

### III. FEDERAL HOME LOAN BANK SYSTEM

During the fiscal year 1945, the Federal Home Loan Bank System experienced the most rapid growth in assets of any period in the history of the System. The growth in assets of member institutions from June 30, 1944, to June 30, 1945, by Bank Districts and by States, is shown in exhibit 12. The following tabulation presents a summary of the change in the number and approximate assets of member institutions, by type, during the reporting period.

*Number and assets of member institutions of the Federal Home Loan Bank System, June 30, 1944, and June 30, 1945*

[Dollar amounts in millions]

	June 30, 1944		June 30, 1945		Net change	
	Number	Assets	Number	Assets	Number	Assets
Savings and loan associations						
Federal associations	1,465	\$2,881	1,465	\$3,528	0	+\$647
State-chartered insured member associations	992	1,696	1,002	2,015	+10	+319
Uninsured member associations	1,214	1,385	1,189	1,471	-25	+86
All member associations	3,671	5,962	3,656	7,014	-15	+1,052
Other member institutions						
Savings banks	22	464	25	567	+3	+103
Insurance companies	21	414	15	389	-6	-25
All member institutions	3,714	6,840	3,696	7,970	-18	+1,130

#### SALE OF WAR BONDS

Throughout the war, the member institutions of the Bank System have devoted much time to the sale of war bonds to the public. In addition, a substantial portion of the funds of these institutions have been invested in war bonds. Because the Fifth War Loan drive covered the months of June and July 1944, while the Seventh War Loan drive covered the period April to July 1945, inclusive, figures for war-bond purchases are available for the 12-month period ending July 31, 1945, rather than for the 1945 fiscal year.

Reporting member institutions purchased \$1,242,353,000 of war bonds for their own account during this 12-month period and, at the same time, sold \$343,588,000 of war bonds to the public. The proportion of the assets of all reporting member institutions which were invested in Government obligations rose from 23 percent on July 31, 1944, to 30.2 percent on July 31, 1945.

#### LENDING ACTIVITY OF REGIONAL BANKS

On June 30, 1945, the Federal Home Loan Banks had \$131,665,985 of advances outstanding. This was only slightly greater than the total of \$128,277,546 one year before. During the fiscal year 1945, the

Federal Home Loan Banks advanced \$232,947,723 to member institutions, an increase of 4.7 percent over the total advances made during the previous reporting period.

Although advances during the 1945 fiscal year were only slightly greater than the total for 1944, the repayments of \$229,559,284 for the fiscal year 1945 were 24.5 percent greater than the total for 1944. Throughout the entire period of their operations to June 30, 1945, the Federal Home Loan Banks advanced \$1,480,728,803. Of this \$1,349,062,818 had been repaid at the close of the fiscal year 1945.

The ratio of short-term advances of 1 year or less to total outstanding advances continued, during the fiscal year 1945, the increase which had characterized previous years. These advances rose from 51.3 percent of all advances on June 30, 1943, to 75.8 percent on June 30, 1944, and to 88.7 percent on June 30, 1945. The proportion of secured advances to all advances was practically unchanged at the end of the 1945 fiscal year, being 82.6 percent on June 30, 1945, compared with 82.7 percent 1 year previous. The advances made by the Federal Home Loan Banks during the fiscal year 1945 are shown in exhibit 13, together with a summary of lending activity for previous years.

The Federal Home Loan Banks had no borrowers who were more than 30 days delinquent on their indebtedness as of June 30, 1945. Moreover, no member borrower was in liquidation at that time. During the reporting period, as in previous years, the indebtedness of Federal savings and loan associations represented the greater proportion of the outstanding advances of the Federal Home Loan Banks. On June 30, 1945, the outstanding advances of the banks were divided as follows:

Federal savings and loan associations	\$98,000,000
Insured State-chartered associations	26,500,000
Uninsured State-chartered associations	5,100,000
Insurance companies	2,100,000

During the reporting period, the effective interest rates of the banks for advances to members remained largely unchanged. 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 14 gives the effective interest rates charged on advances by each of the Federal Home Loan Banks as of July 1, 1945.

#### MEMBERS' DEPOSITS

Deposits of members and applicants for membership in the Federal Home Loan Banks increased from \$21,388,388 on June 30, 1944, to \$45,370,629 one year later. Both time and demand deposits increased sharply. Because demand deposits were at an already low level, the percentage increase was greater in these demand deposits, which rose from 11.4 percent of members' deposits on June 30, 1944, to 21.8 percent on June 30, 1945.

