirement of Government Investments

During the fiscal year 1940, outstanding investments of the United States Treasury and the Home Owners' Loan Corporation in savings and loan associations declined appreciably. The ample flow of private capital into member savings and loan associations enabled them to repurchase such investments in substantial amounts. Consequently, the balance of Treasury and HOLC investments outstanding was reduced from $260,450,510 on June 30, 1939, to $237,161,310 on June 30, 1940. At this time, a review of the program of Government investments in thrift- and home-financing institutions may be of interest.

When Congress in 1933 passed the Home Owners' Loan Act to provide immediate relief to home owners, it realized that a more lasting solution of the problems in home finance lay in the rehabilitation of the country's home-financing institutions. At that time, the flow of private money into savings and loan associations as well as other private financial institutions had practically ceased. Mortgage lenders were unable to make new home-mortgage loans and were forced into liquidating existing loans to meet withdrawals of money by needy or panicky investors. In order to check the painful process of liquidation, to restore the confidence of savers, and to supply immediate funds for home-mortgage lending, Congress provided for temporary assistance by the Government through placing public funds in home-financing institutions. The U. S. Treasury was authorized to invest up to $100,000,000 in shares of Federal savings and loan associations, of which amount $50,000,000 was appropriated; subsequently, the Home Owners' Loan Corporation was authorized to make similar investments to the maximum extent of $300,000,000 in the shares of savings and loan associations which were members of

the Federal Home Loan Bank System or which were insured by the Federal Savings and Loan Insurance Corporation. The program provided for the gradual repurchase of Treasury and HOLC investments by the associations. Repurchases do not begin until five years after investments are made, and are limited annually thereafter to 10 percent of the total amount invested in any savings and loan association by the Treasury or the Home Owners' Loan Corporation. The Federal Home Loan Bank Board was charged with the responsibility for carrying out this program.

The following table shows the volume of such investments made by the Treasury and the Home Owners' Loan Corporation for each of the fiscal years from 1934 through 1940:

Gross investments made by the U. S. Treasury and the Home Owners' Loan Corporation in member savings and loan associations

Fiscal year	Investments by the U. S. Treasury		Investments by the HOLC		Total investments	
	Amount invested	Cumulative	Amount invested	Cumulative	Amount invested	Cumulative
1934	$1,086,300	$1,086,300			$1,086,300	$1,086,300
1935	29,520,400	30,606,700			29,520,400	30,606,700
1936	18,693,300	49,300,000	$63,142,700	$63,142,700	81,836,000	112,442,700
1937		49,300,000	119,890,300	183,033,000	119,890,300	232,333,000
1938		49,300,000	28,964,610	211,997,610	28,964,610	261,297,610
1939		49,300,000	7,152,200	219,149,810	7,152,200	268,449,810
1940		49,300,000	1,538,400	220,688,210	1,538,400	269,988,210

Of the $50,000,000 appropriated for Treasury investments, Congress made available to the Federal Home Loan Bank Board an amount of $700,000 to be used in the promotion and development of thrift and home-financing institutions. The remaining $49,300,000 was invested in income shares of 661 Federal savings and loan associations. This program was completed in November 1935. Of the $300,000,000 available for investments by the Home Owners' Loan Corporation, a gross amount of $220,688,210 was invested in 1,344 Federal and State-chartered institutions by June 30, 1940. The increase in private capital received by member institutions has brought about a decrease in the need for HOLC investments during the last two fiscal years. Since 1938, the Board has restricted new HOLC investments to special cases usually in conjunction with the rehabilitation of the local savings and loan industry.

The expectation that investments by the Government would encourage the placement of private savings in savings and loan associations thereby eventually permitting the gradual retirement of public funds has been fully justified. An increasing number of savings and loan associations have voluntarily repurchased Treasury and HOLC investments prior to the expiration of the five-year period provided in the Home Owners' Loan Act and in a far greater amount than stipulated by the law. Through June 30, 1940, repurchases of Treasury and HOLC investments totaled $32,826,900, of which $24,827,600 was retired in the fiscal year 1940. Of the total, only $671,800 represented retirements provided by law. The Board, after examining the financial condition of each savings and loan association in which Treasury investments had been outstanding for five years, determined that all were in a position to make repurchases. Hence, the Board called for all amounts due to be turned back to the Treasury.

The balance of repayments in the amount of $24,155,800 consisted of voluntary repurchases approved by the Federal Home Loan Bank Board. In the belief that Government investments in private financial institutions should be reduced as speedily as possible, the Board sanctioned voluntary repurchases whenever this action appeared to be compatible with the financial condition of associations applying for such repurchases.

Repurchases of Treasury and HOLC investments by member savings and loan associations

Fiscal year	Treasury investments		HOLC investments		Total investments	
	Amount repurchased	Cumulative	Amount repurchased	Cumulative	Amount repurchased	Cumulative
1936	$77,000	$77,000			$77,000	$77,000
1937	1,039,300	1,116,300	$12,000	$12,000	1,051,300	1,128,300
1938	381,000	1,497,300	259,000	271,000	640,000	1,768,300
1939	3,811,000	5,308,300	2,420,000	2,691,000	6,231,000	7,999,300
1940	[1] 9,854,600	[1] 15,162,900	14,973,000	17,664,000	24,827,600	32,826,900

[1] Of this amount, $671,800 was retired in accordance with Section 5 (j) of the Home Owners' Loan Act.

Under the regulations of the Federal Home Loan Bank Board, voluntary repurchases of investments by the U. S. Treasury or the Home Owners' Loan Corporation are made in the same order as applications for repurchase of such investments may be made under the terms of the Home Owners' Loan Act. Voluntary repurchases are deducted from requests for repayment which the U. S. Treasury or the Home Owners' Loan Corporation may make.

The following table indicates the net amount of investments outstanding both of the U. S. Treasury and the Home Owners' Loan Corporation, by fiscal-year periods:

Net amounts of Treasury and HOLC investments outstanding

Fiscal year	Treasury investments		HOLC investments		Total investments
	Number of associations [1]	Amount	Number of associations [1]	Amount	Amount
1934	60	$1,086,300			$1,086,300
1935	576	30,606,700			30,606,700
1936	661	49,223,000	776	$63,142,700	112,365,700
1937	661	48,183,700	1,141	183,021,000	231,204,700
1938	623	47,802,700	1,264	211,726,610	259,529,310
1939	585	43,991,700	1,304	216,458,810	260,450,510
1940	501	34,137,100	1,231	203,024,210	237,161,310

[1] A number of Federal associations have received both Treasury and HOLC investments.

Repurchases during the fiscal year 1940 resulted in a decline in the number of associations holding both Treasury and HOLC investments. While a number of associations made partial repurchases, other associations were in a position to repurchase such investments in full. A complete tabulation of Treasury and HOLC investments made and repurchased, and net investments outstanding, by types of member institutions, is attached as Exhibit 18.

The reduction of Government participation in the capital structure of member associations was reported to the Senate as required by Senate Resolution No. 150, Seventy-Sixth Congress. In his Budget Message for the Fiscal Year 1941, the President estimated that it would be feasible to reduce the capital funds invested by the Government in various corporations and agencies by an aggregate amount of $700,000,000 without impeding operations. During recent years, member institutions of the Federal Home Loan Bank System have already contributed substantially to the return of Government funds previously invested. Barring unforeseen events, they may be expected to continue to do so in the future.

Both the U. S. Treasury and the Home Owners' Loan Corporation have received dividends on their share investments in member associations on an equal footing with private shareholders. Cumulatively through June 30, 1940, the U. S. Treasury has received $8,459,797, and the Home Owners' Loan Corporation, $26,626,497, or a total amount of $35,086,294. This is equivalent to a net yield of 3.46 percent on the average amount of Treasury and HOLC investments outstanding from 1934 through 1940.

Condition of Member Associations

An over-all analysis of the condition of member savings and loan associations confirms the favorable picture revealed in the foregoing pages. The consolidated balance sheet for member savings and loan associations as of December 31, 1939, compared with that of the preceding year, shows the following major changes (Exhibits 19 and 20):

1. Growth in assets by $295,000,000 to well over $4,000,000,000.
2. Increase in private investments by approximately $300,000,000 to over $3,000,000,000.
3. Improved liquidity, with cash holdings increased by almost $49,000,000 to $206,000,000, or 5.1 percent of total assets.
4. Expansion of first-mortgage loans by $315,000,000, or from 74.4 to 76.8 percent of total assets.
5. Reduction of real estate owned by $73,500,000, or from 12 to 9.3 percent of total assets.
6. Decline in total borrowings by close to $17,000,000.
7. Increase in general reserves and undivided profits by almost $17,000,000 to $285,000,000.

Assets.—The increase in assets among the various types of institutions during 1939 was confined to Federal savings and loan associations which grew by $265,000,000, and to State-chartered insured associations, which added $116,000,000 to their resources. The assets of noninsured members declined $86,500,000; this drop, of course, was due principally to shifts of associations from the uninsured to the insured category and from State to Federal charter. The following table summarizes the changes in assets of member savings and loan associations during the calendar year 1939:

Changes in assets of member savings and loan associations, from December 31, 1938, to December 31, 1939

[In thousands of dollars]

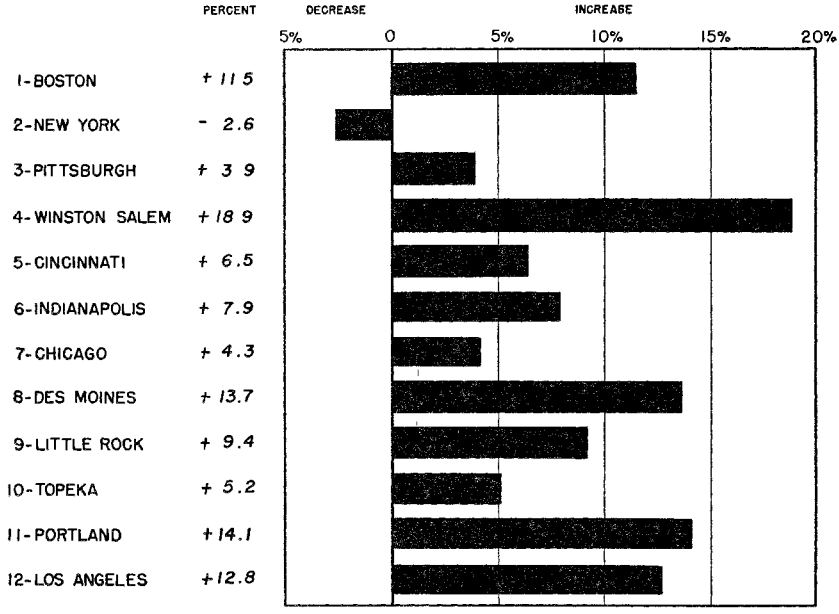
Type of association	Total assets		Change during year	
	Dec. 31, 1938	Dec. 31, 1939	Amount	Percent
All member associations	$3,753,112	$4,048,185	+$295,073	+7.86
Federal savings and loan associations	1,311,006	1,576,155	+265,149	+20.22
Insured State-chartered associations	812,310	928,733	+116,423	+14.33
Noninsured State-chartered associations	1,629,796	1,543,297	−86,499	−5.31

Except in the New York District, the growth in assets was general for the entire country. The decrease of 2.6 percent in the New York District is accounted for entirely by the number of New Jersey associations which have segregated their assets in order to obtain

insurance of accounts. Member institutions in the Winston-Salem District show the most substantial increase in assets—18.9 percent. Associations in the Portland District ranked second with a gain of 14.1 percent, followed closely by Des Moines and Los Angeles where increases of 13.7 and 12.8 percent were registered.

CHART XXVI

PERCENT CHANGE IN ASSETS OF MEMBER SAVINGS AND LOAN ASSOCIATIONS DURING THE CALENDAR YEAR 1939, BY F. H.L.B. DISTRICTS



DIVISION OF RESEARCH AND STATISTICS
FEDERAL HOME LOAN BANK BOARD

Private investments.—The growth of private investments in member associations, including shares, deposits, and investment certificates has raised the ratio of such funds to total resources from 72.4 percent at the end of 1938 to 74.6 percent at the end of 1939. Investments of the United States Treasury and the Home Owners' Loan Corporation, on the other hand, were reduced from 6.9 to 6.2 percent of total resources and will show an even more substantial reduction in 1940 when repurchases of such investments gathered momentum.

The following table shows the growth of private investments in member savings and loan associations for the calendar years 1938 and 1939:

Private investments in member savings and loan associations

[Dollar amounts in thousands]

Type of association	Dec. 31, 1938	Dec. 31, 1939	Percent change
Member associations	$2,717,347	$3,020,469	+11.2
Insured members:			
Federally chartered	864,819	1,116,430	+29.1
State chartered	595,288	701,852	+17.9
Uninsured State chartered	1,257,240	1,202,187	−4.4

For all member associations as well as for Federal and State-chartered insured associations, the increase in private funds during 1939 was at a higher rate than the year before. Federal savings and loan associations recorded the largest gain—29.1 percent. State-chartered insured associations registered a growth in private investments of 17.9 percent. State-chartered noninsured members showed a decline of 4.4 percent. It should be noted, however, that this decline was accentuated by the transfer of uninsured associations to the insured or Federal categories. Member associations as a whole enjoyed a net increase in private investments of 11.2 percent.

Mortgage pledged shares declined by $13,740,000 to $180,040,000 and represented only 4.1 percent of total resources at the end of 1939. This exemplifies the continuing elimination of share-account sinking-fund loans, which involve the pledge of shares, and the widening use of the direct-reduction plan.

Borrowings.—The decline in borrowings affected Federal Home Loan Bank advances and other borrowed money. All together, at the end of 1939, borrowed money was slightly below $200,000,000, or only 4.9 percent of aggregate resources as against 5.8 percent the year before. Of this total, more than nine-tenths represented Federal Home Loan Bank advances, and less than one-tenth came from other credit sources. These figures emphasize the fact that the Federal Home Loan Banks are by far the most important source of credit for member institutions.

Reserves.—Despite the fact that member savings and loan associations have been employing reserves to take care of losses incurred in the liquidation of real estate, the ratio of reserves to total assets declined only slightly from 7.1 to 7.0 percent during 1939. It is noteworthy that reduction of real-estate holdings has not prevented the increase in reserves and undivided profits from keeping in line with the growth of resources.

Mortgage loans.—The ratio of first mortgage loans held to total assets has grown steadily from 69.9 percent in 1936 to 76.8 percent in 1939, a reflection of the increased activity in new lending and of

the transfer of real estate owned to purchase-money mortgages which shifted property holdings back into the mortgage loan category. The $3,107,000,000 in first mortgage loans held by member savings and loan associations represents an 11 percent increase over the balance at the end of 1938, and constitutes approximately three-fourths of the estimated mortgage loan portfolio of all active savings and loan associations (member and nonmember) in the United States.

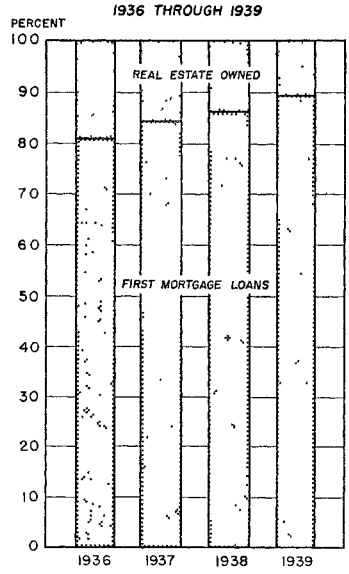
Junior mortgages have always been a small item on the balance sheet of savings and loan associations and have shown a declining trend for a number of years. From 1938 to 1939, they were reduced from $5,545,000 to $4,645,000, or from 0.15 to 0.12 percent of total assets.

Chart XXVII illustrates an essential feature of the recovery of member savings and loan associations: the relative decline of real estate owned as against the relative increase in mortgage loans outstanding.

CHART XXVII

MORTGAGE LOANS AND REAL ESTATE OWNED BY MEMBER SAVINGS AND LOAN ASSOCIATIONS

1936 THROUGH 1939



DIVISION OF RESEARCH AND STATISTICS
FEDERAL HOME LOAN BANK BOARD

Real estate.—For three consecutive years, real-estate holdings of member associations have decreased in dollar volume as well as in proportion to total assets, and by the end of 1939, the liquidation of the large volume of properties acquired through foreclosure or voluntary deed had made substantial progress. Better economic conditions, accompanied by a rapidly declining rate of real-estate foreclosures, and a more active sales policy on the part of member institutions have contributed materially to this improvement.

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

Date	Number of members	Amount of real estate held	Decrease		Proportion to total assets (percent)
			Dollar amount	Percent	
Dec. 31, 1936	3,746	$512,116,000			16.49
Dec. 31, 1937	3,890	488,517,000	$23,599,000	4.61	13.77
Dec. 31, 1938	3,894	450,139,000	38,378,000	7.86	11.99
Dec. 31, 1939	3,866	376,673,000	73,466,000	16 32	9 30

[1] Excluding office buildings

Members in all of the twelve Federal Home Loan Bank Districts showed a decline in real estate owned from 1938 to 1939, and it is particularly significant that the largest reductions were effected in those Districts where the "overhang" has been most substantial: the New York, Chicago, Pittsburgh, Topeka, and Cincinnati Districts.[1] At the end of 1939, member savings and loan associations in 26 States reported real-estate holdings of less than 5 percent of total assets, and in 12 States such holdings represented from 5 to 10 percent of their aggregate assets.

Real estate owned by member savings and loan associations, by Federal Home Loan Bank Districts

Federal Home Loan Bank District	Dollar amounts (in thousands)		Proportion to total assets	
	Dec. 31, 1938	Dec. 31, 1939	Dec. 31, 1938	Dec. 31, 1939
			Percent	*Percent*
United States	$450,139	$376,673	11.99	9.30
No. 1—Boston	46,745	45,264	10.98	9.53
No. 2—New York	102,504	72,128	22.20	16 04
No. 3—Pittsburgh	35,892	31,610	15 70	13.30
No. 4—Winston-Salem	9,964	8,960	2.87	2.17
No. 5—Cincinnati	84,272	76,983	10.93	9.38
No. 6—Indianapolis	27,824	21,792	11.58	8.40
No. 7—Chicago	74,794	62,697	19.12	15.37
No. 8—Des Moines	15,824	13.889	8.84	6.82
No. 9—Little Rock	14,150	10,639	7.30	5.02
No. 10—Topeka	21,859	17,454	13.96	10 60
No. 11—Portland	4,346	4,251	3 67	3.15
No. 12—Los Angeles	11,965	11,006	5 01	4.09

The bulk of acquired properties have been sold against purchase-money mortgages. However, substantial sales on installment contracts are reflected in an increase of real estate "sold on contract" from $141,900,000 at the end of 1938 to $155,200,000, or 3.84 percent of total assets, at the end of 1939.

Cash.—The growth in cash from $157,716,000 to $206,232,000, or 30.7 percent, is all the more remarkable since member associations during the calendar year 1939 repurchased investments of the Treasury and the Home Owners' Loan Corporation in the amount of $8,500,000, and reduced their borrowings by twice that amount. This exemplifies the excess of available funds which developed in spite of the fact that 1939 was the best lending year in nearly a decade. During the past four years, member savings and loan associations have built up their cash reserves from 3.74 percent of total assets (1936) to 5.09 percent of assets (1939).

[1] In some cases, the reduction in real estate owned was due to segregation of assets by which property holdings were placed into special liquidating corporations.

Statement of Operations

For the second year, the Division of Research and Statistics of the Federal Home Loan Bank Board has compiled combined statements of operation for savings and loan members of the Bank System. Since these statements include only those members which submit reports for the calendar year, and in view of the changing composition of membership, operating ratios are more significant than dollar amounts. However, it may be noted in passing that the gross operating income of 3,110 reporting members in 1939 was $182,954,000 as against $163,827,000 reported by 3,094 member associations in 1938, and that the net income after deduction of all charges aggregated $121,575,000 as compared with $105,357,000 the year before.

As to operating ratios, while the changes from 1938 to 1939 were comparatively slight, they were all in a favorable direction (Exhibit 21). Most important is an increase in the ratio of net income to gross operating income from 64.31 to 66.45 percent. Also the distribution of net income varied significantly, inasmuch as a larger proportion of net income was allocated to reserves and undivided profits and a smaller proportion to dividends. In 1938, reporting associations distributed 78.82 percent of total net income to shareholders in the form of dividends and bonuses; in 1939, this was reduced to 75.65 percent. Conversely, allocations to reserves and undivided profits absorbed 24.35 percent of net income in 1939, as against 21.18 percent the year before.

Of the gross operating income in 1939, 85.23 percent was derived from mortgage loans as against 84.25 percent in 1938, while net earnings from real estate contributed only 3.00 percent to gross operating income as compared with 3.44 percent the year before. This is in line with the expansion of the mortgage loan portfolio and the contraction of real-estate holdings during the year. Operating expenses changed only fractionally and remained about 26 percent of gross operating income. Compensation in 1939 absorbed 12.61 percent of gross operating income or approximately one-half of total operating expenses. Advertising expenses were equivalent to 2.12 percent and audit and examination costs to 0.72 percent of gross operating income. Total interest charges on borrowed money were reduced substantially from 9.19 to 7.75 percent of gross operating income, reflecting the smaller volume of borrowings and the lowering of interest rates on such advances.

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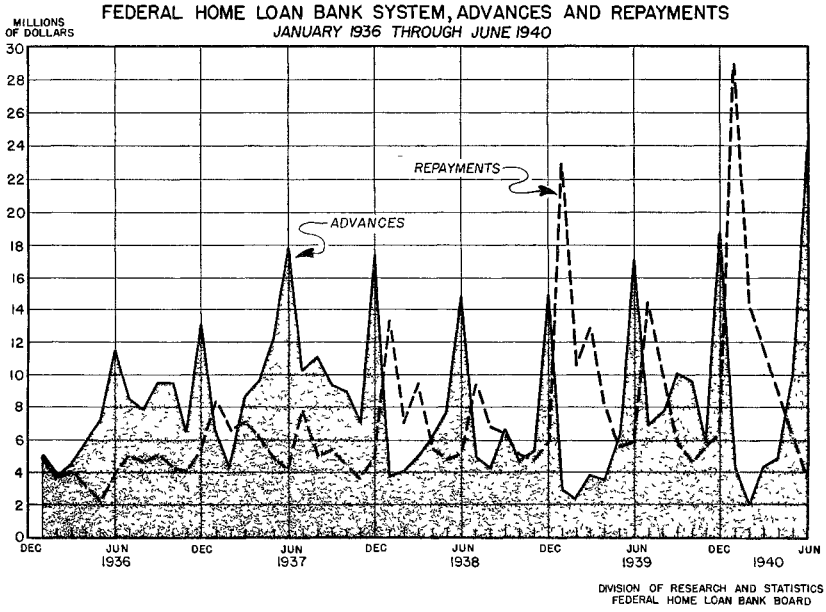
4. OPERATIONS OF THE FEDERAL HOME LOAN BANKS

Decline of Advances Outstanding

Lending operations of the twelve Federal Home Loan Banks were profoundly affected by the liquidity of member institutions discussed earlier in this report. Each month throughout the fiscal year 1940, the balance of advances outstanding was lower than in the corresponding period of the preceding year. However, this was the result of an unusual volume of repayments rather than of a reduced demand for new advances. Gross advances of the Banks in the fiscal year 1940 were higher than the year before, totaling $108,009,901 as against $76,659,075. At the same time, however, repayments

CHART XXVIII



increased to an all-time high of $119,574,417, as compared with $103,922,449 in the preceding fiscal-year period. The excess of repayments over advances during the reporting period is reflected in the reduction of advances outstanding from $168,961,563 on June 30, 1939, to $157,397,047 on June 30, 1940.

Gross advances of the Federal Home Loan Banks from the beginning of operations through the fiscal year 1940 aggregated $631,033,292 and gross repayments on such advances totaled $473,636,245. A summary of advances, repayments, and balances outstanding from

the inception of the Federal Home Loan Bank System through June 30, 1940, is presented in Exhibit 22.

The decline in advances during the fiscal year 1940 was fairly general throughout the country, with only three of the twelve Federal Home Loan Bank Districts showing a larger balance than the year before. These three were the New York, Winston-Salem, and Portland Banks. The sharpest percent decreases were in the Cincinnati District (25.8 percent) and in the Little Rock District (27.1 percent). Exhibit 23 gives detailed information on the volume of advances outstanding, by Bank Districts.

In line with the declining balance of advances, the number of borrowing members was reduced from 2,385 at the end of the fiscal year 1939, representing 60.4 percent of the membership, to 2,090 on June 30, 1940, representing 53.4 percent of the total number of members. A great number of member institutions were able to repay their advances in full—a process which was facilitated by the general practice of Federal Home Loan Banks to accept repayments, at the convenience of borrowing members, before maturity.