The Federal Home Loan Banks pay interest 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. On June 30, 1945, the New York and Los Angeles

banks were paying interest on members' time deposits at the rate of 1 percent per annum, while all of the other banks were paying interest at the rate of one-half of 1 percent. In addition to the latter, the Pittsburgh, Cincinnati, and Indianapolis Banks offered a 6-month time deposit service bearing three-fourths of 1-percent interest per annum.

#### DEBENTURE FINANCING

On June 30, 1945, there was \$50,000,000 of consolidated Federal Home Loan Bank debentures outstanding. This was a slight decrease from the total of \$58,000,000 at the beginning of the 1945 fiscal year. These consolidated Federal Home Loan Bank debentures represent the joint and several obligations of all the Banks and are not guaranteed by the United States Government either as to principal or interest. It is the policy of the Bank Administration to issue such debentures only when the cash available in the 12 Federal Home Loan Banks is deemed insufficient to meet anticipated requirements. Since the beginning of operations, the Banks have issued an aggregate of \$624,000,000 of debentures. Of these, \$574,000,000 has been retired and/or refunded at maturity, thereby leaving \$50,000,000 of debentures outstanding, as indicated previously.

#### FINANCIAL STATEMENTS

A statement of condition of the 12 Federal Home Loan Banks both on an individual and on a consolidated basis is presented in exhibit 15. The largest change which is shown by this statement for the fiscal year 1945 is the increase of \$28,000,000 in the United States Government obligations held by the Banks. In addition, deposits by members in the Banks increased approximately \$24,000,000.

Additional funds which were obtained by the Banks during the 1945 fiscal year were primarily from two sources. The most important was represented by the increase of \$24,000,000 in members' deposits. In addition, the capital stock and surplus of the Banks increased by approximately \$10,000,000. The \$34,000,000 received in this way was used (1) to purchase \$28,000,000 of Government obligations, (2) to decrease outstanding debentures by \$8,000,000, and (3) to increase outstanding advances to members by \$3,000,000, which resulted in a \$5,000,000 decrease in cash during the period.

For the first time since the formation of the Federal Home Loan Banks there was a decrease during the fiscal year 1945 in the Federal Home Loan Bank stock owned by the United States in the name of the Reconstruction Finance Corporation. 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 percent of all sums thereafter paid in as capital until all such capital stock held by the United States is retired at par.

During the 1945 fiscal year the outstanding stock in the Federal Home Loan Banks increased by \$7,736,050, which was 18.8 percent more than the increase of \$6,514,500 during the preceding fiscal year. With this increase in the outstanding stock of the Banks, the stock

owned by member institutions in the Federal Home Loan Bank of Indianapolis became greater than the stock owned in that Bank by the United States. Consequently, in conformity with the statutory provision, \$231,100 of the stock owned by the United States in the Federal Home Loan Bank of Indianapolis was retired on January 2, 1945.

On January 2, 1946, there will be a further retirement of stock in the Indianapolis Bank because of the increase during the calendar year 1945 in the stock owned in the Bank by member institutions. As of June 30, 1945, the stock holdings of member institutions had increased to the point where \$270,200 would have to be used in 1946 to retire stock in the Indianapolis Bank owned by the United States. This amount will be increased to approximately \$500,000 because of the purchase of Bank stock by members during the second half of the calendar year 1945.

In addition, shortly after the close of the fiscal year 1945, purchases by member institutions of stock in the Federal Home Loan Bank of Cincinnati had reached the point where some of the stock in this Bank owned by the United States would have to be retired on January 2, 1946.

The capital structure of the 12 Federal Home Loan Banks on June 30, 1945, is summarized in the following table:

Capital:	
Member institutions (subscribed).....	\$69, 207, 500. 00
Less: Unpaid subscriptions.....	5, 000. 00
<b>Total</b> .....	<b>69, 202, 500. 00</b>
U. S. Government—now owned by RFC (fully paid).....	124, 509, 900. 00
<b>Total paid in on capital stock</b> .....	<b>193, 712, 400. 00</b>
Surplus:	
Reserve as required under sec. 16 of the act.....	8, 915, 670. 72
Reserve for contingencies.....	2, 733, 815. 34
<b>Total surplus</b> .....	<b>11, 649, 486. 06</b>
Undivided profits.....	8, 053, 133. 48
<b>Total surplus and undivided profits</b> .....	<b>19, 702, 619. 54</b>
<b>Total capital</b> .....	<b>213, 415, 019. 54</b>