Proportion of borrowing members to total number of members, as of June 30 each year

Federal Home Loan Bank District	1935	1936	1937	1938	1939	1940
	Percent	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
No. 1—Boston	28.9	40 4	44.0	39.9	32.4	29 9
No 2—New York	54.8	60.3	61.7	63.2	60.5	58.6
No. 3—Pittsburgh	71.0	76.1	80.4	80.8	78.1	72 1
No. 4—Winston-Salem	55.8	61.7	65.7	71.7	56.6	53.8
No. 5—Cincinnati	52.2	55.6	54.8	56.0	46.8	37 8
No. 6—Indianapolis	43.5	54.1	70.5	66.8	59.3	53.5
No. 7—Chicago	73.1	80.5	82.4	81.1	75.3	64.1
No. 8—Des Moines	51.7	60.7	68.7	68.7	65.0	55.0
No. 9—Little Rock	33 1	59 5	62.7	60.1	51.7	41.2
No. 10—Topeka	42.5	63.2	67.5	66.8	58.5	51.7
No. 11—Portland	55.8	60.6	67.2	69.3	53.0	48.1
No. 12—Los Angeles	46.9	61.3	68.2	73.4	71.1	60 5
Total	54.6	63 6	67.3	67.8	60 4	53.4

On July 1, 1940, interest rates charged on Federal Home Loan Bank advances ranged from 1½ to 3 percent on short-term advances and from 2½ to 3 percent on long-term advances, reflecting various reductions made during the fiscal year 1940. On October 12, 1939, the Federal Home Loan Bank Board established a maximum rate of interest of 3 percent per annum on advances to member institutions, effective October 15, including new advances as well as advances outstanding at that date; with the further provision that notes evidencing such advances shall not be written at an interest rate in excess of the rate to be collected.[2] The Federal Home Loan Banks of Boston and

[2] On advances to nonmember mortgagees approved under Title II of the National Housing Act, the rates of interest are not less than ½ of 1 percent nor more than 1 percent higher than the rates of interest charged to member institutions on advances of like character. No such loans were outstanding on June 30, 1940.

New York reduced their interest rates on long-term advances to 2½ percent, and their rates on short-term advances amortized within one year to 1½ percent. The Federal Home Loan Bank of Cincinnati adopted a uniform rate of 2½ percent for all advances. Exhibit 24 shows the interest rates in effect on July 1, 1940.

Shifts in Advances

During the fiscal year 1940, there was a decided shift from long-term to short-term advances, reversing the trend that had prevailed over a number of years. On June 30, 1940, advances for periods up to one year constituted 27.1 percent of all advances outstanding as compared with 20.7 percent on June 30, 1939. This shift has been widespread throughout the country, with 8 Bank Districts showing an increase in both the dollar volume of short-term advances and percent to total advances outstanding. In two additional Districts, Cincinnati and Little Rock, the volume of short-term advances declined, but increased as a percentage of all advances. In only two Districts, Des Moines and Topeka, did short-term advances decline both in volume and ratio to total portfolio.

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
1940	114,732,949	42,664,098	72.9	27.1

The distribution of long-term and short-term advances outstanding in each of the Federal Home Loan Bank Districts is shown in Exhibit 25.

The relative growth in the volume of short-term advances resulted largely from "unsecured" advances which are collateralized only by the investment of the borrower in Federal Home Loan Bank stock. On June 30, 1940, such advances totaled $31,054,548, or 19.7 percent of all advances outstanding, as compared with 13.9 percent the year before. Advances of this type are made on a conservative basis. If unsecured advances are made for a term of more than thirty days, the borrowing association cannot have outstanding liabilities to other

creditors in an amount greater than 5 percent of its net assets. Thus, there is recourse on such advances to a substantial portion of the assets of the debtor institution. Also, any excess collateral which may have been pledged to the Bank as security for long-term advances to the same borrowing member may be utilized, if necessary, to assist in the retirement of an unsecured advance outstanding to such borrower. In no event can unsecured advances be written for a term in excess of one year.

Trend of secured and unsecured advances outstanding, by fiscal-year periods

Date	Total advances outstanding	Collateralized advances		Uncollateralized advances	
		Amount outstanding	Percent of total	Amount outstanding	Percent of total
June 30, 1933	$47,663,830	$46,521,239	97.6	$1,142,591	2.4
June 30, 1934	85,148,354	82,740,248	97.2	2,408,106	2.8
June 30, 1935	79,232,514	68,045,199	85 9	11,187,315	14.1
June 30, 1936	118,586,838	89,964,281	75.9	28,622,557	24.1
June 30, 1937	167,056,887	130,944,112	78.4	36,112,775	21.6
June 30, 1938	196,224,937	163,386,013	83.3	32,838,924	16.7
June 30, 1939	168,961,563	145,442,668	86.1	23,518,895	13.9
June 30, 1940	157,397,047	126,342,499	80.3	31,054,548	19.7

The $126,342,499 in secured advances outstanding at the end of the fiscal year 1940 was collateralized by 133,054 home mortgages with unpaid balances of $304,724,687, and obligations of the U. S. Government (direct or fully guaranteed) aggregating $1,209,625. In addition, the Banks held as collateral to both secured and unsecured advances a statutory lien on the amounts paid in by borrowers on Federal Home Loan Bank stock, in the total amount of $21,706,900.

A detailed description of the types of advances made by the Federal Home Loan Banks appears in Exhibit 26.

Throughout eight years' operation, none of the twelve Federal Home Loan Banks has sustained any loss on advances. At the end of the reporting period, 2 borrowing member institutions were in voluntary, and 9 members in involuntary liquidation; their indebtedness to the Banks totaled $1,130,495 and was secured by home mortgages valued at $1,441,362 and stock in the Banks aggregating $136,100. Excluding borrowers in liquidation, there were only 3 borrowing members delinquent over thirty days, in the total amount of $118,374. No losses are anticipated on any of the advances outstanding on June 30, 1940.

By Board Resolution of March 4, 1940, the borrowing capacity of member institutions was redefined as the amount for which the member can legally obligate itself or, in the absence of such legal limit, as the equivalent of 50 percent of the member institution's net assets.

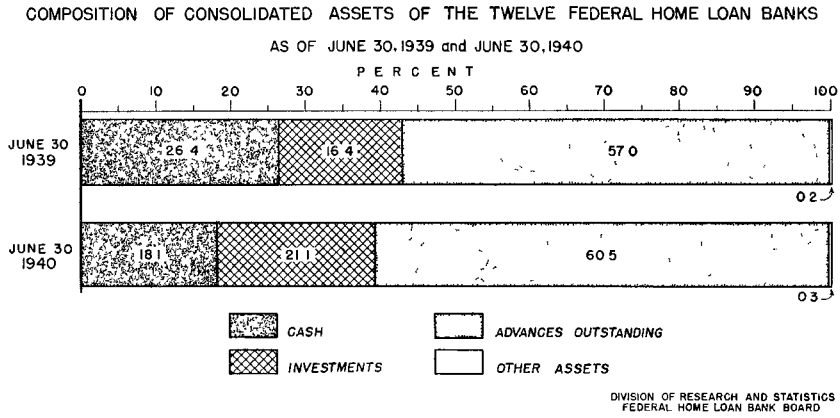
On June 30, 1940, the borrowing capacity of all members was approximately $1,877,000,000. Within the borrowing capacity, a line of credit may be established by the Banks for each member. Lines of credit must be reviewed at least annually, and revised whenever necessary.

Statement of Condition

A statement of condition for the twelve Federal Home Loan Banks as a whole and for each of the Banks separately, as of June 30, 1940, is presented in Exhibit 27.

As already indicated, a high degree of liquidity continued to be the outstanding factor in Federal Home Loan Bank operations during the

CHART XXIX



fiscal year 1940. Although consolidated Federal Home Loan Bank debentures in the amount of $41,500,000 were retired on July 1, 1939, the volume of liquid funds remained in excess of requirements. Cash holdings of the twelve Federal Home Loan Banks on June 30, 1940, totaled $47,109,587 as against $78,205,795 the year before. The latter figure, however, includes $41,500,000 which had been earmarked for the above-mentioned retirement of debentures. Investments, consisting exclusively of United States Government obligations (direct or fully guaranteed), increased from $48,702,247 to $54,856,104 during the year.

At the end of the reporting period, combined cash and investments totaled $101,965,691 and were equal to 39.2 percent of the consolidated assets of the Banks, as compared with 42.8 percent at the close

of the preceding fiscal year. Cash available for advances [3] and securities in excess of legal requirements [4] was $77,583,839.

The securities held by the Federal Home Loan Banks are listed in Exhibit 28. Their book value of $54,856,104 as of June 30, 1940, compares with a par value of $53,688,800 and a market value of $56,569,799. Maturity dates and security yields are indicated in the following table:

Distribution of securities held by the twelve Federal Home Loan Banks, as of June 30, 1939, and June 30, 1940

Maturity	June 30, 1939			June 30, 1940		
	Amount	Percent of total	Average weighted yield [1]	Amount	Percent of total	Average weighted yield [1]
			Percent			*Percent*
Under 1 year	$1,653,000	3.5	1.05	$270,000	0.5	1.10
1 to 5 years	15,311,000	32.1	1.26	21,803,000	40.6	1.17
5 to 10 years	9,954,000	20.9	1.72	13,160,000	24.5	1 97
10 to 15 years	10,327,000	21.7	2.44	12,343,000	23.0	2 55
15 to 20 years	6,114,000	12.8	2.71	2,638,000	4.9	2 45
20 years and over	4,305,000	9.0	2.60	3,475,000	6.5	2 58
Total	47,664,000	100 0	1.91	53,689,000	100 0	1 84

[1] Based on cost to maturity/callable dates

The high degree of liquidity of member institutions caused them not only to reduce their borrowings from the Federal Home Loan Banks, but at the same time to increase their deposits with the Banks. At the close of the fiscal year 1940, member deposits totaled $33,114,867 as compared with $32,191,666 the year before and $19,873,357 on June 30, 1938. The Federal Home Loan Bank Act does not require that members maintain deposits with the Federal Home Loan Banks, nor does it permit the Banks to transact any banking business not specifically authorized in the Act. Nevertheless, member institutions have found the Banks a convenient depositary for excess funds.

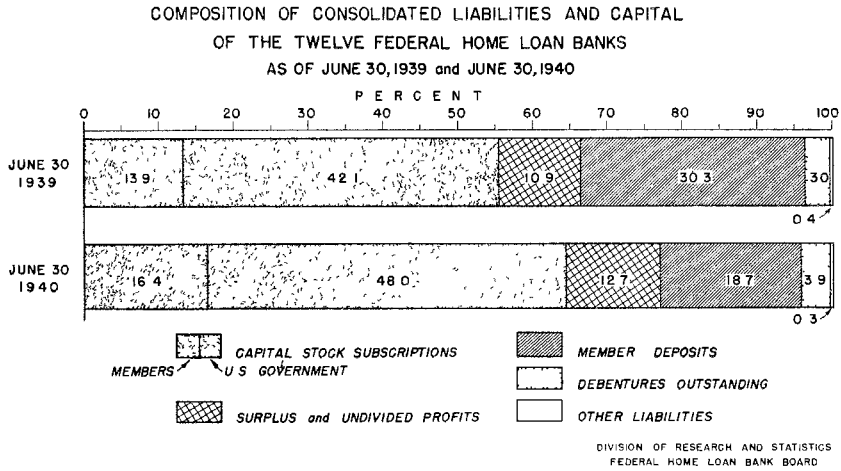
Of the total member deposits, $5,012,835 represented demand deposits on which no interest is paid, and $28,102,032 was in interest-bearing time deposits. In view of the declining volume of advances and reductions in interest rates charged on advances, several Banks lowered the rate of interest paid on time deposits, so that the maximum rate at the close of the fiscal year 1940 was 1 percent. The rates paid by each of the twelve Federal Home Loan Banks as of June 30, 1940, are listed in Exhibit 29.

[3] Represents total cash less reserve requirements of 75 percent of members' demand deposits, 25 percent of members' time deposits, total applicants' deposits, and interbank deposits.

[4] Represents the par value of investments owned above the necessary legal reserve of 20 percent of net earnings each six months.

In addition to member deposits, which serve as a means of interlocal equalization of funds within a Bank District, an interregional exchange of funds is provided by interbank deposits from Bank to Bank. From the beginning of operations through June 30, 1940, such interbank deposits (which are unsecured) totaled $79,550,000 and the amount outstanding at the latter date was $2,700,000. Effective December 15, 1939, the interest rate to be paid on interbank deposits was fixed by the Federal Home Loan Bank Board at ½ of 1 percent per year.

CHART XXX



Other important changes in the consolidated balance sheet of the twelve Federal Home Loan Banks were a decline in debentures outstanding and an increase in capital stock as well as in surplus and undivided profits. Series E of consolidated Federal Home Loan Bank debentures, in the amount of $41,500,000, was retired at maturity on July 1, 1939, which left only two debenture issues outstanding in the total amount of $48,500,000. They represent the joint and several obligations of all Federal Home Loan Banks. The Banks' participation in these issues is shown in Exhibit 30.

Summary of all consolidated debentures issued by the Federal Home Loan Banks

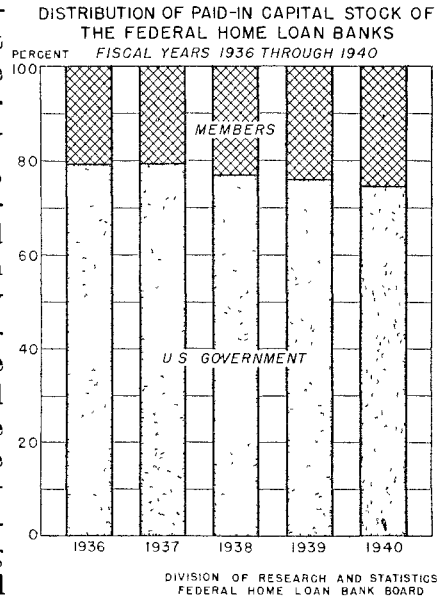
Number of series	Date of issue	Term	Maturity	Amount	Interest rate
		Year			*Percent*
A [1]	Apr. 1, 1937	1	Apr. 1, 1938	$24,700,000	1½
B [1]	July 1, 1937	1	July 1, 1938	28,000,000	1¼
C	Dec. 1, 1937	3	Dec. 1, 1940	25,000,000	2
D	Apr. 1, 1938	5	Apr. 1, 1943	23,500,000	2
E [1]	July 1, 1938	1	July 1, 1939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

[1] Retired at maturity dates.

Despite the decline in the number of member institutions, capital stock subscriptions of members continued to increase, aggregating $42,632,475 on June 30, 1940, as compared with $39,586,175 the year before. Including the $124,741,000 paid in by the U. S. Treasury under the terms of the Federal Home Loan Bank Act,[5] the total paid-in capital stock of the Federal Home Loan Banks aggregated $167,373,475 as of June 30, 1940. Because of increasing member subscriptions, the ratio of paid-in capital stock held by members to the total capital stock has steadily increased.

On a percentage basis, 74.5 percent of the capital stock of the Federal Home Loan Banks was held by the Treasury and 25.5 percent by the member institutions at the close of the fiscal year. The Federal Home Loan Bank Act provides for the gradual retirement of Government stock when the amount subscribed by member institutions exceeds that held by the Treasury. It is necessary, however, to maintain the combined capital stock, public and private, in substantial amount in order to provide a sufficiently large base for debentures now outstanding and those which may be issued in the future. Successful operation of the Federal Home Loan Bank System as a reserve institution depends on its ability to meet demands of member institutions for advances during periods of emergency. A sound capital structure must be maintained at all times if the Bank System is not to be handicapped in fulfilling this responsibility.

CHART XXXI



Under the provisions of the Federal Home Loan Bank Act, each member must hold stock in its Regional Bank in an amount not less than 1 percent of the unpaid principal of its home-mortgage portfolio,

[5] 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.

but not less than $500. Each borrowing member must own stock of the Regional Bank in an amount equal to at least one-twelfth of its outstanding indebtedness to the Bank. Although outstanding advances to members declined, the amount of Federal Home Loan Bank stock held by the average member institution rose from $10,038 to $10,896 during the reporting period.

By an act of Congress, Public No. 664, 76th Congress, approved June 25, 1940, the Reconstruction Finance Corporation was authorized to purchase from the Treasury its subscription to the capital stock of the Federal Home Loan Banks. This authorization is in accord with the plan, outlined in the President's Budget Message for the Fiscal Year 1941, of recapturing approximately $700,000,000 from the capital funds of various Government agencies. The legislation does not contemplate any change in the capital structure of the Federal Home Loan Banks except for the transfer of stock to the Reconstruction Finance Corporation.

The combined capital structure of the twelve Federal Home Loan Banks is summarized in the following table:

Changes in capital structure of the twelve Federal Home Loan Banks

	June 30, 1939	June 30, 1940
Total stock subscriptions:		
Members	$39,609,100	$42,647,900
United States Government	124,741,000	124,741,000
Payments received on stock subscriptions:		
Members	39,586,175	42,632,475
United States Government	124,741,000	124,741,000
Balance due on above stock subscriptions:		
Members	22,925	15,425
United States Government		

From July 1, 1939, to June 30, 1940, the twelve Federal Home Loan Banks increased their surplus and undivided profits by $1,462,595, bringing the total amount of surplus and undivided profits at the end of the reporting period to $10,264,036. Thus, within eight years of operation, close to $11,000,000 has been set aside from earnings to strengthen the Banks' capital structure. On June 30, 1940, surplus and undivided profits were equal to 6.1 percent of the paid-in capital stock.

Due to the retirement of debentures, total resources of the Federal Home Loan Banks were reduced during the past fiscal year from $296,629,853 to $260,067,459. On June 30, 1940, current assets were 270 percent of current liabilities.

Income and Expenses

The Federal Home Loan Banks experienced a rather substantial decline in income during the reporting period. The consolidated gross income dropped from $7,274,390 in the fiscal year 1939 to $5,715,959. This was occasioned by a reduction of interest earnings on advances, attendant upon the lower volume of advances outstanding and lower interest rates charged, and by a decline in nonoperating income. Charges to income were somewhat reduced from $2,740,149 to $2,479,232, chiefly through lower interest expense on outstanding debentures. Since operating expenses of the Banks are more or less independent of fluctuations in the volume of advances, they could not be lowered in the same measure that gross income declined. As a result, net income declined from $4,534,241 in the preceding fiscal year to $3,236,727 in the reporting period.

In an evaluation of the expenses of the Banks, cognizance must be taken of the extent of services performed by the Banks, described in the following sections of this report. These services enhance the usefulness of the Bank System to home finance and thrift and are part of the public responsibility vested in the System.

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

	Fiscal year 1939	Fiscal year 1940
Income:		
Interest earned on advances	$5,669,103	$4,561,889
Interest earned on investments	891,301	956,533
Interest earned on deposits in commercial banks		570
Nonoperating income	713,986	196,967
Gross income	7,274,390	5,715,959
Less—Charges:		
Compensation, travel, and other administrative expenses	922,523	927,106
Interest on deposits	250,276	247,393
Interest on debentures	1,120,292	938,750
Assessments for expenses of Federal Home Loan Bank Board	300,000	300,000
Other expenses	83,168	49,358
Nonoperating charges	63,890	16,625
Total deductions	2,740,149	2,479,232
Net income	4,534,241	3,236,727

Exhibit 31 gives a detailed statement of profit and loss in the fiscal year 1940, for each of the twelve Banks.

Four of the twelve Federal Home Loan Banks reduced their dividend rates during the fiscal year 1940. Consequently, the annual dividend rate on the average capital stock of the twelve Federal Home Loan Banks for the fiscal year 1940 was 1.07 percent as compared with 1.36 percent in the preceding year, and total dividend payments were $1,774,132 as against $2,201,926 the year before. Exhibit 32

shows the dividend rates declared by each Bank for the fiscal year 1940 and cumulative amounts paid from the beginning of operations to June 30, 1940.

The conservative financial policies of the Banks are indicated by the fact that despite reduced net earnings, allocations to reserves and undivided profits were $815,250 in excess of the reserve requirements of the Federal Home Loan Bank Act.

Distribution of net income of the Federal Home Loan Banks, fiscal years 1939 and 1940

	Fiscal year 1939	Fiscal year 1940
Allocation to reserves:		
To legal reserves	$906,848	$647,345
To reserve for contingencies	473,656	419,093
Total to reserves	1,380,504	1,066,438
Dividends paid:		
United States Government	1 664,559	1,334,190
Members	537,367	439,942
Total dividends paid	2,201,926	1,774,132
Balance to undivided profits	951,811	396,157
Total net income (consolidated)	4,534,241	3,236,727

An analysis of the surplus and undivided profits of the Federal Home Loan Banks, individually and collectively, as of June 30, 1940, is given in Exhibit 33.

In addition to administering the Federal Home Loan Bank System, the Federal Home Loan Bank Board serves as Board of Directors of the Home Owners' Loan Corporation and as Board of Trustees of the Federal Savings and Loan Insurance Corporation. Accordingly, the Board derives its operating funds from assessments upon the twelve Federal Home Loan Banks, from charges made against the Home Owners' Loan Corporation and the Federal Savings and Loan Insurance Corporation for services rendered by the Board, and from fees received for the examination of home-financing institutions. Expenses of the Examining Division of the Board, which represent the greater portion of the Board's operating budget, are reimbursed by the institutions examined.

In the fiscal year 1940, receipts of the Federal Home Loan Bank Board totaled $1,396,788 and disbursements aggregated $1,282,542 as compared with $1,070,599 and $1,124,650, respectively, the year before. Including a cash balance of $238,425 carried over from the preceding year, the balance as of June 30, 1940, amounted to $352,671. Exhibit 34 presents a tabulation showing in detail the administrative receipts and disbursements of the Board for the last two fiscal years.

The personnel of the Federal Home Loan Bank Board totaled 396 at the close of the fiscal year 1940. Of this total, 241 employees

represented the staff of the Examining Division. Exhibit 35 gives a summary of personnel by departments, as of June 30, 1939, and June 30, 1940.

Administration of the Bank System

In the administration of the Federal Home Loan Bank System, emphasis is placed on the maintenance of an equilibrium between centralization and decentralization. Under the direction of the Federal Home Loan Bank Board, the Governor of the Federal Home Loan Bank System is responsible for the administration and supervision of the twelve Banks.

In the determination of its policies, the Federal Home Loan Bank Board is assisted by an advisory body in which each of the twelve Bank Districts is represented to assure a close contact between the operations in the field and the central administration in Washington. This organization was created by the Federal Home Loan Bank Act and is known as the Federal Savings and Loan Advisory Council.

The Council, which 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, held two meetings during the reporting period. At these meetings, the Advisory Council centered its attention on a number of subjects of primary importance to the successful operation of the Bank System, among which were the following: organization of supervisory activities by the Board and the officers of the Banks, earnings of the Banks in the face of declining advances, interest rates on advances, retirement of Treasury and HOLC investments in shares of member institutions, deposits of member institutions in the Banks, questions arising from the proposed recapture of capital funds from Government corporations, and the Federal Home Building Service Plan. The Council also endorsed proposed legislative amendments to the Federal Home Loan Bank Act. Its recommendations were of value in the evolution of rules and regulations governing the operations of the Banks and their member institutions. A list of the members of the Council as of June 30, 1940, is attached as Exhibit 36.

The Bank Presidents' Conference, which is composed of the executive heads of the twelve Banks, met twice during the year. The Conference, established by Board Resolution, meets regularly in Washington to advise and confer with the Governor of the Federal Home Loan Bank System on various administrative and supervisory problems. Among the subjects discussed at the meetings this year were costs of supervision, supervisory duties of Bank officers, annual reports of Federal savings and loan associations, advertising policies and public relations of member institutions, interest rates on Bank

advances, mortgage interest and dividend rates, retirement of Treasury and HOLC investments in member associations, issuance of new debentures, and national and State legislation.

A balance between centralization and decentralization is also accomplished by an arrangement under which the officers of the twelve Federal Home Loan Banks act as agents of the Federal Home Loan Bank Board in various matters under the jurisdiction of the Board. This arrangement makes it possible to give recognition to local conditions while preserving reasonable uniformity of standards, and helps to simplify and make more efficient the work of the Board. The officers of the Banks receive, consider, and submit recommendations on applications for charters for Federal savings and loan associations, for insurance of accounts by the Federal Savings and Loan Insurance Corporation, for investments by the Home Owners' Loan Corporation in member associations, and on other applications requiring specific approval by the Board. As agents of the Board, the officers of the Banks also have the responsibility of supervising the institutions in their Districts which are insured by the Federal Savings and Loan Insurance Corporation. These institutions submit to them for their consideration all such matters as budgets, applications for approval of amendments to charters or bylaws, petitions for permission to establish branch offices, applications for approval of the purchase of assets or of consolidations, mergers, or dissolutions, and similar matters which must be approved by the Federal Home Loan Bank Board under the statutes and rules and regulations of the Board. The officers of each Bank supervise the bonding of directors, officers, and employees of institutions insured by the Federal Savings and Loan Insurance Corporation as required by the statutes, bylaws, and rules and regulations governing such institutions. Upon receiving a report on the supervisory examination of an insured institution, the President of each Bank makes a careful study of such report and transmits a copy thereof to the institution examined accompanied, if necessary, by a supervisory letter based on the facts disclosed in the examination report.

Each of the Federal Home Loan Banks is administered by 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. Effective June 23, 1939, the Board issued new rules and regulations for the election of directors. The election procedure was modeled along the lines of the preferential ballot system used suc-

cessfully by the Federal Reserve Banks for the past twenty-five years. The advantages of this procedure were well demonstrated in the 1939 election in that the secrecy of each ballot prevailed, material reductions were made in election costs, and the period formerly required to conduct the election was reduced by more than one month.

Examination and Supervision

Each Federal Home Loan Bank is examined semiannually by the Federal Home Loan Bank Board. Member institutions are required to file an annual report with the Federal Home Loan Bank of which they are members. The report, together with an analysis prepared by the Board's Examining Division, serves the requirements of the Banks as well as those of the Governor of the Federal Home Loan Bank System.