During the fiscal year 1945, the reserves and undivided profits of the Federal Home Loan Banks increased to the following:

	June 30, 1944	June 30, 1945
Reserve required by sec. 16 of act.....	\$8, 046, 193. 63	\$8, 915, 670. 72
Reserve for contingencies.....	2, 392, 154. 21	2, 733, 815. 34
Undivided profits.....	7, 063, 921. 17	8, 053, 133. 48
<b>Total</b> .....	<b>17, 502, 269. 01</b>	<b>19, 702, 619. 54</b>

Exhibit 16 presents a study of the surplus and undivided profits of the Federal Home Loan Banks for the fiscal year 1945.

The profits and losses of the Federal Home Loan Banks for the fiscal year 1945 are shown in exhibit 17. The consolidated gross income of the Banks during the year totaled \$6,379,141, an increase of 13.2 percent from the consolidated gross income of \$5,634,042 during the

previous fiscal year. Operating expenses also increased but to a lesser extent than income. During the fiscal year 1945, operating expenses were \$2,017,145 as contrasted with \$1,842,413 during the previous reporting period. After allowance for nonoperating charges, total consolidated expenses increased from \$1,863,156 during the fiscal year 1944 to \$2,031,756 one year later. As a result, the net income of the Banks rose from \$3,770,886 during the 1944 fiscal year to \$4,347,385 during the 1945 fiscal year, or by 15.3 percent.

During the 1945 fiscal year, the Federal Home Loan Banks declared a total of \$2,121,580 of dividends, slightly more than the \$2,096,846 declared during the preceding fiscal year. Of the dividends paid during 1945, \$1,380,395 was paid to the Reconstruction Finance Corporation and \$741,185 to member institutions. Since the beginning of their operations through June 30, 1945, the 12 Federal Home Loan Banks have paid a total of \$24,528,554. Of this, \$18,336,955 was paid on the stock subscribed by the United States and \$6,191,599 was paid on stock owned by member institutions.

#### INTEREST AND DIVIDEND RATES

During the reporting period there was a continuation of the downward trend in interest rates which has resulted in a reduction in the interest rates of mortgage loans and in the dividends paid on the shares of savings and loan associations. 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 decreased from 5.77 percent in 1942 to 5.58 percent in 1943, and to 5.48 percent in 1944. Similarly, the dividends paid by the associations decreased from 3.08 percent of average outstanding share capital in 1942 to 2.85 percent in 1943 and to 2.63 percent in 1944.

#### 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, the Chief Supervisor's Office, and the Supervisory Agents has expanded.

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

#### ADMINISTRATIVE EXPENSES

Funds to defray the administrative expenses of the Federal Home Loan Bank System are obtained by semiannual assessments upon the Federal Home Loan Banks, by reimbursement of the cost 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. Expenses falling within the latter category represent the greater portion of the administrative expenses of the Federal Home Loan Bank System. It follows that the greater portion of administrative expense funds are obtained from the institutions in whose behalf examining services are rendered.

During the fiscal year 1945, total receipts of the Federal Home Loan Bank System were \$1,539,481 as compared with \$1,418,105 in the preceding fiscal year. A cash balance of \$289,216 was carried over at the beginning of the fiscal year 1945. During the reporting period, disbursements for administrative expenses totaled \$1,549,101 as compared with \$1,538,008 in the preceding reporting period. On June 30, 1945, the cash balance was \$279,597.

A statement reflecting the administrative obligations, by types, incurred by the Federal Home Loan Bank System during the fiscal years 1944 and 1945 is presented in exhibit 18.

Actively employed personnel of the Federal Home Loan Bank System totaled 324 on July 1, 1945. Of this total, 217 employees were on the staff of the Examining Division.

trative expenses are authorized annually by the Congress, based on budgets submitted by the President to the Congress.

The expenses of the Administrative Department of the Federal Home Loan Bank Administration are met by contributions from the Home Owners' Loan Corporation, the Federal Home Loan Bank System, and the Federal Savings and Loan Insurance Corporation. The amount which each contributes is based upon a calculation of the time rendered to each by the employees of the Administrative Department. The amounts made available for the Administrative Department from these three sources during the fiscal year 1946, together with the disbursements relating to the Administrative Department, are given in exhibit 10.