The Federal Home Loan Bank Board examines and supervises all Federal savings and loan associations, and, in cooperation with State authorities, State-chartered associations which are insured by the Federal Savings and Loan Insurance Corporation. It also examines such noninsured member institutions of the Bank System as are not subject to State examination. On June 30, 1940, there were 2,235 insured thrift- and home-financing institutions under the direct supervision of the Board.

In the early period of operation, examinations were conducted by the twelve Federal Home Loan Banks. Late in 1934, however, an Examining Division was established under the Board, with the Chief Examiner in Washington and a District Examiner in each of the Federal Home Loan Bank Districts. This arrangement has served to assure uniformity of examination standards as far as practicable and to give sufficient emphasis to local conditions.

When the Federal Home Loan Bank Board commenced operations, Federal examination of thrift- and home-financing institutions was an innovation. State supervisory authorities had developed a great variety of examining procedures and practices; examination-report forms and the standards of examination differed from State to State. In the formulation of its examining procedures, the Federal Home Loan Bank Board has attempted to combine and improve the best practices developed by State authorities. A standard examination-report form was prepared and later revised through the collaboration of representatives of the National Association of Building and Loan Supervisors, the Accounting Division of the U. S. Savings and Loan League, and the Federal Home Loan Bank Board. This standard form is now used by the Bank Board and by nearly half the States.

As a result of cost reductions made effective in the fiscal year 1939 and of simplifications in the examination report form, there has been a material decline in average examination charges. Comparing the calendar year 1939 with 1938, the average decline approximated 15 percent.

Soon after the beginning of operations, the Federal Home Loan Bank Board determined that the functions of examination and supervision should be entirely separated. Accordingly, the responsibility for supervision has been vested in the Governor of the Federal Home Loan Bank System and the officers of the Federal Home Loan Banks who act as the Board's agents for this purpose. Separation of examining and supervisory functions assures to examiners a greater measure of independence as fact-finders, and to supervising officials a more detached consideration of information and circumstances revealed by the examinations. Supervisory action is taken only after independent study of the facts as related to the statutes, to the rules and regulations established by the Board, and to general standards and practices in the industry. By delegating immediate supervisory functions to the officers of the Federal Home Loan Banks, supervision has been made responsive to varying conditions in the different sections of the country.

In the discharge of its supervisory authority, the Board is guided by the principle that every institution should be so operated that due regard is given to the public interest. Supervision of financial institutions of all types is now commonly accepted, because of the heavy responsibilities assumed in managing the funds of millions of private individuals. The protection of the interests of private individuals who entrust their savings to financial institutions has logically devolved upon the State and Federal governments.

This responsibility of the Board does not imply participation in the management of local home-financing institutions. The day-to-day operation of savings and loan associations is properly the concern of local directors and managing officers. The function of the Federal Home Loan Bank Board is rather to establish basic standards of operation to which all insured associations must conform.

The rules, regulations, and standards which have been adopted by the Board are the product of careful study and investigation. They are intended to be specific objective standards which will protect the interests of the public without imposing undue restrictions on legitimate activities of local management.

Although the supervisory activities of the Board are primarily directed toward the compliance by all institutions with the statutes and regulations, the Board has an additional positive interest in developing and maintaining the soundest and most economical practices among

individual institutions. The informal influence of the Board, in encouraging the type of operation which in its considered judgment will assure successful administration of the institutions as well as a maximum service to investors and borrowers, is an important aspect of the Board's supervisory activities. In this same connection, the Board recognizes that no institution will prove more successful than the capability of its management. The establishment of full-time qualified executive management is therefore encouraged in all institutions where warranted by size, budget, and community needs. Wherever possible to do so, the Board attempts to take preventive supervisory measures before proceeding to corrective action. If difficulties can be forestalled in this manner, all interested parties, the association, its borrowers and investors, and the Board, profit thereby.

The limits to the results which can be expected from the supervisory activities of the Board should be noted. Supervisory standards, no matter how well drawn, cannot insure permanent successful operation of individual institutions. Such standards cannot, for example, remove home-financing institutions from the effects of real estate and economic trends. In the last analysis, the success or failure of supervision must be measured in terms of the degree of competence with which the savings and loan industry meets the thrift and home-financing needs of the country.

The following table contains a summary of the examinations and analyses conducted by the Examining Division of the Federal Home Loan Bank Board during the fiscal year 1940:

	Number
Supervisory examinations	408
Supervisory examinations and audits	1, 572
Miscellaneous examinations	101
Examinations and analyses of applications for membership, insurance, conversion, and HOLC investments	683
Other services [1]	459
Total	3, 223

[1] Examinations on occasion of mergers; purchase, sale, transfer, or segregation of assets; services to Federal Home Loan Banks and Federal Savings and Loan Insurance Corporation; and other services.

Federal Home Building Service Plan

The Federal Home Building Service Plan, inaugurated by the Federal Home Loan Bank Board in 1936, has been further developed during the reporting period. While it is contemplated ultimately to extend the Plan to all sections of the country, field activities were confined to six trial areas for intensive development during the fiscal year 1940. Within the six areas, certain cities have been selected as primary and secondary points for promotion of the Plan in the 1940 building

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season. Local operation of the Plan in communities outside of these areas has been, and will continue to be, served by the Bank Board's Home Building Service Section in Washington.

The Federal Home Building Service Plan offers the member institutions of the Bank System and other mortgage lenders a "quality" program operating to insure better planning, design, and construction for new homes financed by such institutions. While designed to safeguard home seekers of modest income, in a field where protective architectural and technical service had been lacking in the past, the Plan is calculated to strengthen the value of collateral behind the mortgage loan, and to provide financial institutions with a proper merchandising technique for loans on new construction. Essentially, its services are a means of reducing the risks—both to borrower and lender—involved in loans on new houses.

The Federal Home Building Service Plan provides mortgage lenders with a program through which they may offer prospective home owners good small-house plans, as well as technical services at minimum cost. The facilities included in the Plan range from advice and guidance in the selection of proper and suitable design, plan, and building site, to the qualification and selection of contractors, the awarding of contracts, and the supervision of construction. The homes erected under the Plan obtain a "Certificate of Registration" attesting that they have been built according to proper standards, thus supplying the product with a much-needed identification of "quality."

The Plan is sponsored jointly by the Federal Home Loan Bank Board, the American Institute of Architects, and the Producers' Council representing the largest materials manufacturers. A number of associations in the building trades such as the National Lumber Manufacturers Association, the National Adequate Wiring Bureau, and the Portland Cement Association have endorsed the Plan and assist in its promotion. However, the Plan is operated in each community by local organizations comprising the various elements of the building industry—mortgage-lending institutions, architects, builders and contractors, and material dealers. Institutions which desire to operate the Plan may use the material and assistance provided under the Plan to develop their own home building service and adapt it to their individual requirements and to local conditions.

As of June 30, 1940, there were 312 home-financing institutions which had been approved to offer the services of the Federal Home Building Service Plan, and 489 architects had been qualified. At the same time, the number of home designs approved under the Plan reached 925.

III

Federal Home Loan Bank System

For the Federal Home Loan Banks and their member home financing institutions, the 1941 fiscal year was a period of record-breaking activity. Advances by the Banks and repayments by borrowing member institutions both reached the highest figures for any fiscal year since the Bank System was established in 1932. A substantial inflow of private capital into member savings and loan associations enabled them to write mortgage loans in the total amount of $1,084,866,000, an increase of 21.3 percent over the preceding fiscal year, and to reduce Government share investments by almost 13 percent. The combined balance sheet and operating statements of member savings and loan associations reflect steady improvement.

The national emergency has confronted thrift and home financing institutions with a host of new problems. Fortunately the industry is better prepared than ever before to meet this challenge. Management and operating standards have been substantially improved in recent years, the problems brought on by the depression of the early Thirties have largely been surmounted, and perhaps most important of all, the industry is now able to face a difficult future with the knowledge that it is supported by the Federal Home Loan Bank System which stands ready to meet both emergency and normal credit demands.

1. OPERATIONS OF THE FEDERAL HOME LOAN BANKS

Lending Activity

The lending record of the Federal Home Loan Banks during the fiscal year 1941 demonstrates most clearly the ability of the System to meet the credit needs of its member institutions. The fact that advances outstanding on June 30, 1941, totaled $169,897,390, an increase of 8 percent as compared with the close of the previous reporting period, tells only one part of the story. Of equal significance is the fact that advances made during the 1941 fiscal year reached a new high of $142,875,563, a figure 32 percent greater than that for the fiscal year 1940. An increase of 9 percent in the total volume of

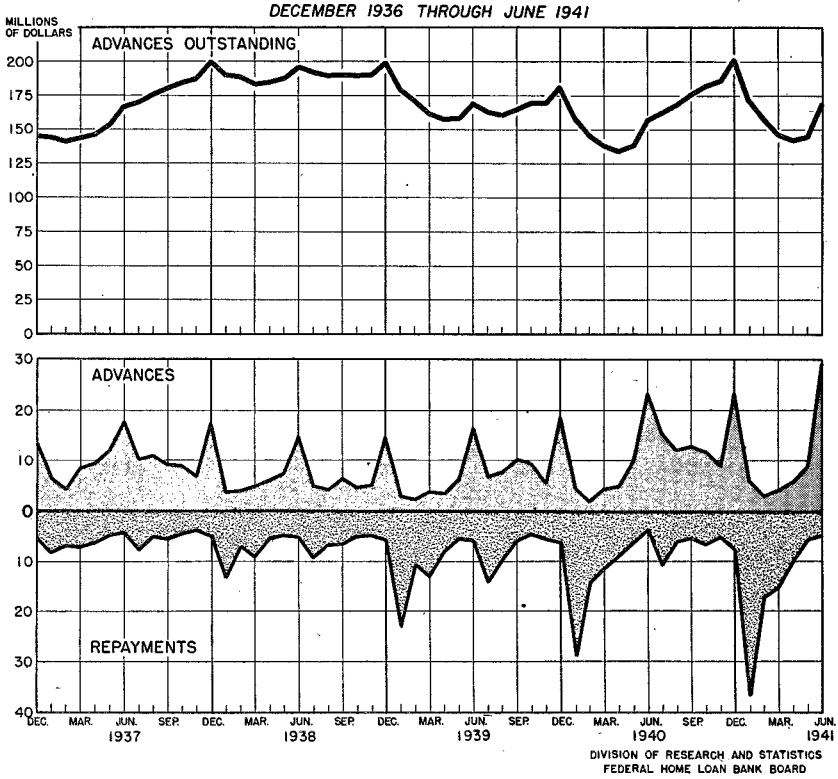
repayments made by member institutions during the fiscal year 1941 accounts for the relatively small margin between the balance of outstanding advances at the close of the last two fiscal years.

The chart below shows a regularly recurring relationship between the volume of advances and the volume of repayments during each semiannual period. Normally, advances during the six-month period

CHART XXIX

FEDERAL HOME LOAN BANK SYSTEM ADVANCES AND REPAYMENTS

DECEMBER 1936 THROUGH JUNE 1941



from July to December are well above repayments, while from January to June, exactly the reverse is true, with repayments substantially in excess of advances. The last fiscal year was no exception to this general rule, but the movement of both advances and repayments was exaggerated in each six-month period due to certain special factors which influenced the lending activity of the twelve Banks.

The chart indicates, for example, that during the first half of the reporting period, from July through December 1940, current advances

were substantially higher and current repayments considerably lower as compared with the first half of the preceding fiscal year. The need for an unusual amount of additional credit during this period is explained, in part at least, by a temporary slackening in the flow of private savings during the fall of 1940, probably brought on by psychological reactions to the turn of events abroad. The collapse of France, mounting British reverses, and the very real danger of an invasion of Great Britain apparently had some effect on the American investing public. For a few months at this time there were indications that hoarding, for example, was increasing.

Home financing institutions generally were impressed with the necessity of maintaining a sufficiently liquid position to meet possible withdrawal demands. Therefore, they drew on the resources of the Federal Home Loan Banks to forestall any difficulty in this regard. Accompanying the temporary dropping off in the rate of private savings there was a steady demand for new mortgage funds which in turn led to increased use of the credit facilities of the Federal Home Loan Banks.

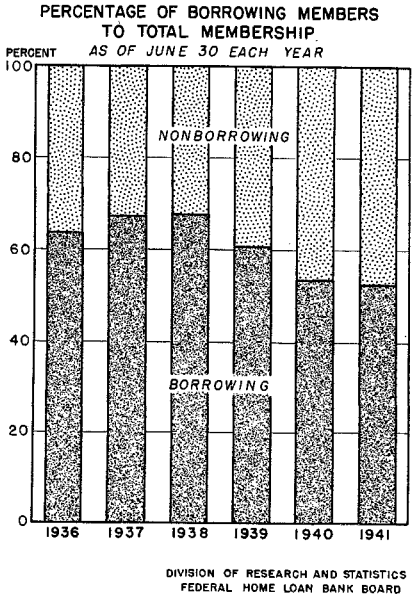
During the second half of the reporting period, this trend was reversed. Again, the shift was undoubtedly the result of more than the normal seasonal factors which regularly cause a rate of repayment well in excess of new advances during this six-month period. Advances made during the first six months of 1941 amounted to $57,774,230, while repayments reached a new peak of $89,368,804. It is probable that this greater than seasonal variation resulted from the fact that in the early months of 1941, private capital began to flow into home financing institutions at a good rate. Member institutions borrowing from the Federal Home Loan Banks, no longer confronted with the imminent possibility of a growing withdrawal demand, were able to retire at least a portion of the funds previously obtained from their Regional Bank. In other words, emphasis during the second half of the fiscal year just closed was shifted from primary liquidity to unused lines of credit with the Federal Home Loan Banks.

Although increasing private investments were undoubtedly the primary cause of the decline of advances outstanding after the all-time peak in December 1940, there were other developments which strengthened the cash resources of member institutions and made it possible to retire indebtedness. Principal repayments on direct-reduction loans increase steadily as the loans age, and many associations have now built their portfolios to a point where this factor alone is responsible for a substantial incoming volume of funds available for mortgage lending. The sale of a large number of owned properties

through the medium of purchase-money mortgages has brought in cash down payments and added to earning mortgage portfolios. An ever increasing number of associations are supplementing their available lending funds by selling enough insured mortgages to build up a revolving fund. This activity has not yet assumed importance for the country as a whole, but in certain defense areas has already become significant.

Gross advances made by the Federal Home Loan Banks since the beginning of operations through June 30, 1941, totaled $773,908,855 and repayments made on such advances amounted to $604,011,465. Exhibit 12 summarizes in some detail advances, repayments, and balances outstanding since the beginning of operations.

CHART XXX



A comparison of advances outstanding in each of the Federal Home Loan Banks at the close of the last two fiscal years shows little uniformity in percentage increases or decreases. Nine of the Banks show gains of from 1.1 to 31.2 percent in advances held on June 30, 1941, over the close of the previous fiscal year. The other three Banks show a contrary trend, with declines ranging from 0.9 to 13.5 percent. Exhibit 13 gives detailed information on outstanding advances in each of the Bank Districts for the past eight years.

There was no substantial change at the close of the fiscal year in the number of member institutions borrowing from their Regional Banks. A year ago, on June 30, 1940, some 2,090 member institutions, or 53.4 percent of the total membership, were indebted to the Banks. On June 30, 1941, the corresponding figure was 2,010, or 52.4 percent of membership. This slight decline in the number of borrowing members and the somewhat higher volume of advances at the close of the reporting period is reflected in an increase in the average principal indebtedness of borrowers from $75,310 on June 30, 1940, to $84,526 on June 30, 1941. The percentage of borrowing members at the close of each of the last six fiscal-year periods, by Federal Home Loan Bank Districts, is shown in Exhibit 14.

The maximum rate which can be charged by the Federal Home Loan Banks on advances to their member institutions has been set at 3 percent by the Federal Home Loan Bank Board. On July 1, 1940, the Banks were charging from 2½ to 3 percent on long-term advances and from 1½ to 3 percent on short-term advances.

During the reporting period, the Indianapolis Bank reduced its rate from 3 to 2½ percent on short-term advances which do not exceed 15 percent of the institution's share capital. The Federal Home Loan Bank of Chicago lowered the cost of short-term advances from 3 to 2¼ percent if in each case the advance is amortized at the rate of at least 2½ percent quarterly. If amortized within one year in equal monthly installments, associations in the Chicago District are permitted to borrow at 1½ percent. The Los Angeles Bank reduced from 3 to 2½ percent the interest rate charged on long-term advances provided in each case the association agrees to use the proceeds of the advance to make new mortgage loans insured by the Federal Housing Administration. Detailed information on the rates charged by each of the twelve Banks will be found in Exhibit 15.

Types of Advances

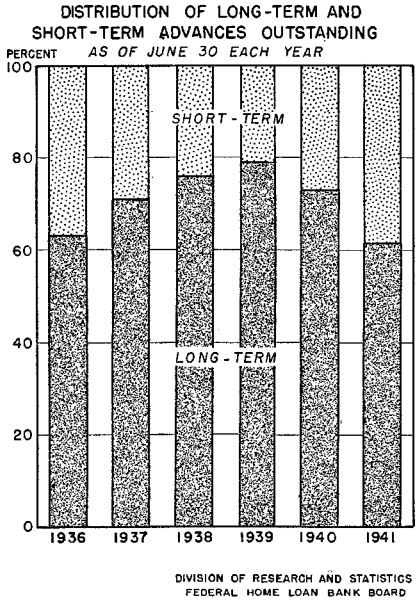
The trend toward an increasing proportion of short-term advances has continued steadily during the last two fiscal years. On June 30, 1941, advances which had been written for a period of one year or less amounted to $65,807,625, or 38.7 percent of all advances outstanding. This compares with a figure of $42,664,098, or 27.1 percent of the total at the close of the preceding fiscal year. As the chart below indicates, this development toward greater emphasis on short-term advances is a direct reversal of the trend which had previously continued for several years.

The emphasis on short-term advances was general throughout the country, with ten of the twelve Banks showing an increase both in dollar volume and in relation to total advances outstanding during the 1941 fiscal year. In the Topeka District, the amount of short-term advances declined, but rose from 11.8 to 12.2 percent of all advances. Only in the Portland Region did short-term advances decline both in dollar volume and ratio to total portfolio. The distribution of long- and short-term advances outstanding in each of the Federal Home Loan Bank Districts is shown in Exhibit 16.

There are undoubtedly a number of reasons why member institutions are borrowing to an increasing extent on a short-term basis. Some of the Banks have adopted variable interest rate schedules

which make the cost of short-term advances attractively low. During the period when small or new associations were expanding at a very rapid rate, credit was needed to meet the demand for mortgage loans, and it was valuable to have advances which could be retired as mortgage payments were received. As associations pass this formative period, however, normal credit demands can often be met with short-term advances, supplemented by an adequate flow of private savings and mortgage repayments.

CHART XXXI



The majority of collateralized advances made by the Federal Home Loan Banks are long-term in character, and it is, therefore, not surprising to find the relationship between secured and unsecured advances following closely the pattern set by the terms on which advances are extended. The increasing number of short-term advances during the last fiscal year, for example, was accompanied by a growth in the volume of advances made without collateral.

Trend of secured and unsecured advances outstanding, by fiscal-year periods

Date	Total advances outstanding	Collateralized advances		Uncollateralized advances	
		Amount outstanding	Percent of total	Amount outstanding	Percent of total
June 30, 1933	$47,663,830	$46,521,239	97.6	$1,142,591	2.4
June 30, 1934	85,148,354	82,740,248	97.2	2,408,106	2.8
June 30, 1935	79,232,514	68,045,199	85.9	11,187,315	14.1
June 30, 1936	118,586,838	89,964,281	75.9	28,622,557	24.1
June 30, 1937	167,056,887	130,944,112	78.4	36,112,775	21.6
June 30, 1938	196,224,937	163,386,013	83.3	32,838,924	16.7
June 30, 1939	168,961,563	145,442,668	86.1	23,518,895	13.9
June 30, 1940	157,397,047	126,342,499	80.3	31,054,548	19.7
June 30, 1941	169,897,390	121,995,964	71.8	47,901,426	28.2

As shown by the table above, "unsecured advances" which are collateralized only to the extent of the borrowing association's investment in the capital stock of its Federal Home Loan Bank amounted

to $47,901,426 on June 30, 1941, or 28.2 percent of all advances outstanding. At the beginning of the reporting period, advances of this character totaled $31,054,548, or 19.7 percent of total. Despite the fact that unsecured advances do not require a pledge of collateral, a number of other conservative safeguards have been set up for this type of lending. Thus, when such advances are made for a period up to one year, under Section 11(g) of the Federal Home Loan Bank Act, member institutions are not permitted to have outstanding liabilities to other creditors in an amount exceeding 5 percent of their net assets. This restriction insures the Federal Home Loan Bank recourse to a substantial share of the borrowing institution's assets. Furthermore, provision has been made whereby the Federal Home Loan Bank may utilize, if necessary, any excess collateral which may have been pledged by the institution as security for other advances.

At the close of the fiscal year 1941, secured advances amounted to $121,995,964, or 71.8 percent of total. Collateral supporting these advances consisted of 130,546 home mortgages with unpaid balances of $302,821,736, obligations of the United States Government, direct or fully guaranteed, in the amount of $800,450, and other eligible collateral in the amount of $85,016. In addition, a statutory lien was held on stock owned by borrowing members in the amount of $23,752,000 which can, if necessary, be used to protect advances, both secured and unsecured. A detailed description of the types of advances made by the Federal Home Loan Banks will be found in Exhibit 17.

Probably the most adequate proof of the conservative lending operations of the Federal Home Loan Banks is the fact that during nine years' operating experience not a single loss has been incurred on over $700,000,000 in advances.

On June 30, 1941, except for 13 borrowers in voluntary or involuntary liquidation, no institutions were delinquent over 30 days. Advances held by the 13 institutions in liquidation totaled $649,714. Advances to 12 of these borrowers, aggregating $499,714, were secured by home mortgages valued at $1,799,471 and stock in the Regional Banks in the amount of $123,100. An advance of $150,000 to the other liquidating institution was unsecured except for the association's $15,000 investment in the stock of its Bank. However, this advance is deemed amply protected by the large volume of the institution's assets. The advances to the 13 institutions are being liquidated regularly—in many cases ahead of schedule—and the generous margin of

security behind them promises complete recovery within a normal period of time.

The borrowing capacity of each member institution has been defined by regulation of the Board as the amount for which an association can legally obligate itself or, in the absence of a legal limit, as the equivalent of 50 percent of the institution's net assets. On June 30, 1941, the total borrowing capacity of member associations, arrived at in the manner indicated, was $2,066,737,953. This figure should not be interpreted as a measure of the credit reservoir upon which member institutions can draw at will. On the contrary, every application for an advance is individually considered on its own merits and the applicant's "borrowing capacity" is probably the least important factor determining approval or disapproval. Much more important, for example, are the prospective borrowing association's financial condition and the acceptability of its collateral. Nevertheless, the very wide margin between legal borrowing capacity and advances outstanding indicates the potentialities of the Bank System.

Financial Condition of the Federal Home Loan Banks

The consolidated balance sheet for the twelve Federal Home Loan Banks as of June 30, 1941, shows a highly liquid and sound financial picture. The volume of cash funds, $57,203,868, on June 30, 1941, was larger than at the close of any previous fiscal year and cash balances have been maintained during recent months at a higher point than during any prior period in the history of the Bank System. The primary measure of the value of the Federal Home Loan Bank System is its ability to meet any legitimate demand for credit, normal or extraordinary, which may be made by the home financing industry. Only in a secondary sense is the volume of advances which may be outstanding at any particular time a gauge of the System's usefulness or accomplishments. For this reason, it is important for the Banks to maintain a high degree of liquidity, particularly during critical times when any accurate estimation of future demand for advances is difficult to make.

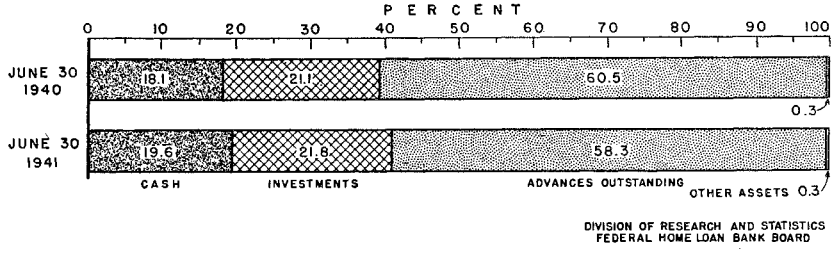
Cash holdings of $57,203,868 on June 30, 1941, represent an increase of 21 percent over the close of the preceding fiscal year. In addition, secondary liquid reserves in the form of investments in United States Government obligations, direct or fully guaranteed, amounted to $63,407,070 at the close of the reporting period. Combined cash and investments constituted 41 percent of consolidated assets on June 30, 1941, as compared with 39 percent a year previous. Cash available

for advances [7] and securities in excess of legal requirements [8] totaled $96,012,261 at the end of the 1941 fiscal period. A statement of condition for the Federal Home Loan Banks as a whole and for each of the Banks separately, as of June 30, 1941, is given in Exhibit 18.

CHART XXXII

COMPOSITION OF CONSOLIDATED ASSETS OF THE TWELVE FEDERAL HOME LOAN BANKS

AS OF JUNE 30, 1940 AND JUNE 30, 1941



DIVISION OF RESEARCH AND STATISTICS
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The book value of security holdings on June 30, 1941, amounted to $63,407,070, which is somewhat higher than the par value of $62,351,950, but is well under the current market price of $66,080,463. The following table shows the distribution of securities by maturity or call dates and yields at the close of the last two fiscal years. A detailed list of securities held by the twelve Banks will be found in Exhibit 19.

Distribution of securities held by the twelve Federal Home Loan Banks, as of June 30, 1940, and June 30, 1941

Maturity/Callable	June 30, 1940			June 30, 1941		
	Amount	Percent of total	Average weighted yield [1]	Amount	Percent of total	Average weighted yield [1]
			Percent			*Percent*
Under 1 year	$270,000	0.5	1.10	$2,780,000	4.5	0.85
1 to 5 years	21,803,000	40.6	1.17	22,458,800	36.0	1.17
5 to 10 years	13,160,000	24.5	1.97	15,592,000	25.0	2.20
10 to 15 years	12,343,000	23.0	2.55	16,808,150	26.9	2.33
15 to 20 years	2,638,000	4.9	2.45	4,713,000	7.6	2.51
20 years and over	3,475,000	6.5	2.58			
Total	53,689,000	100.0	1.84	62,351,950	100.0	1.83

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

At the beginning of the fiscal year 1941, two series of *consolidated debentures* were outstanding in the total amount of $48,500,000. Series "C" amounting to $25,000,000 was retired at maturity on

[7] Represents total cash less reserve requirements of 75 percent of members' demand deposits, 25 percent of members' time deposits, total applicants' deposits, interbank deposits, and imprest funds.

[8] Represents the face value or principal amount of investments owned above the necessary legal reserves.

December 1, 1940, leaving only Series "D" outstanding. On November 29, 1940, two additional series, "F" and "G," were issued to provide funds for anticipated requirements. Series "F" in the amount of $15,000,000 was sold on a short-term basis to mature on April 15, 1941, and carried an interest rate of ½ of 1 percent. This series was retired in full at maturity. Series "G," the second series issued on November 29, amounted to $52,000,000 and will mature April 15, 1942. This issue bears an interest rate of ¾ of 1 percent. As in past offerings, both series issued during the reporting period were many times oversubscribed.

As a result of debenture transactions during the reporting period, outstanding obligations of the Federal Home Loan Banks totaled $75,500,000 at the close of the fiscal year. Consolidated debentures are the joint and several obligations of all of the Federal Home Loan Banks. The extent of the participation of each Bank in the issuance of each series now outstanding may be found in Exhibit 20.

Deposits of member institutions in their Federal Home Loan Banks have varied from $25,000,000 to $35,000,000 for the last two fiscal-year periods. On June 30, 1941, the total volume of such deposits outstanding amounted to $31,306,869, of which 19 percent was on a noninterest-bearing demand basis and 81 percent in interest-bearing time deposits. Although deposits of member institutions with the Federal Home Loan Banks have not yet reached a figure where they constitute a major source of funds, sufficient use has been made of this service of the Banks to indicate that many institutions are finding it a convenient means of preserving their liquidity positions.

Interest rates paid by the Banks on time deposits were again reduced in several instances and prior to the close of the current fiscal year, it was announced that on and after July 1, 1941, the nine Banks paying interest on time deposits would pay a uniform rate of ½ of 1 percent. Except in one case, each of the nine Banks requires a ninety-day waiting period before interest is paid on deposits. The Boston Bank pays interest on deposits remaining from thirty to ninety days. Exhibit 21 gives a detailed account of the interest rates paid on time deposits as of July 1, 1941.

Interbank deposits have proved particularly useful as a means of providing sufficient funds to meet the demand for advances within the Bank System. Through this means, the Banks are able by a comparatively simple device to maintain an interregional flow of funds from areas of plenty to localities of temporary scarcity. Interbank deposits are made on a demand basis and, by resolution of the

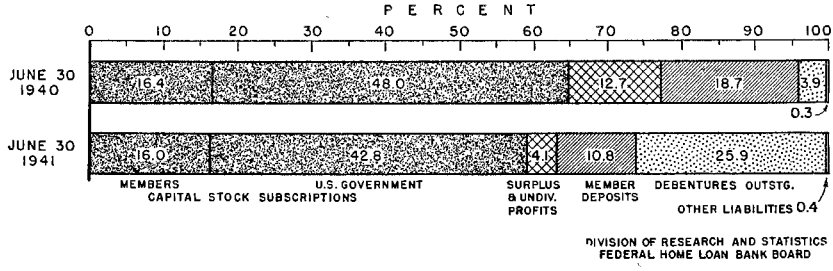
Federal Home Loan Bank Board, carry an interest rate of ½ of 1 percent per annum. During the fiscal year 1941, interbank deposits totaled $17,500,000, and the amount outstanding on June 30, 1941, was $2,500,000. From the beginning of operations through the close of the current reporting period, more than $97,000,000 had been transferred within the Bank System by means of interbank deposits.

Outstanding *capital stock* of the Federal Home Loan Banks totaled $171,283,200 on June 30, 1941, as compared with $167,373,475 a year previous. The increase of $3,909,725 was accounted for by additional share subscriptions of member institutions since capital stock owned by the Federal Government has remained unchanged at $124,741,000 since November 1937. On a percentage basis, the ratio

CHART XXXIII

COMPOSITION OF CONSOLIDATED LIABILITIES AND CAPITAL OF THE TWELVE FEDERAL HOME LOAN BANKS

AS OF JUNE 30, 1940 AND JUNE 30, 1941



of capital stock owned by member institutions to the total outstanding has been increasing steadily since the organization of the Bank System. At the close of the fiscal year 1941, 27.2 percent of total stock was owned by member institutions as compared with 25.5 percent a year previous.

On February 20, 1941, the capital stock of the Federal Home Loan Banks owned by the Federal Government was taken over from the U. S. Treasury by the Reconstruction Finance Corporation. This transfer of ownership was first suggested in the President's Budget Message for the Fiscal Year 1941, in which he outlined a program for recapturing approximately $700,000,000 of the capital funds of various Government corporations. Authority for the actual transfer was given by the Congress in an Act approved June 25, 1940. Except for this legislation, there has been no change in the statutes and regulations governing the capital structure of the Banks.

Each member institution in the System is required to hold stock in its Regional Bank in an amount equal to at least 1 percent of the unpaid principal of its home mortgage portfolio, but not less than $500. Borrowing members are subject to the further requirement that paid-in stock must equal at least one-twelfth of their outstanding indebtedness to the Bank.

Changes in capital structure of the twelve Federal Home Loan Banks

	June 30, 1940	June 30, 1941
Total stock subscriptions:		
Members	$42,647,900	$46,571,900
United States Government [1]	124,741,000	124,741,000
Payments received on stock subscriptions:		
Members	42,632,475	46,542,200
United States Government [1]	124,741,000	124,741,000
Balance due on above stock subscriptions:		
Members	15,425	29,700
United States Government [1]		

[1] Government stock has been held by the Reconstruction Finance Corporation since February 20, 1941.

That part of the capital structure of the twelve Banks represented by *reserves and undivided profits* was also strengthened during the reporting period. Net earnings allocated to reserves and undivided profits amounted to $3,696,183 during the 1941 fiscal year, of which $1,338,992 was transferred to reserves and $2,357,191 to undivided profits. Reserve allocations by the Banks have consistently been greater than required by statute. Thus, during the current reporting period, the total amount of earnings retained by the Banks over and above dividends was $1,030,719 in excess of statutory requirements. Since the beginning of operations, from the fall of 1932 to June 30, 1941, the Banks have built up surplus and undivided profits in the amount of $12,033,992, or 113 percent more than the reserve required by law. The ratio of reserves and undivided profits to paid-in capital stock was 7 percent at the close of the current reporting period as compared with 6 percent a year previous.

Due principally to the increase in debenture obligations, total resources of the Banks increased during the last fiscal year from $260,067,459 to $291,511,973. At the close of the reporting period, current assets were 233 percent of current liabilities.

Income and Expenses of the Federal Home Loan Banks

During the current reporting period, earnings of the Federal Home Loan Banks were somewhat above the amount realized during the previous fiscal year. Gross income for the fiscal year 1941 was

$6,031,305 as compared with $5,715,959 during the preceding fiscal-year period. Increased interest income on a larger average outstanding volume of advances and profits from the sale of investments were mainly responsible for this trend. During the preceding fiscal year, when interest rates in a number of the Banks were reduced and loan volume declined as well, there was a substantial falling off in income.

Although operating expenses of the Banks are not as flexible as income, the Banks were able to effect a reduction in total expenses during the reporting period. Deductions from gross income, therefore, declined from $2,479,232 to $2,335,122. The net effect of a higher gross income and lower operating costs was, of course, an increase in net income from $3,236,727 during the 1940 fiscal year to $3,696,183 during the current reporting period.

A detailed statement of profit and loss during the fiscal year 1941 for each of the Federal Home Loan Banks will be found in Exhibit 22. The following table presents a summary picture of income and expenses for the Bank System as a whole.

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

	Fiscal year 1940	Fiscal year 1941
Income:		
Interest earned on advances	$4,561,889	$4,610,363
Interest earned on investments	956,533	987,472
Interest earned on deposits in commercial banks	570	1,042
Nonoperating income	196,967	432,428
Gross income	5,715,959	6,031,305
Less—Charges:		
Compensation, travel, and other administrative expenses	927,106	934,803
Interest on deposits	247,393	119,524
Interest on debentures	938,750	814,216
Assessments for expenses of Federal Home Loan Bank Board	300,000	300,000
Other expenses	49,358	79,589
Nonoperating charges	16,625	86,990
Total deductions	2,479,232	2,335,122
Net income	3,236,727	3,696,183

The Federal Home Loan Banks were created primarily for the purpose of serving member home financing institutions as a credit reservoir upon which they can rely for advances during both normal and emergency periods. Earnings which can with safety be distributed in the form of dividends to stockholders are of secondary importance. Nevertheless, over $16,000,000 in earnings of the Federal Home Loan Banks has been paid to stockholders, both Government and institutional, since the organization of the System.

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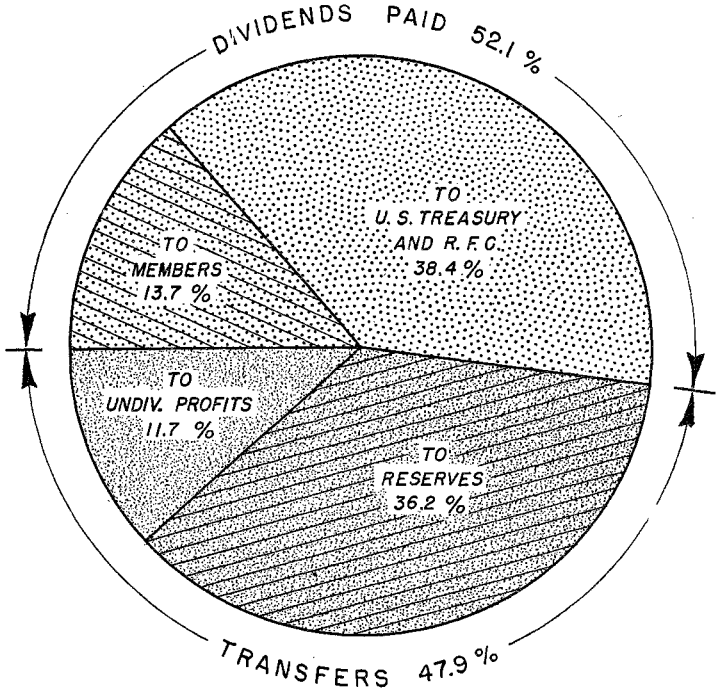
During the fiscal year 1941, dividends declared by the Banks ranged from one to two percent, with a weighted average rate of 1.14 percent, as compared with 1.07 percent during the previous reporting period. The increase in the average results from the fact that two Banks raised their dividend rates during the 1941 fiscal year. Dividends distributed

CHART XXXIV*

DISTRIBUTION OF NET INCOME

FEDERAL HOME LOAN BANKS-FISCAL YEAR 1941



DIVISION OF RESEARCH AND STATISTICS
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during the current reporting period amounted to $1,926,227, of which $838,003 was paid to the United States Treasury, $583,054 to the Reconstruction Finance Corporation, and $505,169 to member institutions. From the time of the Banks' organization to December 31, 1940, the United States Treasury received $12,021,340 in dividends.

*Figures underlying Chart XXXIV will be found in Exhibit 25.

When the Government's stock was transferred to the Reconstruction Finance Corporation in February 1941, the Treasury waived claim to any dividends declared after January 1, 1941. Future dividend payments on such stock will, of course, be made to the Reconstruction Finance Corporation. Exhibit 23 shows the dividend rates declared by each Bank for the fiscal years 1940 and 1941 and the cumulative amounts paid from the beginning of operations through June 30, 1941.

As already indicated, allocations to reserves and undivided profits during the fiscal year 1941 were $1,030,719 in excess of the reserve requirements of the Federal Home Loan Bank Act. An analysis of the surplus and undivided profits of the Federal Home Loan Banks, individually and collectively, is given in Exhibit 24.

Income and Expenses of the Federal Home Loan Bank Board

Since the members of the Federal Home Loan Bank Board also compose the Board of Directors of the Home Owners' Loan Corporation and the Board of Trustees of the Federal Savings and Loan Insurance Corporation, the Federal Home Loan Bank Board derives its operating funds not only from the Federal Home Loan Banks, but also from these two agencies for services rendered and from fees received for the examination of home financing institutions. Expenses of the Examining Division of the Board, which constitute the major portion of the Board's operating budget, are reimbursed by the institutions examined. During the 1941 fiscal year, total receipts of the Federal Home Loan Bank Board amounted to $1,215,689 as compared with $1,396,775 for the fiscal year 1940. In addition, a cash balance of $352,671 was carried over at the beginning of the fiscal year 1941. Disbursements during the same two periods aggregated $1,328,401 and $1,282,529, respectively. The cash balance as of June 30, 1941, amounted to $239,959. Exhibit 26 shows detailed information on administrative receipts and disbursements for the last two fiscal years.

The personnel of the Bank Board totaled 460 at the close of the reporting period. Of this total, 304 employees constituted the staff of the Examining Division. Exhibit 27 gives a summary of personnel by departments as of June 30, 1940, and June 30, 1941.

Administration of the Federal Home Loan Bank System

The major administrative responsibility of the Federal Home Loan Bank Board is the establishment of basic policies and the maintenance of adequate safeguards to insure successful operation of the Federal Home Loan Bank System. The Board is assisted in this responsibility

by the Governor of the Federal Home Loan Bank System who acts as its chief administrative officer.

The structural organization of the Bank System has been designed to permit the maximum possible decentralization without loss of the over-all supervision which is necessary in the administration of a nation-wide organization and which is required by the Federal Home Loan Bank Act. Each of the twelve Regional Banks is governed by a Board of Directors which has been given considerable discretion and initiative within the terms of the Federal Home Loan Bank Act and the Rules and Regulations of the Bank Board. Under the general supervision of the regional directors, the officers of the Banks assume the actual job of management. The importance of maintaining the maximum of local autonomy possible in the administration of the Federal Home Loan Bank System has long been stressed by the Federal Home Loan Bank Board. If the Banks are to fulfill their responsibilities to member institutions, considerable freedom of action in meeting local problems and situations is essential.

It should not be implied that this philosophy of administration means a lack of coordination and supervision on the part of the Board. To the contrary, regular semiannual examination of the Banks, daily and monthly reports on operations and condition from each of the Banks, and the requirement that full and complete minutes of directors' and executive committee meetings must be kept and certified copies forwarded to the Governor, all serve as means by which the Board is able to scrutinize closely the current operations and activities of each of the Banks with the view to maintaining basic rules and regulations governing Bank operations on a well-defined basis.

The value of maintaining the Federal Home Loan Bank System on a decentralized but safeguarded administrative plan is illustrated by the successful operation of the Banks during the present emergency period. For example, there is little loss of time in meeting unusual situations either of a supervisory or credit nature which constantly confront the Banks in dealing with member institutions. All demands for credit are acted upon promptly by the Banks without reference to Washington. Officers of the Regional Banks are better able, because of their familiarity with local trends and conditions, to offer counsel and to take corrective action, if necessary, to prevent future trouble which may result from unsound lending or careless management during the present critical times.

The Federal Home Loan Bank Board is materially assisted in carrying out its supervisory responsibility for the safe conduct of the Bank System through periodic conferences with the Federal Savings and

Loan Advisory Council, a body created by statute to confer with the Board "on general business conditions, and on special conditions affecting the Federal Home Loan Banks and their members." 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 Federal Home Loan Bank Board. The Council held two meetings during the current fiscal year, at which time thorough discussions were held on such questions as defense housing, current appraisal practices, debenture financing, mortgage-interest and dividend rates, State and Federal legislation, retirement of Government investments in Federal savings and loan associations, and the insurance of small associations. The Board derived, as always, considerable help in the formulation of policies not only from its discussions with the Council in these two meetings, but also by direct informal advices received from Council members throughout the reporting period. A list of members of the Council as of June 30, 1941, is attached as Exhibit 28.

To effect an even closer working relationship between the twelve Bank Presidents and the Governor of the Federal Home Loan Bank System, the Board some time ago created the Bank Presidents' Conference, composed of the executive heads of the twelve Banks. The Conference met twice during the fiscal year 1941 to confer with the Governor. Meetings of the Presidents serve the very valuable purpose of bringing together periodically those most directly concerned with day-to-day operations for a thorough discussion of both specific and general problems facing the Banks. At both Conference meetings during the last year, considerable time was devoted to the problem of defense housing and the cooperation of the Banks and their member institutions in furthering the aims of the national program. The Presidents were unanimous in supporting the program through the formation of local housing committees, conferences with representatives of public housing agencies, and surveys of defense housing needs in specific localities. Other subjects discussed at the meetings included debenture financing, investment and liquidity policies of the Banks, extensions of credit, supervisory duties of Bank officers, interest and dividend rates, and the cooperation of member institutions of the Bank System as issuing agents in marketing defense savings bonds and stamps.

Examination and Supervision

The Federal Home Loan Bank Board is charged by statute with the responsibility of examining and supervising the twelve Federal Home

Loan Banks. Semiannual examinations of the Banks and their regular operating reports provide the factual basis on which the Board determines the policies and procedures which guide Bank operations.

The Board also examines and supervises all Federal savings and loan associations. Supervision and, in most States, examination of State-chartered associations insured by the Federal Savings and Loan Insurance Corporation are shared with the respective State Departments. In a few cases where uninsured member institutions are not subject to State examination, it is customary for such institutions to submit to annual Federal examination. Each member institution is also required to file a detailed annual report which is analyzed by the Board's Examining Division. These reports are useful supervisory tools both for the Federal Home Loan Banks and the Board.

From an organizational standpoint, examination and supervision of insured institutions are two separate and distinct functions of the Federal Home Loan Bank Board. Examinations are conducted by a single Examining Division serving the Board and each of its agencies. The Governor of the Federal Home Loan Bank System and the officers of the Federal Home Loan Banks, as agents for the Board, have been made responsible for carrying out the Board's supervisory responsibilities.

The establishment of an Examining Division with the Chief Examiner in Washington and a District Examiner in each Federal Home Loan Bank District has proved advantageous not only to the Board and its agencies but also to the associations themselves. A single examination of Federal savings and loan associations serves both the Federal Home Loan Bank Board, which charters these institutions, and the Federal Savings and Loan Insurance Corporation, which insures their investors' accounts. The examination of State-chartered insured associations is conducted jointly with the State authorities in a majority of the States. Data revealed by examinations are useful to the Board in considering various types of applications received from member institutions, including those for insurance of accounts by the Federal Savings and Loan Insurance Corporation, for conversion to Federal charter, and for share investments by the Home Owners' Loan Corporation. A standard examination report form, developed by the National Association of Building and Loan Supervisors, the United States Savings and Loan League, and the Federal Home Loan Bank Board is now used in examinations conducted by the Board and by over half of the State Supervisory Departments. Adoption of this form has eliminated considerable costly duplication

in examination of State associations and provides a convenient norm for individual case analysis.

The separation of supervisory analysis and recommendations from actual examination of financial condition has proved a successful device for insuring, first, a high degree of independence to fact-finding examiners and, second, a detached consideration by supervisory officials of information revealed by examination. Examination and supervision, in other words, are two distinct but related activities of the Board. During an examination, the basic aim is to find and relate all essential facts concerning financial condition and current operations of a particular institution. The examination report is then carefully analyzed by trained supervisory officials who seek to determine whether the association is being operated in accordance with the Rules and Regulations of the Board and the best standards and practices of the industry. Recommendations for necessary supervisory action are usually based on these supervisory studies.

The principles guiding the Board in its supervisory activities are, in reality, the same principles which guide local management and directorates of supervised institutions—the maintenance of the industry in the soundest possible condition, offering a safe place for the investment of savings, and a source of funds for economical home financing. To the extent that these objectives are attained in each individual association, the industry is contributing to a stronger and better planned financial structure.

Supervision of financial institutions is a major responsibility involving protection of the interests of millions of private individuals whose savings funds are handled by these institutions. During critical times such as these, it is more important than ever that both institutional management and supervisory authorities recognize their joint obligation to avoid the type of operation which appears so profitable in "boom times," but which past experience has always shown ultimately to be so costly. For example, one of the responsibilities of the Board can be defined in these terms: To encourage member institutions of the Bank System to participate on a basis consistent with sound business practices in the program for housing defense workers. To carry out that responsibility implies a policy of watchful guidance with the constant aim of preventing at the earliest possible moment the development of unsound activities.

The delegation of immediate supervisory functions to the officers of the Federal Home Loan Banks has been of immeasurable value to the Board. By this means, supervisory actions and decisions are

more responsive to varying conditions throughout the country and to special circumstances which are constantly developing in areas of concentrated defense activity.

Rules and Regulations governing ordinary operations, supervisory examinations and analyses, the exercise of informal influence, in fact the whole sphere of supervision, cannot of itself insure successful operation or rule out the possibility of serious trouble. To effective supervision must be coupled intelligent management on the part of each and every home-financing institution. For this reason, the Board devotes considerable energy to encouraging the industry to adopt progressive operating plans and methods, to employ capable, efficient management—in short, to place institutional operations on a basis which experience has shown will do most to assure successful administration of home-financing institutions.

Federal Home Building Service Plan

The Federal Home Building Service Plan, initiated by the Federal Home Loan Bank Board in 1936 to stimulate the adoption of local "quality housing" programs was decentralized during the reporting period. Prior to this time, this activity of the Board was administered directly by the Board in Washington through the Regional Federal Home Loan Banks. Operating experience and the necessity for conducting the plan on a basis sufficiently flexible to permit adaptation to varying conditions throughout the country account for the decision to transfer administration of the program to the Regional Banks in each of the twelve Federal Home Loan Bank Districts. The essential purpose of the Federal Home Building Service Plan remains unchanged—to provide architectural counsel in the selection of a design suitable to site and neighborhood; to plan for future as well as present living requirements; to verify the specification of proper building materials; to supervise actual construction—all at a fee in line with the limited income of the average small-home buyer. Homes built under the Plan are registered with the Board in Washington and a certificate identifying the dwelling as a quality product is issued to the owner by the lending institution.

The Federal Home Building Service Plan enables member institutions of the Bank System to offer prospective borrowers assurance of sound planning, design, and construction. Emphasis on quality construction in the small-home field, where architectural planning and guidance have long been sorely needed, benefits both the borrower and the lending institution—the borrower because he receives a better house for his money and the lending institution because the security

underlying its mortgage loans becomes a better risk. Under the present decentralized operation of the Plan, the Board is primarily concerned with over-all coordination of regional programs and the stimulation of public interest.

General administration of the Plan rests with the Governor's office. The Board's Architectural Adviser approves architects and home designs. Assistance is given by the Board's Public Relations Department through the preparation of local and national publicity, advertising material, and suggestions for individual promotion campaigns by cooperating institutions.

To the Federal Home Loan Banks has been assigned the task of handling all direct contacts with member institutions. The Banks maintain complete information on the operation and extent of the program and have available all material needed by institutions desiring to adopt the Plan. Each of the Banks stands ready to assist through counsel and guidance any interested member institution.

It has long been recognized that any program of this sort to be successful must be adaptable to varying local needs. Subjecting associations to detailed restrictions would hinder—not help—widespread adoption of the Plan. The Federal Home Building Service Plan, in short, is a tool which member institutions can adopt to meet the special conditions of local markets while, at the same time, conducting a quality construction program which is nationally recognized and which meets the high standards established for the program as a whole.

As of June 30, 1941, there were 348 member institutions which had received approval by the Board to offer the Federal Home Building Service Plan to their patrons and 535 architects had qualified. On the same date, the number of individual home designs approved under the Service totaled 520.