### *Personnel of the Bank Administration*

Exhibit 11 indicates the number of employees in the components of the Federal Home Loan Bank Administration during the period from 1939 to 1946. The number of employees decreased from 2,213 on June 30, 1945, to 1,787 on June 30, 1946. This decrease resulted from the rapid liquidation of the Home Owners' Loan Corporation.

## III. FEDERAL HOME LOAN BANK SYSTEM

Growth of the Federal Home Loan Bank System attained a new high during the fiscal year 1946. Exhibit 12 presents, by Bank Districts and by States, the growth in assets of member institutions from June 30, 1945, to June 30, 1946. A summary of the change in number and assets of member institutions is presented in the following tabulation:

*Number and estimated assets of member institutions of the Federal Home Loan Bank System, June 30, 1945, and June 30, 1946*

[Dollar amounts in millions]

	June 30, 1945		June 30, 1946		Net change	
	<i>Number</i>	<i>Assets</i>	<i>Number</i>	<i>Assets</i>	<i>Number</i>	<i>Assets</i>
Savings and loan associations						
Federal associations	1,465	\$3,528	1,472	\$4,312	+7	+\$784
State-chartered insured member associations	1,002	2,015	1,014	2,424	+12	+409
Uninsured member associations	1,189	1,471	1,174	1,622	-15	+151
All member associations	3,656	7,014	3,660	8,358	+4	+1,344
Other member institutions						
Savings banks	25	567	25	630	0	+63
Insurance companies	15	389	14	455	-1	+66
All member institutions	3,696	7,970	3,699	9,443	+3	+1,473

### *Lending activity of regional banks*

Outstanding advances of the Federal Home Loan Banks to member institutions totaled \$203,295,571 on June 30, 1946. This was 54.4 percent greater than the total of \$131,665,985 one year before. The Federal Home Loan Banks advanced \$314,877,839 to member institutions during the reporting period, or 35.2 percent more than total advances made during the previous reporting period.

In comparison with the 54.4 percent increase in advances, total repayments during the fiscal year 1946 were \$243,248,253. This was only 6 percent more than the total for 1945. From the beginning of

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operations to June 30, 1946, the Federal Home Loan Banks advanced \$1,795,606,642. Of this, \$1,592,311,071 had been repaid at the close of the fiscal year 1946.

In recent years the ratio of short-term advances of 1 year or less to total outstanding advances has been increasing. Short-term advances rose from 51.3 percent of all advances on June 30, 1943, to 75.8 percent on June 30, 1944, and to 88.7 percent on June 30, 1945. During the fiscal year 1946, however, this trend was reversed, and short-term advances made during the year dropped to 79.5 percent of all advances. The increase in the proportion of long-term advances probably arose from the general expectation that there would be an increased demand during the years ahead for funds for home financing.

Secured advances represented 78.5 percent of all advances at the end of the 1946 fiscal year, compared with 82.6 percent on June 30, 1945. None of the borrowers from Federal Home Loan Banks were more than 30 days delinquent on their indebtedness as of June 30, 1946. No member borrower was in liquidation at the time.

The amount of the advances made by the Federal Home Loan Banks during the reporting period is listed in exhibit 13, together with a summary of lending activities for previous years.

Indebtedness of Federal savings and loan associations continues to represent most of the outstanding advances of the Federal Home Loan Banks. On June 30, 1946, the outstanding advances of the Banks were divided as follows:

Federal savings and loan associations.....	\$137, 600, 000
Insured State-chartered associations.....	52, 300, 000
Other member institutions.....	13, 400, 000
Total.....	203, 300, 000

Effective interest rates charged by the Banks for advances to members remained largely unchanged during the fiscal year 1946. Interest rates for advances to members are established by the board of directors of each Bank, subject to the maximum of 3 percent established by the Federal Home Loan Bank Administration. Effective interest rates charged by each of the Federal Home Loan Banks as of July 1, 1946, are listed in exhibit 14.

### **Members' deposits**

Institutions which were members of the Federal Home Loan Bank System increased their deposits in Federal Home Loan Banks from \$21,360,313 on June 30, 1944, to \$45,327,829 one year later and to \$54,794,700 two years later. During the 1946 fiscal year both time and demand deposits increased, but the increase was more rapid for demand deposits. Demand deposits increased from 21.8 percent of total deposits on June 30, 1945, to 31.1 percent on June 30, 1946.