2. OPERATIONS OF MEMBER INSTITUTIONS

Changes in Membership

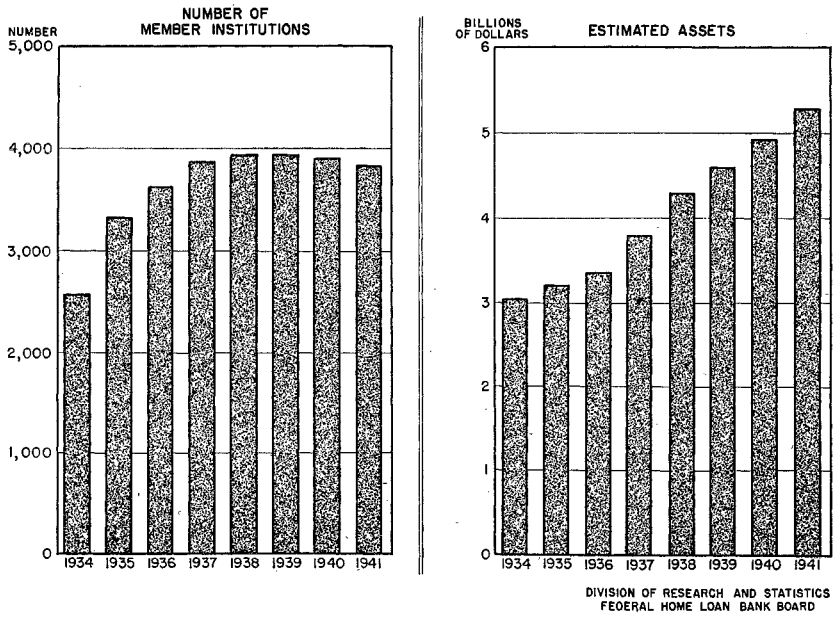
The number of home financing institutions which are members of the Federal Home Loan Bank System has shown little change during the last four fiscal years. At the close of the reporting period there were 3,839 member institutions as compared with 3,914 a year previous. The combined assets of all members, however, continue to show significant increases. On June 30, 1941, aggregate resources totaled $5,287,175,000, a gain of $360,021,000, or 7.3 percent during the 1941 fiscal year.

The decline in the number of member institutions is accounted for principally by a continuing process of consolidation within the savings and loan industry.[9] The trend is essentially a healthy one, resulting as it does in the gradual elimination of submarginal institutions and the development of larger and stronger associations. The Board and the Federal Home Loan Banks have supported and encouraged the process by assisting in mergers and reorganizations, with subsequent insurance of accounts by the Federal Savings and

CHART XXXV

NUMBER AND COMBINED ASSETS OF MEMBER INSTITUTIONS OF THE FEDERAL HOME LOAN BANK SYSTEM

AS OF JUNE 30 EACH YEAR



Loan Insurance Corporation. The principle guiding the Board in this general policy has been the development of a membership of sound, well-managed institutions capable of meeting the greatly increased current needs for economical and efficient home financing.

It is probable that the number of savings and loan associations will continue to decline for some time. The number of operating associations has already dropped from 11,442 in 1931 to approximately 7,200 at the end of 1940. It is estimated that among the latter, 1,500 associations are in a state of gradual liquidation. Since these insti-

[9] For a detailed discussion of the process of consolidation in the savings and loan industry, see Eighth Annual Report of the Federal Home Loan Bank Board, pp. 56-9.

tutions are making no new loans and receive no new investments, it is expected that many of them will be reorganized, merged with more active associations, or formally dissolved.

The record of admissions to and withdrawals from the Bank System during the last fiscal year is an additional indication of the trend toward fewer institutions. Thus, during the reporting period, 69 institutions were admitted to membership as compared with 90 during the fiscal year 1940. Applications for membership which were still pending on June 30, 1941, totaled 66 as against 96 a year previous.

Membership terminations during the reporting period totaled 144 as compared with 122 during the 1940 fiscal period. Termination of membership in many cases does not mean quite what the phrase implies. During the current fiscal year, for example, 30 terminations resulted from the merger or consolidation of associations within the membership of the Bank System. In such cases, the System as a whole does not lose all of the assets of the merged institution. As a matter of fact, where mergers are conducted as part of a community-wide rehabilitation program, the resulting institutions, because they are financially sound, well-managed, and able to take an active part in the mortgage lending business of their community, may within a short period of time bring a substantial net addition to the resources of the System.

In addition to the 30 membership terminations resulting from merger or consolidation, 81 member institutions went into liquidation, and 33 institutions withdrew voluntarily. The following table presents a summary of the changes in membership during the fiscal year 1941:

Number and assets of member institutions of the Federal Home Loan Bank System, June 30, 1941, compared with June 30, 1940

[Dollar amounts in millions]

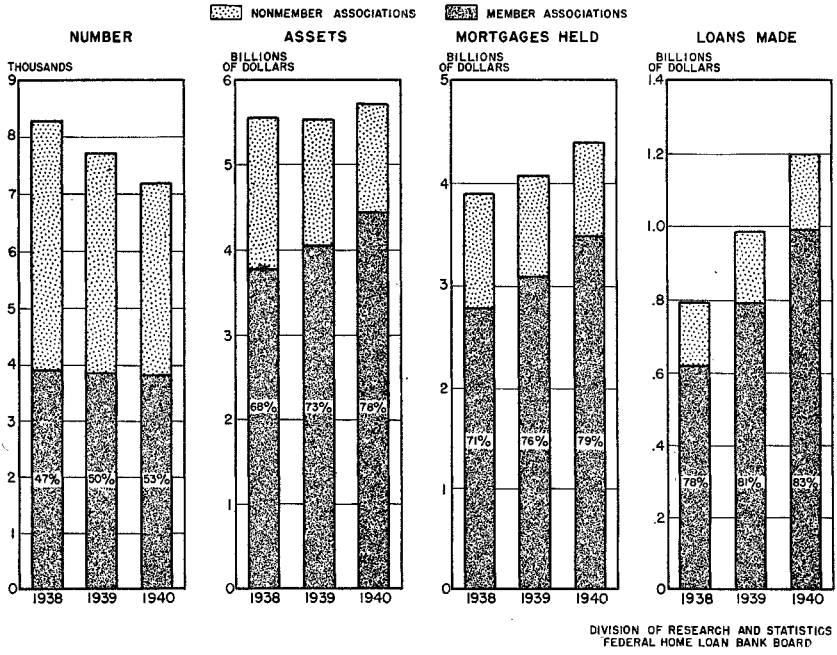
	June 30, 1940		June 30, 1941		Net change in fiscal year	
	Number	Assets	Number	Assets	Number	Assets
Savings and loan associations [1]	3,865	$4,233	3,798	$4,627	−67	+$394
Insured associations:						
Federally chartered	1,421	1,726	1,452	2,028	+31	+302
State-chartered	812	979	857	1,126	+45	+147
Uninsured associations	1,632	1,528	1,489	1,473	−143	−55
Other members	49	694	41	660	−8	−34
Savings banks	11	213	12	252	+1	+39
Insurance companies	38	481	29	408	−9	−73
Total	3,914	4,927	3,839	5,287	−75	+360

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

Member savings and loan associations have for some time been the most active and substantial group within the entire thrift and home financing industry. Although representing but 53 percent of all operating institutions at the close of 1940, assets of members totaled 77 percent of aggregate resources for the industry as a whole, and their mortgage portfolio represented 80 percent of the combined

CHART XXXVI*

MEMBER SAVINGS AND LOAN ASSOCIATIONS COMPARED WITH ALL OPERATING SAVINGS AND LOAN ASSOCIATIONS
BY CALENDAR YEARS



holdings of all associations. Exhibit 29 presents the number and assets of member institutions by Federal Home Loan Bank Districts and by States, at the close of the last two fiscal years.

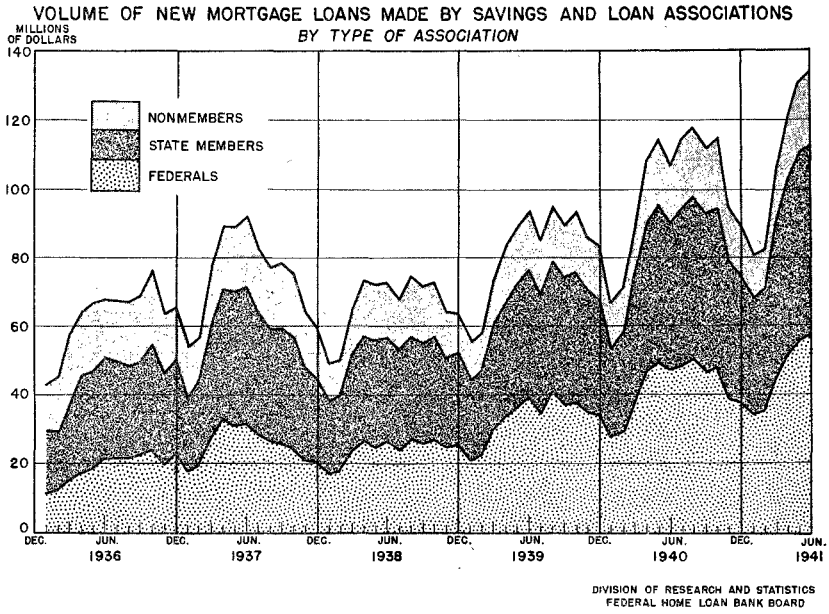
Lending Activity

Lending activity of member savings and loan associations reached new record levels during the reporting period. Estimates prepared by the Board's Division of Research and Statistics show that the volume of new mortgage loans made by member associations during the fiscal

* For actual figures, see Exhibit 30.

year 1941 totaled $1,084,866,000 as compared with $894,212,000 during the preceding fiscal year, an increase of 21.3 percent. Loans written by nonmember institutions also showed a good gain, advancing from $196,576,000 during the 1940 fiscal year to $209,508,000. Lending activity of all savings and loan associations, therefore, reached a grand total of $1,294,374,000 during the reporting period.

CHART XXXVII



Once again, member institutions were responsible for an increasing share in total savings and loan lending activity during the fiscal year 1941. On a percentage basis, savings and loan members accounted for 84 percent of the mortgage loans made by the entire industry, as compared with 82 percent during the previous fiscal year. The ratio of nonmember lending to total declined from 18 to 16 percent.

Percentage distribution of new mortgage loans made by savings and loan associations over the various classes of associations, fiscal-year figures

Class of association	1938	1939	1940	1941
All savings and loan associations	100.00	100.00	100.00	100.00
Member savings and loan associations	76.71	79.03	81.98	83.82
Federal associations	34.34	38.44	41.97	42.50
State-chartered associations	42.37	40.59	40.01	41.32
Nonmember associations	23.29	20.97	18.02	16.18

In the past, the relative position of member institutions and of Federal savings and loan associations as sources of mortgage credit was influenced directly by the increasing number of member and Federal associations. However, there have been only inconsequential changes in the number of member associations during recent years and it is, therefore, safe to conclude that the most active savings and loan associations are being concentrated to an ever greater degree within the Federal Home Loan Bank System. Another measure of this fact is found by comparing current lending activity with assets, by class of association. Such an analysis shows that member associations loaned $244 for each thousand dollars of assets as compared with only $148 for nonmember institutions. The table on page 85 illustrates the shifts in the relative importance of various types of savings and loan associations, by indicating the percentage of mortgage loans accounted for by each of the groups during the last four fiscal years.

CHART XXXVIII

PERCENTAGE INCREASE IN NEW MORTGAGE LENDING ACTIVITY OF SAVINGS AND LOAN ASSOCIATIONS

UNITED STATES AND FEDERAL HOME LOAN BANK DISTRICTS—JUNE 30, 1940 TO JUNE 30, 1941

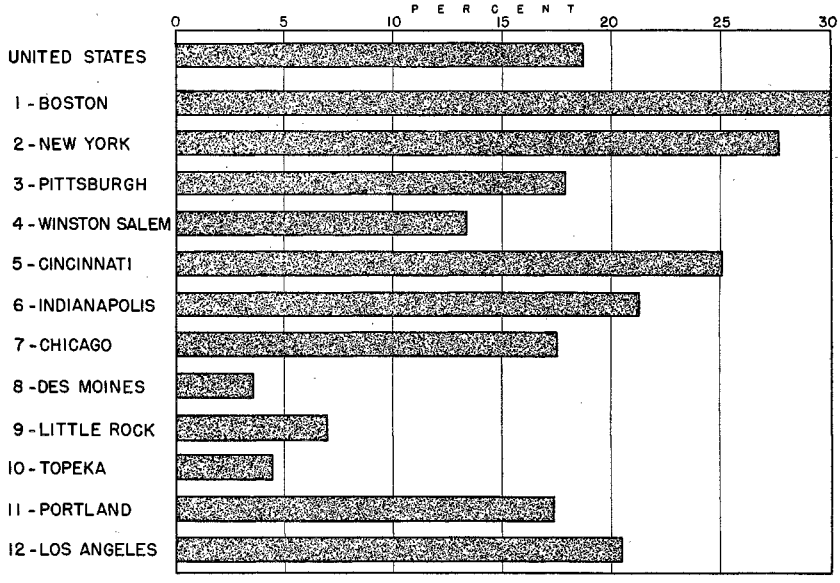


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Exhibit 31 shows the monthly volume of new mortgage loans made by savings and loan associations, separated by class of associations, from January 1936 to June 1941, and Exhibit 32 presents the dollar amount and percentage increase in such loans by Federal Home Loan Bank Districts over the last two fiscal years.

Stimulated lending activity was not restricted to any particular geographical area and each of the twelve Federal Home Loan Bank Districts reported substantial improvement during the current fiscal year as compared with the previous reporting period. Increases ranged from 4 percent in the Des Moines Federal Home Loan Bank District to 30 percent in the Boston District.

The distribution of mortgage loans made by member institutions, according to the purpose for which the loans were granted, followed the same general pattern shown by the entire savings and loan industry.[10] The trends were, if anything, more accentuated in the case of member institutions. Thus, the volume of construction loans increased from 33.4 to 35.9 percent of total and home purchase advances also showed a good increase from 33.2 to 35.8 percent of gross lending volume. So substantial were the gains in these two types of loans that the ratio of refinancing, reconditioning, and miscellaneous loans declined materially during the year.

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

Purpose of loan	Fiscal year 1939		Fiscal year 1940		Fiscal year 1941	
	Dollars	Percent	Dollars	Percent	Dollars	Percent
Construction	$219,726,000	32.0	$298,628,000	33.4	$389,559,000	35.9
Home purchase	216,789,000	31.6	297,243,000	33.2	388,376,000	35.8
Refinancing	136,494,000	19.9	166,191,000	18.6	168,201,000	15.5
Reconditioning	41,842,000	6.1	46,600,000	5.2	49,396,000	4.6
Other	71,846,000	10.4	85,550,000	9.6	89,334,000	8.2
Total	686,697,000	100.0	894,212,000	100.0	1,084,866,000	100.0

Reduction of Government Share Investments

Outstanding investments of the United States Treasury and the Home Owners' Loan Corporation in the shares of savings and loan associations declined appreciably—by 12.9 percent, in fact—during the fiscal year 1941. Repurchases which resulted in a decline of outstanding Government investments from $237,161,310 on June 30, 1940, to $206,524,260 at the close of the reporting period are an effective refutation of the fears which have been expressed by some

[10] See Survey of Housing and Mortgage Finance, pp. 46–48.

that temporary Government assistance to private financial institutions leads to permanent Federal subsidy.

The program for the investment of Government funds in the share capital of savings and loan associations originated in 1933 when the Home Owners' Loan Corporation was established to rescue hundreds of thousands of distressed home owners in imminent danger of losing their homes. Concurrently, with the establishment of this direct relief activity, the Congress wisely undertook the important task of bringing about a wholesale rehabilitation of the permanent home financing structure. As one part of this broader program, the Home Owners' Loan Act of 1933 and subsequent appropriations allocated Treasury funds of $49,300,000 for investment in the shares of Federal savings and loan associations. A short time later the Home Owners' Loan Corporation was permitted by amendment to its organic statute to make investments up to $300,000,000 in the shares of both Federal savings and loan associations and State-chartered associations which either belong to the Federal Home Loan Bank System or which are insured by the Federal Savings and Loan Insurance Corporation.

Investment by the Government in the share structure of savings and loan associations was intended to provide sufficient capital for a temporary period to enable these thrift and home financing institutions to meet demands for mortgage credit, thereby stimulating residential construction and employment. The program was highly successful in bringing about the desired result, for the lending activity of savings and loan associations was immediately stepped up as the program got under way.

The following table shows the volume of investments made by the Treasury and the Home Owners' Loan Corporation for each of the fiscal years from 1934 through 1941:

Gross investments made by the U. S. Treasury and the Home Owners' Loan Corporation in member savings and loan associations

Fiscal year	Investments by the U. S. Treasury		Investments by the HOLC		Total investments	
	Amount invested	Cumulative	Amount invested	Cumulative	Amount invested	Cumulative
1934	$1,086,300	$1,086,300			$1,086,300	$1,086,300
1935	29,520,400	30,606,700			29,520,400	30,606,700
1936	18,693,300	49,300,000	$63,142,700	$63,142,700	81,836,000	112,442,700
1937		49,300,000	119,890,300	183,033,000	119,890,300	232,333,000
1938		49,300,000	28,964,610	211,997,610	28,964,610	261,297,610
1939		49,300,000	7,152,200	219,149,810	7,152,200	268,449,810
1940		49,300,000	1,538,400	220,688,210	1,538,400	269,988,210
1941		49,300,000	1,420,000	222,108,210	1,420,000	271,408,210

In the belief that it would be unsound to provide permanent capital for private financial institutions from Government funds, Congress provided for the gradual liquidation of share investments and charged the Federal Home Loan Bank Board both with supervising the original investments and their retirement. Under the terms of the Acts authorizing Government share investments, no requests for repurchase may be made for a period of five years from the date of investment; thereafter, requests may be made at the discretion of the Federal Home Loan Bank Board, but in no event in an amount exceeding, in any one year, ten percent of the total amount invested in the shares of any association.

Through June 30, 1941, the volume of repurchases requested by the Federal Home Loan Bank Board after study of the financial condition of associations which had received investments was $3,972,850. Since retirements during the same period totaled $64,883,950, it is evident that savings and loan associations have retired voluntarily $16 for each dollar requested by the Board. This excellent record has been made possible because private investments have been received by member institutions at a rate sufficient not only to take care of current mortgage loan demands, but also to permit retirement of Government capital. While many associations have made partial repurchases of their Government share investments, a large number of institutions have been able to retire them in full, with the result that by June 30, 1941, the number of Federal associations holding Treasury money was reduced to 345 as compared with 661 associations which had originally received investments, and the number of Federal and State associations employing Home Owners' Loan Corporation funds had declined from 1,348 to 1,106.

Repurchases of Treasury and HOLC investments by member savings and loan associations

Fiscal year	Treasury investments		HOLC investments		Total investments	
	Amount repurchased	Cumulative	Amount repurchased	Cumulative	Amount repurchased	Cumulative
1936	$77,000	$77,000			$77,000	$77,000
1937	1,039,300	1,116,300	$12,000	$12,000	1,051,300	1,128,300
1938	381,000	1,497,300	259,000	271,000	640,000	1,768,300
1939	3,811,000	5,308,300	2,420,000	2,691,000	6,231,000	7,999,300
1940	[1] 9,854,600	[1] 15,162,900	14,973,000	17,664,000	24,827,600	32,826,900
1941	[1] 10,466,200	[1] 25,629,100	[2] 21,590,850	[2] 39,254,850	32,057,050	64,883,950

[1] The following amounts were retired in accordance with section 5 (j) of the Home Owners' Loan Act: $671,800 in 1940; and $2,088,000 in 1941.

[2] Of this amount, $1,213,050 was called for retirement by the Federal Home Loan Bank Board in accordance with the Home Owners' Loan Act.

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Investment by the Treasury in the shares of Federal savings and loan associations was completed in 1936 when the $49,300,000 available was exhausted. Since that time, the large volume of voluntary repurchases has reduced the amount outstanding by more than one-half to a figure of $23,670,900 at the end of the fiscal year 1941.[11]

Investments by the Home Owners' Loan Corporation were made for the most part in 1936 and 1937. Since that time, investments have been approved on a restricted basis usually in connection with reorganization of individual associations and community rehabilitation programs. However, the Board has recently adopted the policy of considering HOLC investment requests which are received from institutions located in defense areas whose supply of local capital is insufficient to meet the immediate need for home financing.[12] The balance of HOLC investments outstanding at the end of the fiscal year 1941 amounted to $182,853,360, a reduction of 18 percent in the gross total of $222,108,210.

Net amounts of Treasury and HOLC investments outstanding

Fiscal year	Treasury investments		HOLC investments		Total investments
	Number of associations [1]	Amount	Number of associations [1]	Amount	Amount
1934	60	$1,086,300			$1,086,300
1935	576	30,606,700			30,606,700
1936	661	49,223,000	776	$63,142,700	112,365,700
1937	661	48,183,700	1,141	183,021,000	231,204,700
1938	623	47,802,700	1,264	211,726,610	259,529,310
1939	585	43,991,700	1,304	216,458,810	260,450,510
1940	501	34,137,100	1,231	203,024,210	237,161,310
1941	345	23,670,900	1,106	182,853,360	206,524,260

[1] A number of Federal associations have received both Treasury and HOLC investments.

Investments by the Federal Government in the share capital of savings and loan associations have not only served the very useful purpose of encouraging home mortgage lending activity, but have also been a profitable earning asset on the national balance sheet. Through the close of the current reporting period, the United States Treasury had received $9,257,236 and the Home Owners' Loan Corporation, $32,553,691 as dividends on their share purchases. This is equivalent to a net earning yield of 3.41 percent on the average investments outstanding from 1934 through the fiscal year 1941—a rate well in excess of the cost of money to either the Home Owners'

[11] For more detailed information on investments by the Treasury in the shares of Federal associations, see pages 107–110.

[12] See page 9.

Loan Corporation or the Treasury. Losses have been inconsequential, amounting to only $1,428 in the case of one liquidating association.

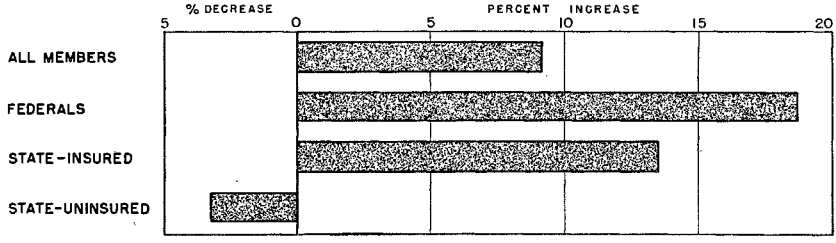
A complete tabulation of Treasury and HOLC investments made and repurchased and net investments outstanding by class of member institution will be found in Exhibit 33.

Analysis of Condition of Member Associations

The combined balance sheet of all member savings and loan associations shows a decided improvement during the calendar year 1940. The most important asset trends are found in a substantial increase in mortgage loans outstanding, a noteworthy decline in owned real estate, and a much stronger liquid position as measured in terms of cash on hand and in banks. The liability side of this master balance sheet shows a gain in private repurchasable capital and a substantial reduction in Government investments in the share capital of member associations. General reserves and undivided profits show a dollar increase of almost $19,000,000, but declined somewhat in relation to assets—a not unexpected trend in view of net losses incurred in the sale of a large volume of owned properties and the rapid growth of total resources. Exhibits 34 and 35 give a detailed balance sheet for all savings and loan members and a percentage distribution of the various balance-sheet items.

CHART XXXIX

PERCENT CHANGE IN ASSETS OF MEMBER SAVINGS AND LOAN ASSOCIATIONS
CALENDAR YEAR 1940 OVER 1939



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Assets.—Total assets of member savings and loan associations show a gain of almost $363,000,000 during 1940, reaching a new high of $4,411,000,000 on December 31, 1940. This gain of 9 percent compares with an increase of $295,000,000, or 7.9 percent during the preceding year. Once again, the net increase in total assets was restricted to Federal savings and loan associations which show a gain of 18.5 percent and to State-chartered insured institutions whose total

resources grew by 13.5 percent. State-chartered uninsured members suffered a decline of $53,500,000 in gross assets. It should be recognized, of course, that this decline resulted largely from the transfer of State associations to the insured or Federal categories.

The gain in assets of member institutions was general throughout the entire country with associations in the Winston-Salem District showing the most substantial increase—18.3 percent. Members in the Los Angeles and Portland Districts ranked second and third, showing percentage gains of 14.7 and 14.1, respectively.

The growth in assets of member institutions and mergers completed during the year are reflected in an increase of over $100,000 in the average size of member savings and loan associations. At the close of 1940, the average member institution had total resources of $1,155,000 as compared with $1,046,000 a year previous.

First-mortgage loans.—The substantial gains in home mortgage lending activity during 1940 are reflected in a new high for first mortgage loans outstanding at the close of the year. The increase of $388,000,000 in net first-mortgage investments exceeded gains made in previous years and resulted in a total portfolio of $3,496,000,000. It is now estimated that member institutions hold 80 percent of the mortgage investments of the entire savings and loan industry.

One of the most encouraging results of the increased lending activity of member savings and loan associations is the rising ratio of mortgage loans to total resources. At the close of 1940, first-mortgage holdings represented 79.3 percent of aggregate assets as compared with 76.8 percent at the beginning of the year. During the four-year period from 1936 to 1940, the mortgage account of member savings and loan associations has risen nearly ten percentage points in relation to total resources. Because home loans are the principal earning asset of savings and loan associations, the upward trend in this item is having a favorable effect on operating income.

Throughout the country, each of the Federal Home Loan Bank Districts shows a gain in mortgage portfolios, with the Winston-Salem Region, as illustrated by the chart on the opposite page, maintaining the highest rate of increase. Associations in this area also show the highest ratio of mortgage loans to total assets.

Federal savings and loan associations accounted for approximately two-thirds of the 1940 increase in total first-mortgage investments of member institutions. Federal associations alone built up their portfolio by $1,553,677,000, or by 21 percent. State-chartered insured associations show the second best record, with a gain of 17 percent.

The portfolio of State-chartered uninsured associations remained virtually static at $1,130,000,000.

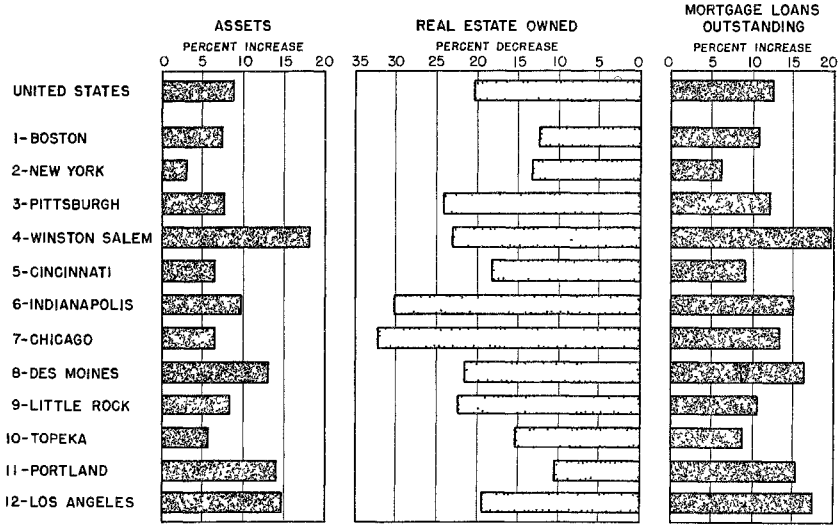
Junior mortgages, which have never represented a very important asset item on the balance sheet of savings and loan associations, declined further during 1940 to a figure of some $3,800,000, or less than one-tenth of one percent of the total.

Real estate.—The real-estate owned account of member savings and loan associations shows a reduction of over one-fifth during 1940. Im-

CHART XL

TREND IN SELECTED ASSET ACCOUNTS OF ALL MEMBER SAVINGS AND LOAN ASSOCIATIONS

UNITED STATES AND FEDERAL HOME LOAN BANK DISTRICTS – DEC 31, 1939 TO DEC 31, 1940



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proving economic conditions, a rising real-estate market, and concerted efforts by association management to dispose of a particularly slow asset are the principal factors accounting for this trend. The excellent progress shown by member institutions in liquidating foreclosed properties is clearly reflected in the following figures: At the end of 1936, member savings and loan associations held real estate valued on the books at $525,000,000, or 15.7 percent of total assets. At the end of 1940, four years later, the gross real-estate account had declined to $300,000,000 and represented less than 7 percent of aggregate resources. Member institutions throughout the entire Federal

Home Loan Bank System were successful in reducing their real-estate accounts. The most substantial decline occurred in the Chicago Region where associations were able to dispose of 33.2 percent of owned properties. The Indianapolis District was second, showing a decline of 30.1 percent, and the Pittsburgh Area ranked third with a decrease of 24.1 percent.

By the end of 1940, real estate held by member institutions in 30 States, the District of Columbia, Alaska, and Hawaii represented less than 5 percent of total resources and in an additional 14 States represented between 5 and 10 percent of aggregate assets. Although real estate owned by member savings and loan associations is still somewhat high in a few regions where the overhang has been a particularly serious problem, it now appears safe to observe that institutionally-owned properties no longer represent a nation-wide problem and that with the continuation of present trends, the vast majority of associations should be safely past the danger point within a short period of time.

Real estate owned by member savings and loan associations, by Federal Home Loan Bank Districts

Federal Home Loan Bank District	Dollar amounts (in thousands)		Proportion to total assets	
	Dec. 31, 1939	Dec. 31, 1940	Dec. 31, 1939	Dec. 31, 1940
			Percent	*Percent*
United States	$376,673	$299,838	9.30	6.80
No. 1—Boston	45,264	39,696	9.53	7.77
No. 2—New York	72,128	62,625	16.04	13.50
No. 3—Pittsburgh	31,610	23,985	13.30	9.37
No. 4—Winston-Salem	8,960	6,904	2.17	1.41
No. 5—Cincinnati	76,983	62,935	9.38	7.20
No. 6—Indianapolis	21,792	15,222	8.40	5.35
No. 7—Chicago	62,697	41,883	15.37	9.64
No. 8—Des Moines	13,889	10,888	6.82	4.72
No. 9—Little Rock	10,639	8,253	5.02	3.59
No. 10—Topeka	17,454	14,773	10.60	8.48
No. 11—Portland	4,251	3,806	3.15	2.47
No. 12—Los Angeles	11,006	8,868	4.09	2.87

The increasing popularity of land contracts as a method of selling institutional properties is indicated by the $12,000,000 increase during 1940 in the volume of real-estate contracts held by member savings and loan associations. The dollar value of this account at the close of December 1940 was $167,000,000, or 3.8 percent of total assets.

Cash.—The very natural desire for greater liquidity during the current critical period is reflected in an increase of $36,000,000 during 1940 in the cash accounts of member savings and loan associations. Cash on hand and in banks on December 31, 1940, represented 5.5 percent of the total assets of all member savings and loan associations.

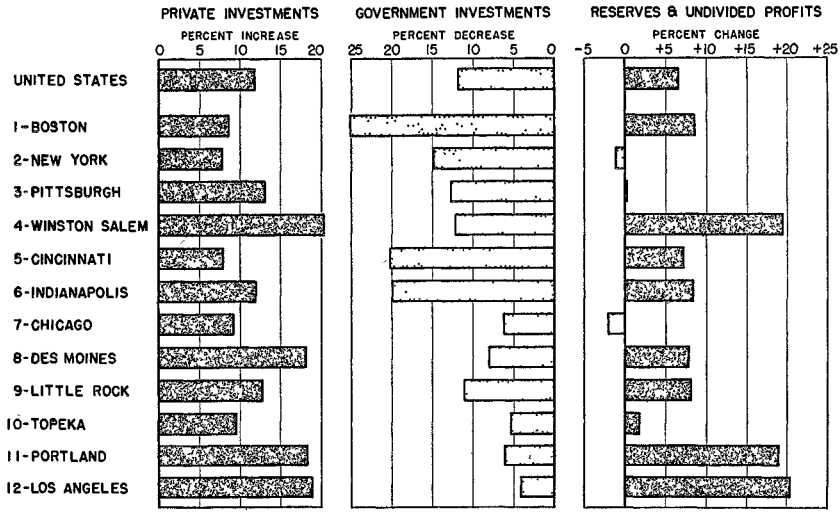
There has been a steady increase in the volume of cash reserves since 1937 and the aggregate liquid funds held by associations at the close of 1940 amounted to almost a quarter of a billion dollars.

Private repurchasable capital.—Private investments in member savings and loan associations showed an increase of almost 12 percent, or over $355,000,000 during 1940. Funds of this character, including shares, deposits, and investment certificates, totaled $3,376,000,000 on December 31, 1940, representing 76.5 percent of aggregate re-

CHART XLI

TREND IN SELECTED LIABILITY ACCOUNTS OF ALL MEMBER SAVINGS AND LOAN ASSOCIATIONS

UNITED STATES AND FEDERAL HOME LOAN BANK DISTRICTS - DEC. 31, 1939 TO DEC. 31, 1940



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sources as compared with 74.6 percent a year previous. A clearer picture of the growing interest of private individuals in savings and loan associations as an investment outlet is shown by the fact that the average member savings and loan association held private repurchasable capital of more than $884,233 at the close of 1940 as compared with a figure of $780,887 at the end of 1939.

As already mentioned, the trend of Government investments in the share capital of member savings and loan associations shows a substantial reduction in contrast to the rise in private investments. Government investments in member associations declined from $250,000,000 on December 31, 1939, to $220,000,000 at the close of

1940. This decline was over three times as great as that experienced during 1939 and resulted primarily from the heavy voluntary repurchases during the year, made possible by an increased inflow of private savings. By the close of 1940, there was more than fifteen dollars of private money for every one dollar of Government funds in member institutions; a year previous, the ratio was twelve dollars to one dollar.

Federal savings and loan associations show the best record in attracting private investments. These associations alone accounted for over two-thirds of the total increase in private repurchasable capital received by all member institutions, showing a net gain of $274,000,000, or a rise of 24.5 percent as compared with the previous year end. State-chartered insured associations accounted for an increase of $111,000,000, or 15.8 percent, while State-chartered uninsured institutions suffered a decline of 2½ percent in the volume of private funds entrusted to them. Again the record of State-chartered uninsured institutions reflects in part the transfer of associations from this category to the Federal and insured groups.

Associations in each of the Federal Home Loan Bank Districts show a good percentage gain in the volume of private investments held during 1940. Members in the Winston-Salem District led the System with an increase of 20.3 percent, with associations in the Los Angeles District a close second at 18.9 percent.

Mortgage pledged shares declined from $166,000,000 to $146,000,000 or by 12.0 percent during 1940. This item now represents but 3.3 percent of total resources and will continue to be increasingly less important because of the widespread adoption of direct-reduction loans and the elimination of share-account sinking-fund loans.

Borrowed money.—Borrowed money outstanding on December 31, 1940, over 92 percent of which was represented by Federal Home Loan Bank advances, showed a net increase of approximately 10 percent as compared with the volume outstanding on December 31, 1939. Because of the concomitant gain in total assets, however, this increase was insufficient to change the ratio of borrowings to total liabilities, the figure remaining at 4.9 percent.

Reserves.—General reserves and undivided profits were increased by over $18,800,000, or 6.6 percent, during the calendar year 1940. However, this increase failed to keep pace with the growth in total resources and the ratio of reserves to gross assets declined fractionally from 7.0 to 6.9 percent. When the reserve position of member savings and loan associations is analyzed in light of the substantial reduction of real estate owned and the rapid growth of many new associa-

tions, the difficulty of bringing about an increase in the reserve ratio is understandable. The fact that associations have been able to dispose of over 20 percent of their owned real estate within a single year and to increase their assets during the same period by 9 percent while maintaining reserve ratios is a feat which deserves commendation. Nevertheless, in the interests of conservative operation, the Board is urging associations to build up reserves as rapidly as possible while conditions are favorable.

Statement of Operations

Because consolidated income and expense data are available only for those member institutions which report on a calendar-year basis, and because there are changes in the number of member institutions from year to year, a comparison of operating ratios is more significant than changes in dollar volume. However, it is worth noting that the 3,508 institutions which reported their operations for the calendar year 1940 show a total gross operating income of $212,591,000 as compared with $182,954,000 for the 3,110 reporting members in 1939. Net income after deduction of all charges aggregated $142,324,000 in 1940 as compared with $121,575,000 during 1939. Exhibit 36 contains detailed operating ratios for member institutions during 1939 and 1940 by type of institution.

The increase in mortgage investments of member savings and loan associations during 1940 is reflected in the fact that 86.2 percent of gross operating income was derived from interest on these loans. During 1939 the corresponding ratio was 85.2 percent. As might be expected from the large dollar volume of real estate sold on a contract basis, interest income from this account was also somewhat higher in 1940, representing slightly more than 4 percent of total income. Conversely, the decline of over $77,000,000 in real-estate holdings during 1940 brought about a reduction in income received from the management of properties from 3 to 2.4 percent of gross income.

The ratio of operating expenses to total income during 1940 shows a slight increase as compared with 1939 with most of the rise accounted for by gains in "other operating expenses." The expense ratios for compensation, maintenance of office quarters, and advertising remained virtually unchanged. Of total income received during 1940, some 26.2 percent was used for the ordinary expenses involved in running an association, i.e., 12.6 percent went for compensation of personnel, 2.5 percent for maintenance of office quarters, 2.1 percent for advertising, and the remaining 9.0 percent for "other operating expenses." These latter items include depreciation of buildings and

equipment, payment of insurance and bond premiums, examination fees, stationery, printing, postage, and various communication charges.

The distribution of net income by reporting associations during 1940 illustrates the increasing emphasis placed on the accumulation of adequate reserves and undivided profits. In 1940 dividend payments absorbed 73.6 percent of net income as compared with 75.7 percent in 1939 and 78.8 percent in 1938. Transfers to reserves and undivided profits, on the other hand, showed a contrary trend. Over 26 percent of net income was allocated to these accounts during 1940. In the previous year the corresponding ratio was 24.4 percent.

For the first time the combined operating statements of member institutions have been segregated by asset size groups (Exhibit 37). Analysis of operating ratios by size of institution apparently bears out the conclusion that larger associations are able to operate more efficiently. The ratio of total expense to total operating income, although the trend is not entirely even, is generally lower in large institutions. Associations with less than $50,000 in assets, for example, had an operating expense ratio of 34 percent during 1940, while institutions in the over $10,000,000 asset bracket showed a ratio of 25 percent.

Compensation costs for management and personnel which represent approximately one-half of total operating expenses show a steady reduction in relation to gross income as associations increase in size. Whereas institutions with assets of less than $50,000 had a compensation expense ratio of 20.2 percent, the corresponding ratio for institutions in the over $10,000,000 group was but 11 percent. In general, the ratio of advertising expenses to gross operating income contrasted directly with the trend in compensation costs, and the larger institutions show progressively higher ratios. Examination of the operating ratios by size of institution which will be found in Exhibit 37 may prove of value to association managers in comparing their income and expense ratios with those for institutions of similar size.

Improvement in Operating Standards and Management

The foregoing statistical analysis of the operations of member savings and loan associations has illustrated by fact and figure the progress of these home financing institutions during the present recovery period. There have been a number of factors responsible for this trend. In addition to such developments as assistance by the Federal Government through the Federal Home Loan Bank System and the

Federal Savings and Loan Insurance Corporation, and generally improved economic conditions, the evolution of new methods of operation designed to correct the weaknesses brought to light during the early depression period has been particularly important.

Prior to the early Thirties, many savings and loan associations were run as small neighborhood clubs, operating on a part-time basis and under complicated and out of date lending and investment regulations. Operating plans had been developed over a long experience and not infrequently had failed to keep pace with changing needs. Many associations were accustomed to meet only periodically and in private quarters. No attempt was made to keep offices open for the conduct of business except on these particular occasions. Quite often savings and loan associations were conducted as a sideline activity by other financial institutions.

In a period of growing competition and a more well-defined home mortgage market, associations of this type soon found themselves at considerable disadvantage. The result has been a growing trend toward full-time, well-trained management, independent office quarters, and the development of modern operating practices and standards.

For example, the "permanent" plan of operation has largely replaced the old "serial" type of association in which series of shares are issued only at stated intervals. "Permanent" associations issue shares at any time desired by the prospective saver, thereby offering a competitive, modern investment outlet. All Federal savings and loan associations are required to operate on the permanent plan. The Federal Home Loan Bank Board and the officers of the Federal Home Loan Banks have encouraged other member institutions of the Bank System to make the change to this plan.

Lending plans have also been streamlined to meet growing competition and to provide today's borrowers with a simple, easily understood mortgage contract. The majority of loans now being written by savings and loan associations are direct-reduction loans. Until comparatively recent times, most associations offered mortgage money on the "share-account sinking-fund" or "cancel and endorse" bases. In the case of the share-account sinking-fund loan, the borrower subscribed to the shares of the association in an amount equal to his loan, and his monthly payments went to purchase share capital rather than to retire the loan. When payments on shares, plus accumulated earnings, reached a figure equal to the loan, the share investment was used to repay the borrower's indebtedness. The cancel and endorse plan worked much the same way, except that

as share payments were built up to the value of an entire share, that share was canceled and the loan reduced by a corresponding amount. Although these loan plans were distinct improvements over the older straight loan, both became unnecessarily complicated with the development of the direct-reduction loan.

In the case of direct-reduction loans, no subscriptions to share capital are involved, and monthly payments are applied directly to the loan balance, with interest figured on the constantly reducing balance outstanding. The loan contract is easily understood and less expensive to the borrower. The Federal Home Loan Bank Board has required Federal savings and loan associations to use the direct-reduction loan and has urged all member associations to adopt it. For the most part, the direct-reduction loan has become the standard type mortgage for the entire home-financing industry.

Further improvements in lending plans offered by savings and loan associations include the adoption of variable interest rates by which institutions are better enabled to evaluate their loans and to fit mortgage terms to the degree of risk involved. Various charges, penalties, fines, and forfeitures which a few years ago were commonly made by savings and loan associations have been greatly reduced and in many cases completely eliminated. Today, the average borrower from a savings and loan association knows exactly what his loan is costing him and how long he must keep up his monthly payments to clear the indebtedness on his home.

One of the most vital improvements in the conduct of savings and loan associations has been the increasing emphasis on stronger reserves. Early savings and loan associations, because they were mutual institutions, were often run on the theory that the accumulation of reserves was unfair to savings members because it meant a lower dividend return on investments. It is now generally recognized, however, that the accumulation of certain minimum reserves is essential to the sound conduct of the lending institution. In fact, most State laws, as well as the regulations governing Federal savings and loan associations, now establish certain minimum reserve allocations for savings and loan associations. The savings of investors, it is now conceded, are inherently safer in an institution which has built up a sufficient cushion to absorb inevitable losses.

Hand in hand with the greater emphasis on reserves has come a development toward increased liquidity. Although savings and loan associations, because their funds are invested for the most part in long-term home mortgage security, are not completely liquid institutions, it is now recognized that there are certain normal withdrawal

demands which all institutions must expect and for which they should be prepared.

Another aspect of improved operating standards is the widespread adoption of carefully drawn operating budgets which are used as a guide in analyzing expenditures and keeping them in line with expected revenues.

The Federal Government, through the Federal Home Loan Bank System, the Federal Savings and Loan Insurance Corporation, and the standards of operation which it has set for Federally chartered institutions, has been responsible in no small measure for the development of the savings and loan industry into a more well-defined financial system. However, no activity which encourages sound operating techniques is in itself sufficient to insure permanent, sound savings and loan operations. Such supervisory efforts must be accompanied in each instance by trained, wide-awake, and efficient local management.

There is no question but that the level of management standards has been much improved during the last few years. The Board and its agencies have steadily encouraged this trend. Leaders of the industry, well aware of management problems, have also spared no effort to bring about higher professional standards.

Within the last two years there has appeared a new development which is typical of the increasing importance attached to well-qualified management—the first savings and loan graduate schools. Several schools have been held in various parts of the country for the purpose of affording association executives an opportunity to compare their policies and activities and to study, analyze, and work out solutions to the various managerial problems which confront them. The schools have been sponsored by local industry leaders with the cooperation of the Federal Home Loan Banks. The schools so far held have run from four or five days to two weeks, and are usually held in the summer on the campus of a well-known university. Trained specialists are engaged to lead concentrated study periods on various realistic questions. Lectures are given on savings and loan law, construction loan procedure, business forecasting, financial problems, personnel administration, and market analysis. Open forums are usually held at which the attending executives have an opportunity to thrash out in common discussion stubborn operating problems.

The graduate schools are still largely experimental, but each has aroused considerable interest and seems destined to become an increasingly important factor in management training. Encouraging response and the real interest shown by local managers is evidence

at least that there is a growing awareness of a need for more training and study in the field of savings and loan management.

Another very recent development indicative of a growing professional attitude toward savings and loan operation is found in a number of local research projects initiated as a cooperative activity by a group of institutions for the purpose of acquainting themselves with local market trends. The increasingly complex society in which we live makes it ever more important to local management to know how general business conditions, employment and unemployment, contemplated building activity, current volume of mortgage lending, trends in rents and vacancies, and long-time neighborhood trends react on savings and loan business, present and prospective.

When associations were small and existed primarily to serve the interests of a local group, all of this was not so important. Now, however, that savings and loan associations are extending their operations over a wider field in an increasingly competitive market, research becomes a factor of considerable significance. Present efforts to broaden local technical knowledge in the field of housing and mortgage finance represent only the merest, but still a very encouraging, beginning. As in the case of graduate schools, these projects indicate a realization of a serious lack of essential information and a growing determination to do something about it.

II

FEDERAL HOME LOAN BANK SYSTEM

At the close of the past fiscal year, the Federal Home Loan Bank System rounded out the first decade of its existence. It was on July 22, 1932, that the Federal Home Loan Bank Act--the first measure affecting American home finance to be adopted by the Federal Government--was enacted into law.

During these ten years, the Federal Home Loan Banks have made cumulative advances amounting to almost $1,000,000,000. They have issued debentures totaling $292,700,000 to tap the general money market for the benefit of local thrift and home financing institutions. They have functioned as depositories for members, holding between $25,000,000 and $35,000,000 of such deposits in the past three fiscal years. Through interbank deposits in the gross amount of over $114,000,000, they have transferred surplus funds within the Federal Home Loan Bank System to areas where they were most needed.

Combined assets of the member institutions of the Federal Home Loan Bank System at the close of the tenth fiscal year, exceeded $5,500,000,000; and the total (consolidated) resources of the twelve Banks themselves were more than $300,000,000.

A. Operations of Member Institutions

Changes in Membership

Although the membership of the Federal Home Loan Bank System declined slightly from 3,839 to 3,815 during the 1942 fiscal year, the combined assets of these institutions show a gain of $356,795,000, or 6.8 percent during the same period.

For the past five years, membership in the Federal Home Loan Bank System has remained fairly stable. During this same five-year period, however, the total resources of members have grown by more than $1,837,000,000. At the present time, therefore, it is apparent that the increasing importance of the Federal Home Loan Bank System in the Nation's home financing structure is attributable almost entirely to the growth and strengthening of member institutions. The slight contraction in the number of institutions has resulted principally from mergers and consolidations--a process which has been under way for a number of years and which is resulting in a group of institutions better equipped from the standpoint of size and financial strength to meet the public demand for savings outlets and home mortgage credit.

During the reporting period, 74 thrift and home financing institutions were admitted to membership as compared with 69 during the preceding fiscal year. Applications for membership which were still pending on June 30, 1942, totaled 56 as against 66 the year previous.

Terminations of membership during the 1942 fiscal year numbered 98 as compared with 144 during the preceding reporting period. In 28 cases, termination was occasioned by merger, consolidation, or sale of assets to other member institutions and, therefore, did not result in the complete withdrawal of the assets held by these associations. The following table summarizes, by types of institutions, the changes in membership during the fiscal year 1942. Exhibit 8 gives the number and assets of member institutions at the close of the last two fiscal years, by Federal Home Loan Bank Districts and by States.

Number and Assets of Member Institutions of the Federal Home Loan Bank System, June 30, 1941, and June 30, 1942

(Dollar amounts in millions)

Type of Member Institution	June 30, 1941		June 30, 1942		Net Change	
	Number	Assets	Number	Assets	Number	Assets
Savings and loan associations	3,798	$4,627	3,772	$4,885	- 26	+ $258
Insured associations:						
Federally-chartered	1,452	2,028	1,464	2,206	+ 12	+ 178
State-chartered	857	1,126	906	1,249	+ 49	+ 123
Uninsured associations	1,489	1,473	1,402	1,430	- 87	- 43
Other members	41	660	43	759	+ 2	+ 99
Savings banks	12	252	17	341	+ 5	+ 89
Insurance companies	29	408	26	418	- 3	+ 10
Total	3,839	5,287	3,815	5,644	- 24	+ 357

Lending Activity of Member Institutions

As might be expected from the decline in residential building during recent months, new mortgage loans made by member savings and loan associations during the fiscal year 1942 were somewhat under the record level set in the previous reporting period. Loans by member associations amounted to $1,063,445,000 as compared with $1,084,866,000 during the 1941 fiscal year, a decline of two percent. Mortgage lending by nonmember savings and loan associations also dropped from $209,508,000 to $193,890,000. As a result, lending activity of all savings and loan associations declined from the peak figure of $1,294,374,000 during the 1941 reporting period to $1,257,335,000 during the fiscal year 1942. Exhibit 9 gives the volume of new mortgage loans made by savings and loan associations for the last six fiscal years.

More significant than the slight decline in total lending activity are shifts in the distribution of new loans by purpose. A close relationship exists between trends in home construction and in mortgage lending. The several years immediately preceding the reporting period showed steady and substantial increases in the annual volumes of nonfarm residential construction. It is not surprising, therefore, that during these same years an increasing proportion of the funds currently loaned by member savings and loan associations went to finance the construction of homes.

Conversely, when the first restrictions were imposed on new construction in the fall of 1941, there was an almost immediate decline in the volume of construction loans made by savings and loan associations. Beginning in October 1941, reports on current mortgage financing activity show a smaller monthly volume of construction lending then during the corresponding month of the previous year, with an insignificant exception in December 1941. During June 1942, member institutions advanced only $14,544,000 to finance the construction of new homes, a figure 63.6 percent under June 1941.

So substantial was the falling off in construction lending that loans for this purpose throughout the entire fiscal year 1942 totaled but $311,039,000, a decline of 20.2 percent when compared with the previous reporting period. As might be expected, construction lending suffered more seriously than did other loan categories. Consequently, construction loans of member institutions during the fiscal year 1942 represented only 29.3 percent of total loans made as compared with 35.9 percent the year previous.

During the first half of the fiscal year 1942, i.e., from July through December 1941, loans to finance the acquisition of existing homes reached a new peak. As a result of improving real estate markets in many communities, home purchase loans during this period were more than 45 percent

above the last six months of 1940. However, the closing months of the reportin period were marked by a rapid slowing down even in this trend. By June 1942, current loans for the purchase of existing homes were slightly under the figure set in June 1941. This leveling off in purchase lending may be explained in part at least by the earlier decline in new building. Not infrequently the sale of new houses is followed by a series of sales of existing properties, the result of a "filtering up" process caused by the moving of families into new homes. In addition, the rapid liquidation of institutionally-held real estate has reduced materially the supply of properties available for sale.