The interest rate paid on time deposits by the Federal Home Loan Banks is fixed by the board of directors of each Bank within ranges fixed by the Federal Home Loan Bank Administration. At the end of the 1946 fiscal year, the Federal Home Loan Banks were all paying interest on regular time deposits at the rate of 0.50 percent with the exception of the New York and San Francisco Banks, which were paying interest on members' time deposits at the rate of 1 and 0.75 percent

respectively. In addition, the Pittsburgh, Cincinnati, and Indianapolis Banks offered interest at the rate of 0.75 percent per annum, on special 6-month time deposits.

### ***Debenture financing***

During the reporting period, outstanding consolidated Federal Home Loan Bank debentures increased from \$50,000,000 to \$67,000,000. The debentures outstanding on June 30, 1946, were the series B 1946 debentures which were dated April 15, 1946, and matured on October 15, 1946. They bore 0.90 percent interest. Consolidated Federal Home Loan Bank debentures represent the joint and several obligations of all the Banks and are not guaranteed by the United States Government either as to principal or interest.

The Bank Administration follows the policy of issuing such debentures only when cash available in the Federal Home Loan Banks is deemed inadequate for probable needs. The Banks have issued a total of \$791,500,000 of such debentures since the beginning of operations. Of these debentures, \$724,500,000 have been retired and/or refunded at maturity, thus leaving \$67,000,000 of debentures outstanding, as indicated previously.

### ***Financial statements***

Exhibit 15 presents a statement of condition of the 11 Federal Home Loan Banks both on an individual and on a consolidated basis. According to this statement, the fiscal year 1946 saw an increase of \$71,600,000 in advances outstanding to members. In addition, cash holdings of the Banks were increased by approximately \$4,000,000. This \$75,600,000 increase in advances to members and in cash holdings was derived from the following sources: Almost half was obtained by liquidating \$37,300,000 of investments. Consolidated debentures were increased by about \$17,000,000, members deposited \$9,500,000, and the net increase in paid-in capital stock totaled \$9,500,000. Finally, surplus and undivided profits increased about \$2,300,000 during the year.

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 percent of all sums thereafter paid in as capital until all such capital stock held by the United States is retired at par." In accordance with this section, a total of \$858,700 of the investment of the United States in capital stock of the Cincinnati and Indianapolis banks was retired in 1946.

Outstanding stock in the Federal Home Loan Banks increased during the reporting period by \$9,498,250, which was 22.8 percent more than the increase of \$7,736,050 during the preceding fiscal year. Stock held by member institutions and by the United States Government changed as follows during the reporting period:

Increase in stock held by member institutions.....	\$10,356,950
Decrease in stock held by United States.....	858,700
	<hr/>
Net increase in outstanding stock of Federal Home Loan Banks.....	9,498,250

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Capital, surplus, and undivided profits of the 11 Federal Home Loan Banks on June 30, 1946, are summarized in the following table:

<b>Capital:</b>	
Member institutions (subscribed).....	\$79, 566, 200. 00
Less: Unpaid subscriptions.....	6, 750. 00
	<hr/>
	79, 559, 450. 00
U. S. Government—now owned by RFC (fully paid).....	123, 651, 200. 00
	<hr/>
Total paid in on capital stock.....	203, 210, 650. 00
	<hr/>
<b>Surplus—Earned:</b>	
Legal reserve.....	9, 923, 899. 02
Reserve for contingencies.....	3, 620, 594. 10
	<hr/>
Total surplus reserves.....	13, 544, 493. 12
Undivided profits.....	8, 409, 976. 48
	<hr/>
Total earned surplus.....	21, 954, 469. 60
	<hr/>
<b>Total capital.....</b>	<b>225, 135, 119. 60</b>

The reserves and undivided profits of the Federal home loan banks increased during the fiscal year 1946 as shown in the following:

	June 30, 1945	June 30, 1946
Legal reserve.....	\$8, 915, 670 72	\$9, 923, 899 02
Reserve for contingencies.....	2, 733, 815 34	3, 620, 594 10
Undivided profits.....	8, 053, 133 48	8, 409, 976 48
	<hr/>	<hr/>
Total.....	19, 702, 619. 54	21, 954, 469 60

The surplus and undivided profits of the Federal Home Loan Banks for the fiscal year 1946 is presented in exhibit 16, and profits and losses for the same period are presented in exhibit 17. During the year 1946, consolidated gross operating income was \$5,319,602 or 9.2 percent more than the \$4,872,445 reported for the previous year. Operating expenses increased from \$2,017,145 during the fiscal year 1945 to \$2,197,354, during 1946. After taking into consideration the non-operating income and charges, the net income of the Federal Home Loan Banks rose from \$4,347,385 during the 1945 fiscal year to \$4,666,141 during the 1946 fiscal year.