Despite the declining volume of home purchase lending by member associations toward the end of the reporting period, loans for this purpose throughout the fiscal year 1942 totaled $477,193,000, a gain of 22.9 percent as compared with the previous year. This increase was more than sufficient to make up the loss suffered in construction lending and put home purchase loans in first place among the various loan categories. However, loans for refinancing, reconditioning, and other purposes, as shown by the table below, declined both in dollar volume and in relation to total during the 1942 fiscal year.

Distribution of New Mortgage Loans Made by All Savings and Loan Members of the Federal Home Loan Bank System, According to Purpose

	Fiscal Year 1940		Fiscal Year 1941		Fiscal Year 1942	
Purpose of Loan	Dollars	Percent	Dollars	Percent	Dollars	Percent
Construction	$298,628,000	33.4	$389,559,000	35.9	$311,039,000	29.3
Home purchase	297,243,000	33.2	388,376,000	35.8	477,193,000	44.9
Refinancing	166,191,000	18.6	168,201,000	15.5	152,561,000	14.3
Reconditioning	46,600,000	5.2	49,396,000	4.6	43,503,000	4.1
Other	85,550,000	9.6	89,334,000	8.2	79,149,000	7.4
Total	894,212,000	100.0	1,084,866,000	100.0	1,063,445,000	100.0

Member Institutions in the War Effort

Local thrift and home financing institutions constitute one of the many types of business enterprises which, although not in the front line in the primary task of production for victory, are nonetheless contributing to the war effort. The contributions of member savings and loan associations include two major activities--first, the financing of needed housing in war industry areas, and second, direct cooperation in the Treasury program of war financing through the sale of war bonds and stamps.

During the fiscal year 1942, member institutions advanced a total of $814,000,000 in areas of concentrated war activity. It is estimated that approximately $319,500,000 of this amount represented the first permanent financing of some 106,600 newly-constructed housing units.

The Administration has encouraged member institutions to engage in the financing of war housing to the limit of their abilities. To this end, policies of the Administration governing the lending operations of insured institutions have been revised to permit these associations, under certain conditions, to sell mortgage loans and use the proceeds to finance war housing.

A substantial majority of member savings and loan associations are actively engaged in the sale of war bonds and stamps. At the close of the current reporting period, 2,717 institutions had qualified as issuing agents. Although this group of institutions represented but 72 percent of the total membership in terms of number, they held over 90 percent of the assets of all member savings and loan associations.

Recognizing the vital importance of diverting surplus consumer purchasing power into war savings, the Federal Home Loan Bank Administration and the officers of the regional Federal Home Loan Banks have carried on a continuing program to encourage member institutions to devote their most

intensive efforts to the War Bond campaign. Tangible results of this activity and the wholehearted cooperation of member savings and loan associations are reflected in the fact that sales reported for the month of July 1942 alone amounted to $35,942,001, an increase of 32 percent over the previous month.

Although the savings and loan industry has not been subject to the shocks of a war economy already suffered by many other peace-time businesses, neither has it been left entirely unscathed. The precipitate drop in new residential building, as already noted, has brought about a recession in one of the principal business activities of these institutions--namely, financing the construction of new homes. The growing demand for private savings to help finance the war may mean a slowing down in the flow of new money into savings and loan associations. However, these are small sacrifices indeed compared with the losses suffered by many industries unable by their very nature to readjust their operations to the all-important demands of the war. At the worst it would appear that thrift and home financing institutions may be entering a period of "marking time"--a period which may well offer these institutions an opportunity to fortify themselves for the day of post-war readjustments.

With this end in view, the Federal Home Loan Bank Administration in cooperation with other supervisory officials and industry leaders is actively encouraging managing officers and directors to take whatever steps may be necessary to place their institutions in the strongest possible financial position. Rapid strides in this direction have already been made by the large majority of local savings and loan associations. Nonetheless, as past experience only too often has proved, it is impossible to prepare too well for an uncertain future.

Specific recommendations of the Administration include first of all the strengthening of reserves. The accumulation of adequate reserves on a systematic basis is perhaps the best method of meeting future losses over which an individual association may have little or no control.

Institutions are also urged to dispose of their owned real estate in as short a time as sound business operations will permit. The sale of foreclosed real estate, particularly in war industry areas where housing accommodations are frequently in great demand, has the dual advantage of improving the balance sheet of individual associations and making available needed housing for war workers.

There is always the danger that lending institutions which are operating in a market where the demand for mortgage financing is falling, while loanable funds continue in ample quantity, may so lower their lending standards that marginal or unsound risks will be accepted. Careful attention to sound risk analysis and accurate appraisal techniques are more important than ever at such a time. An increasingly competitive market also necessitates the establishment of interest and dividend rates at levels which will enable institutions, on the one hand, to obtain and hold sound and safe mortgage security, and, on the other, to meet local competition for private savings funds.

Local thrift and home financing institutions in a number of cases are adopting mortgage prepayment plans that permit home purchasers to build up reserves that will protect them if they are temporarily unable to meet their monthly payments at some later date. Mortgage prepayment plans are not only of obvious value to borrowers--they also operate to protect the risks assumed by financial institutions, and, to the extent that overpayments are made from rising current incomes, they have an anti-inflationary influence.

The common aim of the Federal Home Loan Bank Administration and the industry is to emphasize the trustee responsibility inherent in the operation of local savings and loan associations. Because of the mutual character of these institutions, there is a dual obligation on the part of managing officers and directors to protect the hard-earned savings of small investors and to provide an equitable type of mortgage credit to prospective home owners.

Further Retirement of Government Investments

During the fiscal year 1942 a substantial reduction was again made in the volume of outstanding investments of the United States Treasury and the Home Owners' Loan Corporation in the shares of savings and loan associations. On June 30, 1942, these investments aggregated $186,512,410, a reduction of almost ten percent as compared with the close of the preceding fiscal year. The investment of Government funds in the share capital of savings and loan associations was first authorized in the Home Owners' Loan Act of 1933. As part of a broad program to strengthen the Nation's home financing resources, this statute and subsequent appropriations set aside $49,300,000 of Treasury funds for investment in the shares of Federal savings and loan associations. Later amendments to the Home Owners' Loan Act authorized that Corporation to make investments up to $300,000,000 in the shares of Federal savings and loan associations and State-chartered institutions which either belong to the Federal Home Loan Bank System or which are insured by the Federal Savings and Loan Insurance Corporation.

Under the terms of the statutes authorizing Government share investments in savings and loan associations, no request for retirement may be made by the Federal Home Loan Bank Administration for a period of five years from the date of investment. Thereafter, requests are made, in the discretion of the Federal

Home Loan Bank Administration, but in no event in an amount exceeding in any one year ten percent of the total amount invested in the shares of an association.

By the end of the reporting period, the volume of retirements requested by the Federal Home Loan Bank Administration, on the basis of a careful study of the current financial condition of institutions holding Government investments, totaled $11,671,850. Since cumulative retirements aggregate $86,544,300, it is evident that voluntary repurchases have been largely responsible for the decline in total investments.

Investment by the Treasury in the shares of Federal savings and loan associations was completed in 1936 when the $49,300,000 was exhausted. By June 30, 1942, total Treasury investments had been reduced, principally as a result of voluntary repurchases, to $19,442,600.

Most of the share capital investments of the Home Owners' Loan Corporation were made in 1936 and 1937. Since that time, investments have been granted principally in connection with rehabilitation programs or to institutions in war industry areas which are able to demonstrate a need for additional capital to finance needed war housing. By June 30, 1942, the Home Owners' Loan Corporation had made share investments totaling $223,756,710. Of this amount, $56,686,900 had been retired and the remaining $167,069,810 was still outstanding.

Investments by the U. S. Treasury and the Home Owners' Loan Corporation in Member Savings and Loan Associations, by Fiscal-Year Periods

Fiscal Year	Treasury Investments in Federal Savings and Loan Associations: Gross investments (cumulative)	Repurchases	Net investments outstanding (June 30)	HOLC Investments in Savings and Loan Associations: Gross investments (cumulative)	Repurchases	Net investments outstanding (June 30)
1934	$ 1,086,300	--	$ 1,086,300	--	--	--
1935	30,606,700	--	30,606,700	--	--	--
1936	49,300,000	$ 77,000	49,223,000	$ 63,142,700	--	$ 63,142,700
1937	49,300,000	1,116,300	48,183,700	183,033,000	$ 12,000	183,021,000
1938	49,300,000	1,497,300	47,802,700	211,997,610	271,000	211,726,610
1939	49,300,000	5,308,300	43,991,700	219,149,810	2,691,000	216,458,810
1940	49,300,000	15,162,900[1]	34,137,100	220,688,210	17,664,000	203,024,210
1941	49,300,000	25,629,100[2]	23,670,900	222,108,210	39,254,850[3]	182,853,360
1942	49,300,000	29,857,400[4]	19,442,600	223,756,710	56,686,900[5]	167,069,810

[1] Of this amount, $671,800 was retired in accordance with Section 5(j) of the Home Owners' Loan Act.

[2] Of this amount, $2,759,800 was retired in accordance with Section 5(j) of the Home Owners' Loan Act.

[3] Of this amount, $1,213,050 was retired in accordance with Section 5(j) of the Home Owners' Loan Act.

[4] Of this amount, $4,392,800 was retired in accordance with Section 5(j) of the Home Owners' Loan Act.

[5] Of this amount, $7,279,050 was retired in accordance with Section 5(j) of the Home Owners' Loan Act.

Share investments have proved profitable to the Treasury and the Home Owners' Loan Corporation. Cumulative dividends paid to these agencies through the end of the reporting period totaled $47,654,391. This sum is equivalent to a rate of 3.37 percent per annum on the average investments outstanding since 1934.

Analysis of Condition of Member Associations

Comparison of the consolidated balance sheet of member savings and loan associations at the close of the calendar years 1940 and 1941 shows a noteworthy improvement in the financial condition of member institutions. (Annual financial statements of member institutions are submitted on a calendar-year basis; hence, it is not possible to present the following analysis on a fiscal-year basis.) The asset side of the master balance sheet reveals a heavy reduction in real estate holdings, a stronger liquidity position, and a new peak in mortgage loan portfolios. On the liability side there was a substantial gain in private capital and a sizable reduction in Government share investments. Although general reserves and undivided profits declined fractionally in relation to gross liabilities, these accounts show a dollar gain of over $24,000,000.[1]

Assets: Total assets of member savings and loan associations show a gain of approximately $387,000,000 during 1941, reaching a new high of $4,800,000,000 on December 31, 1941. The greatest increase is noted in the case of Federal savings and loan associations, which show a gain of 15.9 percent. State-chartered insured institutions show a growth in total assets of 12.3 percent, while State-chartered uninsured associations suffered a decline of nearly $40,000,000, or 2.7 percent. The transfer of State associations to insured or Federal categories is, of course, largely responsible for this latter showing.

First Mortgage Loans: On December 31, 1941, first mortgage investments of member associations aggregated $3,919,000,000, an increase of 12 percent as compared with the combined balance sheet a year previous. The mortgage portfolio of member savings and loan associations thus represented over four-fifths (81.7 percent) of aggregate assets.

[1] To those interested in a detailed tabulation of over-all balance-sheet trends, reference is made to the July 1942 issue of the Federal Home Loan Bank Review.

Real Estate: Acquired property held by member savings and loan associations was reduced by over 37 percent during 1941. This item, which at the end of 1936 represented 16 percent of total assets, amounted to only $189,000,000, or less than 4 percent at the end of 1941.

The successful efforts of savings and loan management to dispose of foreclosed real estate is one of the most important evidences of the current strong financial position of most associations. Whereas only a few short years ago the volume of real estate institutionally held was a matter of considerable concern to all supervisory authorities, it is now safe to conclude that by and large the real estate overhang is a problem of the past.

Cash: A good indication of the fact that savings and loan associations are well aware of the advisability of maintaining a sound liquidity position is found in the growth of cash on hand and in banks from $242,000,000 to over $278,000,000 during 1941. There has been a steady increase in the volume of cash reserves maintained by member institutions since 1937 and at the end of 1941, cash represented 5.8 percent of total resources. In addition to fortifying their cash position, member savings and loan associations increased their Government bond holdings during 1941. This secondary liquidity account now amounts to over $75,000,000, a growth of 64 percent during the year.

Private Repurchasable Capital: During 1941, private investments in member savings and loan associations increased by 11 percent to $3,400,000,000. Although complete information is not available on the trend of share capital in all member savings and loan associations after the close of the calendar year 1941, data which are available on insured institutions indicate that

the rate at which private investments are being received by savings and loan associations may have been slowing down temporarily at least. During the first six months of 1942, for example, private capital outstanding in insured savings and loan associations increased only $138,733,000 as compared with $231,349,000 during the corresponding period a year previous. The drive to divert new savings into war bonds no doubt accounts in part at least for this trend. A greater volume of repurchases occasioned by forward buying, a rise in the cost of living, and higher taxes may also have had some influence in the slowing up process.

Borrowed Money: This creditor liability on December 31, 1941, amounted to $239,226,000, an increase of 10.3 percent as compared with the close of 1940. Borrowings as a ratio of total liabilities were 4.99 percent on December 31, 1941, as compared with 4.92 percent a year previous.

Reserves: General reserves and undivided profits show a gain of over $24,000,000, or 8 percent, during 1941. However, this rate of growth was somewhat less than gains made in total resources, with the result that the ratio of reserves and undivided profits to total liabilities declined fractionally from 6.88 percent to 6.83 percent. Charges to reserves occasioned by a large volume of real estate sales are primarily responsible for this fact.

Statement of Operations

Consolidations of income and expense statements of member savings and loan associations are available only for those institutions which report on a calendar-year basis. This fact, plus the changes which occur from year to year in the number of member institutions, makes a comparison of operating ratios considerably more significant than the dollar changes which may occur. Nonetheless, it is interesting to note that gross operating income of the

3,536 institutions reporting for the calendar year 1941 totaled $235,569,200. The comparable figure for the 3,508 institutions reporting in 1940 was $212,591,000.

The growth in mortgage loans held by member savings and loan associations during 1941 is reflected in the fact that interest income on these investments represented 88.0 percent of gross operating income. During the previous year, the corresponding ratio was 86.7 percent. The decline of 37 percent in owned real estate during the twelve months ending December 31, 1941, was responsible for the fact that income from real estate represented only 1.6 percent of gross operating income as compared with 2.4 percent during the previous year.

The distribution of net income by reporting associations during 1941 is another evidence of the increasing importance which institutions are attaching to the accumulation of adequate reserves. Dividend payments absorbed 71.2 percent of net income as compared with 73.5 percent during the preceding year and 75.5 percent in 1939. Transfers to reserves and undivided profits show a favorable trend with 29 percent of net income going to these accounts during 1941, as against only 26 percent in 1940.[2]

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[2] For a more detailed discussion of income and expense trends of member savings and loan associations during 1941, reference is made to the September 1941 issue of the Federal Home Loan Bank Review.

B. Operations of the Federal Home Loan Banks

Lending Activity

Advances to member institutions during the fiscal year 1942 reached a new high of $155,025,047, an increase of 8.5 percent over the previous peak set during the 1941 reporting period. Repayments by borrowers were also higher than during the preceding fiscal year, amounting to $132,277,501, or 1.5 percent above the comparable figure for the previous year. The net result of these lending operations was a volume of advances outstanding on June 30, 1942, of $192,644,936. It is noteworthy that during the 1942 fiscal year, advances outstanding reached the highest point in the history of the Federal Home Loan Bank System. On December 31, 1941, midway through the reporting period, advances by the Banks amounted to $219,446,050, a figure 8.9 percent above the previous peak recorded on December 31, 1940.

Total advances made by the Federal Home Loan Banks from the beginning of operations through June 30, 1942, amounted to $928,933,902 and repayments of borrowers during the same period aggregated $736,288,966. Exhibit 10 summarizes, by fiscal years, advances, repayments, and balances outstanding since the beginning of operations.

Analysis of current lending operations of the twelve Federal Home Loan Banks shows little uniformity in trends during the 1942 fiscal-year period. Eight of the Banks show a higher volume of advances outstanding on June 30, 1942, as compared with June 30, 1941. Percentage gains varied from 1.2 percent in the case of the Federal Home Loan Bank of Chicago to 54.6 percent in the Federal Home Loan Bank of Boston. The remaining four Banks report declines ranging from 1.1 percent to 13.5 percent.

The maximum rate which may be charged on Federal Home Loan Bank advances has been set by the Federal Home Loan Bank Administration at 3 percent. During the reporting period, the only changes in interest rates actually charged by individual banks were in the Indianapolis and Portland Banks. The former reduced its rates on short-term advances to 2 percent and on long-term advances to 2-1/2 percent, while the latter Bank created a 2-1/2 percent rate for advances collateralized by negotiable U. S. Government obligations. As an additional incentive to their member associations, the Pittsburgh, Indianapolis, and Topeka Banks established a preferential rate of 2 percent on advances to members used to purchase United States War Bonds. On July 1, 1942, the Banks were charging from 2-1/2 to 3 percent on long-term advances and from 1-1/2 to 3 percent on short-term advances.[3]

Types of Advances

Once again, a review of the lending operations of Federal Home Loan Banks during the reporting period shows a gain in the proportion of funds advanced on a short-term basis. On June 30, 1942, loans which had been written for a term of one year or less amounted to $80,121,685, or 41.6 percent of total advances outstanding, as compared with 38.7 percent a year previous. It is probable that the lower interest charge made by several of the Federal Home Loan Banks on short-term advances, coupled with the difficulty in such times as these of estimating credit needs very far in the future, are the principal causes for the growing emphasis on short-term advances. The distribution of outstanding advances, by Federal Home Loan Bank Districts and by term of loan at the close of the last two fiscal years will be found in Exhibit 11.

[3] For detailed information on the rates charged by Federal Home Loan Banks, see Exhibit 15 of Ninth Annual Report of Federal Home Loan Bank Board.

The relationship between secured and unsecured advances shows little change from June 30, 1941, to June 30, 1942. On the latter date, advances which had been made on the security of mortgage collateral and obligations of the United States Government amounted to $140,143,951, or 72.7 percent of all outstanding advances. A year previous, the corresponding ratio was 71.8 percent. Collateral supporting secured advances at the close of the reporting period consisted of 126,605 home mortgages with unpaid balances of $323,075,351; and obligations of the United States Government, direct or fully guaranteed, in the amount of $1,112,900. In addition, the Banks hold a statutory lien on the stock holdings of borrowing members in the amount of $27,041,000, which stock can, if necessary, be used to protect advances, both secured and unsecured.

On June 30, 1942, except for five borrowers in liquidation, not a single institution was delinquent over thirty days in its contractual obligations to the Federal Home Loan Banks. Four of the liquidating borrowing members were indebted to the Bank in the amount of $256,349 which was collateralized by $517,358 in home mortgages, and $53,700 in paid-in Bank stock. In no case was the collateral less than 210 percent of an individual indebtedness. The one unsecured advance to a liquidating member amounted to $163,700 and was protected not only by a lien on Bank stock in the amount of $13,700, but also by $339,143 in land contracts. No loss is anticipated by the Banks concerned on the indebtedness of any liquidating borrower.

Statement of Condition

A statement of condition of the twelve Federal Home Loan Banks as a whole and of each of the individual Banks will be found in Exhibit 12. There follows a brief summary of the more significant balance-sheet trends.

Cash holdings of $47,320,115 on June 30, 1942, represent a decrease of 17.3 percent as compared with the close of the previous fiscal year. However,

secondary liquidity in the form of U. S. Government obligations increased from $63,407,070 to $69,367,915 during the reporting period. Combined cash and Government investments, therefore, totaled $116,688,030 and were equivalent to 37.6 percent of consolidated assets. Cash available for advances[4] and securities in excess of legal requirements[5] totaled $96,699,367 on June 30, 1942.

Advances outstanding to member institutions, as already mentioned, aggregated $192,644,936 and represented 62.1 percent of the consolidated assets of the Banks.

At the beginning of the current reporting period, two series of consolidated debentures were outstanding in the amount of $75,500,000. Series "G", a $52,000,000 issue, was retired at maturity on April 15, 1942. To provide adequate funds for the peak lending period at the close of 1941, Series "H", amounting to $15,000,000, was sold privately to four commercial banks on December 24, 1941, and carried an interest rate of 1/2 of 1 percent. This series matured two months later and was retired in full on February 24, 1942. Three additional series were issued during the reporting period. Series "I" was issued on March 5, 1942, in the amount of $26,000,000. This series bears an interest rate of 3/4 of 1 percent and a maturity date of September 1, 1942. Series "J" and "K" were each issued on April 15, 1942. The first, amounting to $18,000,000, matures December 1, 1942, and bears an interest rate of 3/4 of 1 percent. Series "K", totaling $24,000,000, will mature February 1, 1943, and carries an interest rate of 7/8 of 1 percent.

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[4] Represents total cash less reserve requirements of 75 percent of members' demand deposits, 25 percent of members' time deposits, total applicants' deposits on Bank stock, inter-bank deposits, and imprest funds.

[5] Represents the face value or principal amount of investments owned above the necessary legal reserves.

As a result of the foregoing transactions, $91,500,000 in consolidated debentures was outstanding on June 30, 1942.

The total volume of members' deposits on June 30, 1942, amounted to $27,696,777. Of this amount, $21,353,605 represented time deposits on which interest at the rate of 1/2 of 1 percent was paid and the remaining $6,343,172 constituted demand deposits on which no interest is paid. Deposits of members on June 30, 1942, show a decline of $3,610,093, or 11.5 percent, as compared with the close of the preceding reporting period. From the beginning of operations, the Federal Home Loan Banks have relied on inter-bank deposits as one means of maintaining a regional flow of funds from areas of plenty to areas having a temporary scarcity of funds. During the fiscal year 1942, inter-bank deposits aggregated $17,000,000, of which $1,750,000 was outstanding on June 30, 1942.

Outstanding paid-in capital stock of the Federal Home Loan Banks totaled $175,532,650 on June 30, 1942, as compared with $171,283,200 a year previous. This increase of 2.5 percent in the capital stock of the Banks was attributable entirely to gains in the stock holdings of member institutions. The amount of stock held by the Federal Government, $124,741,000, has not changed since November 1937.

Reserves and undivided profits of the Federal Home Loan Banks show a gain of 17.2 percent during the reporting period and totaled $14,105,921 on June 30, 1942. The Federal Home Loan Banks, in the interest of sound and conservative operations, have consistently maintained higher reserves and undistributed earnings than required by statute. The reserve and undivided profit accounts of the Banks which have been built up from the beginning of operations through June 30, 1942, are more than twice the amount of the reserves required by law.

Income and Expenses of the Federal Home Loan Banks

A detailed statement of profit and loss for the reporting period will be found in Exhibit 13. The following summary highlights the financial operations of the Banks during the reporting period.

Gross income for the fiscal year 1942 totaled $6,559,202 as compared with $6,031,305 during the 1941 fiscal year. The increase was accounted for primarily by larger interest income from a higher average volume of advances outstanding and by earnings on additional investment holdings.

Operating expenses during the fiscal year 1942 aggregated $2,212,090 as compared with $2,248,133 the year previous. Savings in the cost of debenture funds and members' deposits were mainly responsible for this decline. Net earnings of the Federal Home Loan Banks during the 1942 fiscal year totaled $4,285,630 as compared with $3,696,183 for the previous reporting period.

During the 1942 fiscal-year period, dividends declared by the Banks ranged from 1 to 2 percent, with an average rate of 1.24 percent as compared with 1.14 percent during the preceding year. Dividends actually distributed during the reporting period aggregated $2,213,701, of which $630,602 was paid to member stockholders, and the remaining $1,583,099 to the Reconstruction Finance Corporation which now holds the Government-owned stock.

C. Examination and Supervision

Each of the twelve Federal Home Loan Banks is examined semiannually by the Federal Home Loan Bank Administration. These examinations and regular and special reports on current operations and condition provide the basic data for the establishment of rules and regulations and general supervision of the Banks.

In addition, the Federal Home Loan Bank Administration examines and supervises all Federal savings and loan associations. In the case of State-chartered insured associations, supervision, and, in more than three-fourths of the cases, examination are shared with the respective State Supervisory Departments. In addition, in a few instances State-chartered uninsured members of the Federal Home Loan Bank System which are not subject to regular State examination submit to examination by the Federal Home Loan Bank Administration. On June 30, 1942, there were 2,374 insured institutions under supervision of the Administration.

The Federal Home Loan Bank Administration has for several years maintained a separation of its examining and supervisory activities. Actual experience to date has demonstrated the desirability of this type of organization. It has the dual advantage of insuring both a maximum degree of independence to fact-finding examiners and a detached consideration and analysis of examination reports by trained supervisory officials.

The examining and supervisory activities of the Federal Home Loan Bank Administration are increasing in volume and importance. In the first place, the number of insured institutions has grown steadily in recent years. During the last two fiscal years alone, the number of institutions supervised by the Administration has increased by six percent to 2,374. An even better measure of the task of examining and supervising insured institutions is the volume of assets held by these associations. From June 30, 1940, to the close of the reporting period, assets of insured associations grew by 27.8 percent to $3,461,228,000.

Supervision can be defined, in general terms, as an activity which is undertaken to assure the proper protection of the public interest in the operation of financial institutions. Supervision does not extend to actual participation by Governmental authorities in institutional management. On the contrary, the business activities of insured savings and loan associations are properly the concern of local management and trustee directorates. The function of the Administration is rather to establish the basic standards or rules which judgment and experience indicate will guide institutions to the goal of sound public service.

Supervisory activities, no matter how well formulated or carried out, cannot provide the all-inclusive answer to successful financial management and operation. In the final analysis, well-trained, efficient, and capable management is equally if not more important. The Administration has, therefore, devoted considerable time and attention to the development, through informal educational processes, of high standards of association management and operation. Such continuous supervisory activities are difficult to evaluate in specific measure, but past experience would indicate that constant effort to prevent the initial development of weaknesses is perhaps the most effective type of supervisory guidance.

The Federal Home Loan Bank Administration is assisted in the discharge of its supervisory responsibilities through conferences with the Federal Savings and Loan Advisory Council. This organization was created by statute for the specific purpose of conferring with the Administration "on general business conditions and on special conditions affecting the Federal Home Loan Banks and their members."

The Council, which is composed 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 Administration, held two meetings during the 1942 fiscal year. Discussions by the Council at these meetings covered a number of subjects of primary importance to the continued successful operation of the Bank System, among which were the following: Lending policies in a war economy, sale of War Bonds, financing of war housing, liquidity, and dividend and mortgage interest rates.

Recommendations of the Council were of substantial help to the Administration in the formulation and development of policies. A list of the Council members as of June 30, 1942, will be found in Exhibit 14.

D. Income and Expenses of the Federal Home Loan Bank Administration

The operating funds of the Federal Home Loan Bank Administration are obtained from assessments upon the twelve Federal Home Loan Banks, from charges made against the Home Owners' Loan Corporation and the Federal Savings and Loan Insurance Corporation for services rendered by the Administration, and from fees received for the examination of home financing institutions. All expenses of the Administration's Examining Division, which represent the largest portion of the Administration's annual budget, are reimbursed by the examined institutions. During the fiscal year 1942, receipts of the Administration aggregated $1,608,790 and disbursements totaled $1,495,375. Including a cash balance of $239,959 carried over from the preceding year, a balance of $353,374 was outstanding on June 30, 1942. Exhibit 15 shows the administrative receipts and disbursements of the Administration during the last two fiscal years.

The personnel of the Federal Home Loan Bank Administration totaled 431 on June 30, 1942, including 33 employees on military leave. Of this total, 307 employees, or 71 percent of total, constituted the staff of the Administration's Examining Division. Exhibit 16 gives a summary of personnel, by departments, as of the close of the last two fiscal years.

IV. FEDERAL HOME LOAN BANK SYSTEM

The Federal Home Loan Bank System entered upon the second decade of its existence during the fiscal year 1943. The number and assets of member institutions at the close of the previous and present fiscal years are reflected by Federal Home Loan Bank Districts and by States in exhibit 15. The following tabulation reflects the total number and approximate assets of member institutions of the Federal Home Loan Bank System as of June 30, 1942, and June 30, 1943:

Number and assets of member institutions of the Federal Home Loan Bank System, June 30, 1942, and June 30, 1943

[Dollar amounts in millions]

	June 30, 1942		June 30, 1943		Net change	
	Number	Assets	Number	Assets	Number	Assets
Savings and loan associations:						
Federal associations	1,464	$2,206	1,468	$2,426	+4	+$220
State-chartered insured member associations	906	1,250	956	1,449	+50	+199
Uninsured member associations	1,402	1,429	1,305	1,374	−97	−55
All member associations	3,772	4,885	3,729	5,249	−43	+364
Other member institutions:						
Savings banks	17	341	22	429	+5	+88
Insurance companies	26	418	23	367	−3	−51
All member institutions	3,815	5,644	3,774	6,045	−41	+401

Lending activity of Regional Banks.—Federal Home Loan bank advances outstanding on June 30, 1943, aggregated $90,191,577, or 53 percent less than the total advances of $192,644,936 outstanding at the close of the previous year. Advances made by the Federal Home Loan Banks to member institutions during the fiscal year 1943 aggregated $96,346,313, the smallest amount advanced during any year since 1939. On the other hand, repayments reached a new peak of $198,799,672. From the beginning of operations through June 30, 1943, the Federal Home Loan Banks have made total advances of $1,025,280,215, of which $935,088,638 was repaid.

Advances outstanding to members which, as already indicated, totaled $192,644,936 on June 30, 1942, declined thereafter to March 31, 1943, when such advances reached $78,606,524, the lowest amount outstanding at the end of any month since May 1935. The increase during April 1943 of $8,762,476 in advances outstanding was almost offset by a decline of $8,137,641 during the month of May. An increase of $10,970,217 during June resulted in outstanding advances as of June 30, 1943, totaling $90,191,577.

The ratio of short-term advances of 1 year or less to total advances outstanding continued to increase during the fiscal year 1943. On June 30, 1943, short-term advances represented 51.3 percent of total advances outstanding, as compared with 41.6 percent at the close of the previous fiscal year. Lower interest rates charged by several of

the Federal Home Loan Banks on short-term advances, together with a reduced demand for long-term money on the part of member institutions, may be considered as the principal reasons for this trend. There was but little change in the ratio between secured and unsecured advances during the fiscal year 1943. Exhibit 16 contains detailed information reflecting the various changes in advances made by the Federal Home Loan Banks during the fiscal year 1943, together with a summary of lending activity in previous years.

As of June 30, 1943, no borrowers from the Federal Home Loan Banks were more than 30 days delinquent on such indebtedness. As of that date, one member borrower in liquidation was indebted to a Federal Home Loan Bank in the amount of $6,427, the entire amount of which was represented by unmatured principal installments. This indebtedness was amply secured by home mortgages pledged with the lending Bank, the estimated value of which was $22,083, and a statutory lien on such borrowing member's stock in the Federal Home Loan Bank having a paid-in value of $3,000.

As in previous years, the indebtedness to the Federal Home Loan Banks of Federal savings and loan associations constituted the larger part of the Banks' outstanding advances. On June 30, 1943, 386 Federal associations accounted for advances of $56,600,000, or 62.7 percent of the outstanding advances of the Banks on that date. As of the same date the outstanding advances to 254 insured State-chartered members totaled $22,500,000, while the outstanding advances to uninsured State-chartered member institutions totaled $11,100,000.

During the fiscal year 1943 a majority of the Banks amended their effective interest rates on advances to members and modified the limitations placed upon advances. In general, the changes which were made resulted in decreases of one-half of 1 percent in the interest rates affected. Rates of interest on advances to members are established by the board of directors of each Bank, within the range established by the Federal Home Loan Bank Administration, which at present permits a maximum of 3 percent. Exhibit 17 reflects the effective interest rates charged on advances by each of the Federal Home Loan Banks as of July 1, 1943.

Members' deposits.—Total deposits of members in the Federal Home Loan Banks increased to the extent of $1,500,000 during the fiscal year 1943. During this period members' time deposits increased $5,000,000, which increase, however, was offset by a decrease of $3,500,000 in demand deposits. This shift from demand to time deposits may be attributed to a lack of demand upon the members for home loans, thus enabling them to place excess funds on a time-deposit basis with the Federal Home Loan Banks. The fact that members' deposits did not reflect a greater increase during the year may be attributed to their large purchases of Government securities and the retirement of investments made by the United States Treasury and the Home Owners' Loan Corporation in the shares of member institutions. Interest may be paid by the Federal Home Loan Banks on time deposits remaining for 30 days or more, at rates established by the board of directors of each Bank, within ranges fixed by the Federal Home Loan Bank Administration, which permit the payment of interest on such deposits up to 2 percent per annum. As of June 30, 1943, 11 of the Federal Home Loan Banks were paying interest on members' time deposits at the rate of one-half of 1 percent per annum.

Debenture financing.—At the beginning of the fiscal year 1943 the total amount of consolidated Federal Home Loan Bank debentures outstanding aggregated $91,500,000. As of June 30, 1943, the consolidated debentures outstanding totaled $35,000,000. Up to the close of the year covered by this report a ready market has been found for the sale of consolidated Federal Home Loan Bank debentures and no difficulty has been encountered in thus financing the cash requirements of the 12 Federal Home Loan Banks. Consolidated Federal Home Loan Bank Debentures, which represent the joint and several obligations of all Federal Home Loan Banks, are not guaranteed by the United States Government either as to principal or interest. It is the policy of the Federal Home Loan Bank Administration to issue such debentures only when the cash available in the 12 Federal Home Loan Banks is deemed insufficient to meet their anticipated requirements. From the beginning of operations to the close of the current fiscal year, the total debentures issued aggregated $363,200,000, of which $328,200,000 was retired and/or refunded at maturity, resulting in the balance of $35,000,000 outstanding, as above indicated.

Financial statements.—A statement reflecting the condition of the 12 Federal Home Loan Banks, on an individual and consolidated basis, will be found in exhibit 18. The primary change reflected in such statement may be said to be the net repayment of advances by members aggregating $102,453,359, hereinbefore referred to. The funds thus made available as the result of these repayments, together with available cash on hand at the beginning of the fiscal year 1943, enabled the Federal Home Loan Banks to reduce their outstanding debenture liability to the extent of $56,500,000, and to make a net investment of approximately $85,600,000 in Government securities during the fiscal year 1943. These changes primarily accounted for the decline in cash of the Federal Home Loan Banks from $47,300,000 on June 30, 1942, to $14,800,000 on June 30, 1943. The Federal Home Loan Banks increased their investments in obligations of, or guaranteed by, the United States from $69,367,915 on June 30, 1942, to $154,931,939 on June 30, 1943.

There was an increase of $3,929,200 in stock in the Federal Home Loan Banks owned by member institutions during the fiscal year 1943, which compares favorably with the increase of $4,249,450 reflected during the preceding fiscal year. The amount of stock in the Federal Home Loan Banks owned by the United States (Reconstruction Finance Corporation) remains unchanged at $124,741,000. The Federal Home Loan Bank Act provides that—

> after the amount of capital of a Federal Home Loan Bank paid in by members equals the amount paid in by the Secretary of the Treasury * * * such bank shall apply annually to the payment and retirement of the shares of the capital stock held by the United States, 50 per centum of all sums thereafter paid in as capital until all such capital stock held by the United States is retired at par.

The increase in stock owned by member institutions in one of the Federal Home Loan Banks would indicate that, if the previous trend of purchases of stock by members continues, that Federal Home Loan Bank will soon be in position to begin retiring the stock owned by the Reconstruction Finance Corporation in such bank, pursuant to the above-quoted provision in the act. The following tabulation reflects the capital stock structure of the 12 Federal Home Loan Banks as of June 30, 1943:

CAPITAL

Capital stock (par):	
Members (fully paid)	$54, 627, 300. 00
Members (partially paid)	157, 600. 00
Total	54, 784, 900. 00
Less unpaid subscriptions	64, 050. 00
	54, 720, 850. 00
U. S. Government, now owned by Reconstruction Finance Corporation (fully paid)	124, 741, 000. 00
Total paid in on capital stock	179, 461, 850. 00
Surplus:	
Reserve as required under sec. 16 of the Act	7, 292, 016. 39
Reserve for contingencies	2, 170, 531. 03
Total surplus	9, 462, 547. 42
Undivided profits	6, 680, 848. 96
Total surplus and undivided profits	16, 143, 396. 38
Total capital	195, 605, 246. 38

A comparison of reserves and undivided profits of the Federal Home Loan Banks as of June 30, 1942, and June 30, 1943, is reflected in the following tabulation:

	June 30, 1942	June 30, 1943
Reserve required by sec. 16 of Act	$6, 505, 036 53	$7, 292, 016. 39
Reserve for contingencies	1, 792, 157 47	2, 170, 531 03
Undivided profits	5, 808, 727 26	6, 680, 848. 96
Total	14, 105, 921. 26	16, 143, 396. 38

The Federal Home Loan Banks have consistently maintained higher reserves and undistributed earnings than required by statute. As of June 30, 1943, the total earned surplus was 221 percent of the legal reserve requirements. An analysis of the surplus and undivided profits of the Federal home-loan banks for the period covered by this report is presented in exhibit 19.

A statement of profit and loss of the Federal Home Loan Banks for the fiscal year 1943 will be found in exhibit 20. The consolidated gross income of the Banks during the year aggregated $5,823,440, as compared with $6,559,202 for the previous fiscal year. This decline of $735,762 was largely the result of repayment of advances during the fiscal year 1943. Operating expenses of the 12 Banks declined from $2,212,090 during the previous fiscal year to $2,052,912 during the 1943 fiscal year. The net income of the Federal Home Loan Banks for the fiscal year 1943 aggregated $3,669,550, a decrease of 14.4 percent from the net income of $4,285,630 reported during the preceding fiscal year. Dividends declared by the Federal Home Loan Banks during the year covered by this report aggregated $1,897,436. Of this amount $1,339,582 was paid to the Reconstruction Finance Corporation and $557,854 to member institutions. The total amount of dividends paid during the current year, $1,897,436, represents a reduction of 14.3 percent as compared with the amount of dividends ($2,213,701) declared by the Banks during the preceding fiscal year. From the beginning of operations through June 30, 1943, the 12 Federal Home Loan Banks have declared dividends totaling $20,310,127, of which $15,527,075 was paid on stock subscribed by the United States Government and $4,783,052 was applicable to stock owned by the member institutions.

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III. FEDERAL HOME LOAN BANK SYSTEM

The growth in number and assets of the member institutions of the Federal Home Loan Bank System during the fiscal year 1944 is shown, by Bank Districts and by States, in exhibit 15. A summary of the number and approximate assets of member institutions, by type, as of June 30, 1943, and June 30, 1944, is presented in the following tabulation:

Number and assets of member institutions of the Federal Home Loan Bank System, June 30, 1943, and June 30, 1944

[Dollar amounts in millions]

	June 30, 1943		June 30, 1944		Net change	
	Number	Assets	Number	Assets	Number	Assets
Savings and loan associations:						
Federal associations	1,468	$2,426	1,465	$2,881	−3	+$455
State-chartered insured member associations	956	1,449	992	1,696	+36	+247
Uninsured member associations	1,305	1,374	1,214	1,385	−91	+11
All member associations	3,729	5,249	3,671	5,962	−58	+713
Other member institutions.						
Savings banks	22	429	22	464	0	+35
Insurance companies	23	367	21	414	−2	+47
All member institutions	3,774	6,045	3,714	6,840	−60	+795

SALE OF WAR BONDS

During the fiscal year 1944, the member institutions of the Bank System devoted great efforts to the purchase of war bonds for their own account and to the sale of these war bonds to the public. Because the Fifth War Loan drive covered the months of June and July 1944, figures for war-bond purchases are available for the 13-month period ending July 31, 1944, rather than for the 12 months of the fiscal year. During this 13-month period, reporting member institutions purchased $1,124,709,000 of war bonds for their own account, and sold $625,181,000 of war bonds to the public. The proportion of the assets of these reporting member institutions invested in Government obligations rose from 11.4 percent on June 30, 1943, to 23 percent on July 31, 1944.

LENDING ACTIVITY OF REGIONAL BANKS

Outstanding advances of the Federal Home Loan Banks totaled $128,277,546 on June 30, 1944, or 42.2 percent more than the total of $90,191,577 outstanding on June 30, 1943. During the fiscal year 1944, the Federal Home Loan Banks advanced $222,500,866 to member institutions, an increase of 130.9 percent over advances during the fiscal year 1943. The $96,346,313 advanced in the latter year was smaller than the total of advances in any year since 1939.

During the reporting period, $184,414,896 of advances was repaid. Repayments during the fiscal year 1944 were less than advances. This was in contrast to the preceding reporting period when repayment of advances totaled more than twice the new advances made. From the beginning of operations through June 30, 1944, the Federal Home Loan Banks advanced $1,247,781,080. Of this $1,119,503,534 was repaid.

During the fiscal year 1944, the ratio of short-term advances of 1 year or less to total outstanding advances continued to increase. Such advances rose from 41.6 percent of all advances on June 30, 1942, to 51.3 percent on June 30, 1943, and to 75.8 percent on June 30, 1944. The proportion of secured advances to all advances increased from 70.1 percent on June 30, 1943, to 82.7 percent 1 year later. Exhibit 16 contains detailed information reflecting the various changes in advances made by the Federal Home Loan Banks during the fiscal year 1944, together with a summary of lending activity in previous years.

No borrower from the Federal Home Loan Banks was more than 30 days delinquent on such indebtedness as of June 30, 1944. Also, no member borrower was in liquidation at that time. During the fiscal year 1944, as in previous years, the indebtedness of Federal savings and loan associations constituted the larger part of the outstanding advances of the Federal Home Loan Banks. Of the outstanding advances of the Banks on June 30, 1944, $84,600,000, or 66 percent, was to 395 Federal savings and loan associations. As of the same date, advances totaling $34,200,000 were outstanding to 346 insured State-chartered member associations and advances totaling $9,500,000 were outstanding to 115 uninsured State-chartered member institutions.

The effective interest rates of the Banks on advances to members remained in large part unchanged during the fiscal year 1944. Rates of interest on advances to members are established by the board of directors of each Bank, within the range established by the Federal Home Loan Bank Administration, which at present permits a maximum of 3 percent. Exhibit 17 gives the effective interest rates charged on advances by each of the Federal Home Loan Banks as of July 1, 1944.

MEMBERS' DEPOSITS

There was a decrease in total deposits of members in the Federal Home Loan Banks from $29,262,275 on June 30, 1943, to $21,388,388 on June 30, 1944. Practically all of this decrease was in the time deposits of members, inasmuch as demand deposits are already at a low level. Interest may be paid by the Federal Home Loan Banks on time deposits remaining for 30 days or more, at rates established by the board of directors of each Bank, within ranges fixed by the Federal Home Loan Bank Administration. As of June 30, 1944, all of the Federal Home Loan Banks were paying interest on members' time deposits at the rate of one-half of 1 percent per annum.

DEBENTURE FINANCING

The total amount of consolidated Federal Home Loan Bank debentures outstanding on June 30, 1944, was $58,000,000, an increase of $23,000,000 over the consolidated debentures outstanding 1 year

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before. Up to the close of the year covered by this report, a ready market has been found for the sale of consolidated Federal Home Loan Bank debentures. As has been true from the first, every issue offered in financing the cash requirements of the 12 Federal Home Loan Banks has promptly been oversubscribed. Consolidated Federal Home Loan Bank debentures, which represent the joint and several obligations of all Federal Home Loan Banks, are not guaranteed by the United States Government either as to principal or interest. It is the policy of the Federal Home Loan Bank Administration to issue such debentures only when the cash available in the 12 Federal Home Loan Banks is deemed insufficient to meet their anticipated requirements. The total debentures issued by the Banks from the beginning of operations to June 30, 1944, aggregated $551,500,000, of which $493,500,000 had been retired and/or refunded at maturity, thereby leaving $58,000,000 of debentures outstanding, as indicated previously.

FINANCIAL STATEMENTS

Exhibit 18 presents a statement of condition of the 12 Federal Home Loan Banks both on an individual and on a consolidated basis. The largest change indicated for the fiscal year 1944 by this statement is the increase of more than $38,000,000 in outstanding advances to member institutions. In addition, the Banks increased their holdings of cash by almost $8,000,000 and had almost $8,000,000 of deposits withdrawn.

Operating funds were obtained by the Banks primarily from the following three sources. The investments of the Banks were decreased by almost $23,000,000; there was an increase of $23,000,000 in outstanding debentures; and the Banks received about $6,500,000 from the sale of stock. The increase during the fiscal year 1944 of $6,514,500 in stock in the Federal Home Loan Banks owned by member institutions is 66 percent more than the increase of $3,929,200 during the preceding fiscal year.

The Federal Home Loan Bank stock owned by the United States in the name of the Reconstruction Finance Corporation remained unchanged at $124,741,000. The Federal Home Loan Bank Act provides that—

> After the amount of capital of a Federal Home-Loan Bank paid in by members equals the amount paid in by the Secretary of the Treasury, * * * such Banks shall apply annually to the payment and retirement of the shares of the capital stock held by the United States, 50 per centum of all sums thereafter paid in as capital until all such capital stock held by the United States is retired at par.

The capital stock structure of the 12 Federal Home Loan Banks on June 30, 1944, is summarized in the following table:

Capital:	
Capital stock (par):	
Members (fully paid)	$61, 234, 600
Members (partially paid)	1, 000
Total	61, 235, 600
Less unpaid subscriptions	250
	61, 235, 350
U. S. Government, now owned by RFC (fully paid)	124, 741, 000
Total paid in on capital stock	185, 976, 350

Surplus:	
Reserve as required under sec. 16 of the act	$8, 046, 194
Reserve for contingencies	2, 392, 154
Total surplus	10, 438, 348
Undivided profits	7, 063, 921
Total surplus and undivided profits	17, 502, 269
Total capital	203, 478, 619

The change in the reserves and undivided profits of the Federal Home Loan Banks during the reporting period is as follows:

	June 30, 1943	June 30, 1944
Reserve required by sec. 16 of act	$7, 292, 016 39	$8, 046, 193. 63
Reserve for contingencies	2, 170, 531. 03	2, 392, 154. 21
Undivided profits	6, 680, 848 96	7, 063, 921. 17
Total	16, 143, 396 38	17, 502, 269 01

A study of the surplus and undivided profits of the Federal Home Loan Banks for the fiscal year 1944 is given in exhibit 19.

A statement of the profits and losses of the Federal Home Loan Banks for the fiscal year 1944 will be found in exhibit 20. During the year the consolidated gross income of the Banks totaled $5,634,042, representing a slight decrease as compared with $5,823,440 for the 1943 fiscal year. However, there was an even greater decline in operating expenses which were down from $2,052,912 during the 1943 fiscal year to $1,842,413 for the 1944 fiscal year. As a result, there was a small rise in the net income of the Banks which, during the reporting period, was $3,770,886 as compared with $3,669,550 during the preceding fiscal year.

The Federal Home Loan Banks declared a total of $2,096,846 of dividends during the reporting period. This compares with $1,897,436 declared during the 1943 fiscal year. Of the dividends paid during 1944, $1,429,485 was paid to the Reconstruction Finance Corporation and $667,361 to member institutions. The $2,096,846 of dividends paid during the current reporting period is an increase of 10.5 percent over the dividends paid during the fiscal year 1943. The cumulative amount of dividends paid by the 12 Federal Home Loan Banks from the beginning of operations through June 30, 1944, was $22,406,973. Of this, $16,956,560 was paid on the stock subscribed by the United States Government and $5,450,413 was paid on stock owned by member institutions.

INTEREST AND DIVIDEND RATES

For many years there has been a downward trend in interest rates which has been reflected in the interest rates of mortgage loans and in the dividends paid on the shares of savings and loan associations. A study of the financial records of all member savings and loan associations of the Bank System indicated that the average yield on mortgage loans held by these associations declined from 5.77 percent in 1942 to 5.58 percent in 1943. The ratio of dividends paid to average share capital outstanding decreased from 3.08 percent in 1942 to 2.85 percent in 1943.

The mortgage interest mentioned above represents the average rate on the present mortgage portfolio of these associations. The rates for new mortgage loans will average somewhat less than the rates for outstanding mortgages.

EXAMINATION AND SUPERVISION

The Congress has charged the Federal Home Loan Bank Administration with the responsibility of examining and supervising Federal savings and loan associations. Examinations of insured State-chartered associations in most instances are conducted jointly with the respective State departments, and the supervision of these institutions is conducted cooperatively with those departments.

It will be observed, therefore, that since the number and assets of associations whose accounts are insured by the Federal Savings and Loan Insurance Corporation have been steadily increasing, the work of the Examining Division has expanded as have the cases to be reviewed by the chief supervisor's office and the supervisory agents.

In addition to the annual supervisory examination or examination-audit of approximately 2,500 insured institutions, the Examining Division makes an examination or examination-audit of every applicant for insurance of accounts.

ADMINISTRATIVE EXPENSES

The Federal Home Loan Bank System of the Federal Home Loan Bank Administration obtains its funds with which to defray its administrative expenses by semiannual assessments upon the Federal Home Loan Banks, by reimbursements representing the costs of services rendered to the Federal Savings and Loan Insurance Corporation and the Home Owners' Loan Corporation, and by fees collected from the institutions in whose behalf examination expenses have been incurred. Since expenses falling within the latter category constitute the major portion of the administrative expenses of the Federal Home Loan Bank System of the Federal Home Loan Bank Administration, and thereby represent the greater portion of the approved budget, it follows that the greater portion of administrative expense funds are obtained from the institutions in whose behalf examining services are rendered.

Expenses of the Bank System's Examining Division, which constitute the major portion of the Bank System's authorized operating budget, are reimbursed by the institutions examined. During the fiscal year 1944, total receipts of the Federal Home Loan Bank System of the Federal Home Loan Bank Administration amounted to $1,418,105 as compared with $1,357,747 for the previous fiscal year. In addition, a cash balance of $409,119 was carried over at the beginning of the fiscal year 1944. Administrative disbursements during the 1944 fiscal year totaled $1,538,008 as compared with $1,302,002 during the previous fiscal-year period. This increase in disbursements was due principally to a new Federal Home Loan Bank Administration policy in allocation of over-all expenses, resulting in payment for space occupied by the Bank System and payment for a portion of the costs of operating various administrative and service departments carried on the pay roll of the Home Owners'

Loan Corporation, but rendering services to all the component agencies of the Bank Administration. The cash balance as of June 30, 1944, was $289,216.

There is attached as exhibit 14 a statement reflecting the administrative obligations, by types, incurred by the Federal Home Loan Bank System of the Federal Home Loan Bank Administration during the fiscal years 1943 and 1944.

The actively employed personnel of the Federal Home Loan Bank System of the Federal Home Loan Bank Administration totaled 284 at the close of the reporting period. Of this total, 216 employees constituted the staff of the Examining Division.