Dividends declared by the Federal Home Loan Banks during the 1946 fiscal year totaled \$2,385,138, or slightly more than the \$2,121,580 declared during the preceding fiscal year. Of the dividends paid during 1946, \$1,482,287 went to the Reconstruction Finance Corporation and \$902,851 to member institutions. The Federal Home Loan Banks have paid a total of \$26,913,701 of dividends from the beginning of their operations through June 30, 1946. Of this total, \$19,819,242 was paid on stock subscribed by the United States and \$7,094,459 on stock owned by member institutions.

### ***Interest and dividend rates***

For a number of years, the downward trend in interest rates has resulted in a continuing decrease in interest rates on mortgage loans and in the rate of dividends paid on the shares of savings and loan associations. The financial records of member savings and loan associations of the Federal Home Loan Bank System indicated that the average yield on mortgage loans held by these associations and divi-

dends paid by the associations on average outstanding share capital have decreased as follows:

Calendar year	Average yield on mortgage loans held by member associations	Percentage of average outstanding share capital paid as dividends by member associations
	<i>Percent</i>	<i>Percent</i>
1942.....	5.77	3.08
1943.....	5.58	2.85
1944.....	5.48	2.63
1945.....	5.26	2.43

### ***Examination and regulation***

The Congress has charged the Federal Home Loan Bank Administration with the responsibility of examining and regulating Federal savings and loan associations. Examinations of insured State-chartered associations in most instances are conducted jointly with the respective State banking departments, and the regulation 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, the Chief Supervisor's Office, and the supervisory agents has expanded.

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

### ***Administrative expenses***

Funds to defray the administrative expenses of the Federal Home Loan Bank System are obtained by semiannual assessments upon the Federal Home Loan Banks, by reimbursement of the cost 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 examining services are rendered.

Total receipts of the Federal Home Loan Bank System were \$1,556,230 during the fiscal year 1946, compared with \$1,539,481 during the preceding fiscal year. A cash balance of \$279,597 was carried over at the beginning of the fiscal year 1946. During the year, disbursements for administrative expenses totaled \$1,564,685, and the cash balance at the end of the year was \$271,143. Administrative expenses for the year were only slightly more than the total of \$1,549,101 for the preceding fiscal period. With the rapid increase in the size of the associations and the substantial increase expected in the volume of residential construction and in the resulting financing which will be needed, it is probable that the work of the Federal Home Loan Bank System will increase substantially during the next few years.

Exhibit 18 presents a statement of receipts and disbursements of the Bank System of the Federal Home Loan Bank Administration during the fiscal year 1946. On July 1, 1946, the actively employed personnel of the Federal Home Loan Bank System totaled 313, a reduction of

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11 from the total 1 year before. Of the number employed on July 1, 1946, 213 employees were on the staff of the Examining Division.

### Bank Districts

The Federal Home Loan Bank System includes 11 Federal Home Loan Banks which make central credit reserve facilities available to the home financing institutions of the Nation. When these Banks were created, the Nation was divided into 12 Federal Home Loan Bank Districts, in each of which a Federal Home Loan Bank was located. Each bank made credit and deposit facilities available to the home financing institutions within its territory.

Recently it became evident that a single Federal Home Loan Bank on the west coast would be able to operate more economically and to offer more adequate facilities to the thrift and home financing institutions in that area than the two Banks originally established there. Accordingly, on March 29, 1946, the Federal Home Loan Bank Districts of Portland and Los Angeles were combined to form the Federal Home Loan Bank District of San Francisco. The former Federal Home Loan Banks of Los Angeles and Portland were combined to form the Federal Home Loan Bank of San Francisco, with a home office in San Francisco and offices at Los Angeles, Calif., and Portland, Oreg. This consolidation made the Federal Home Loan Bank of San Francisco one of the largest Banks in the System. The Bank now serves 9 States and the Territories of Alaska and Hawaii. The names and addresses of the 11 Federal Home Loan Banks and the area served by each are given in exhibit 19.

## IV. SAVINGS AND LOAN ASSOCIATIONS<sup>1</sup>

Savings and loan associations and similar organizations of various local titles are the thrift institutions most directly and most exclusively concerned with long-term home financing, since the greater portion of their funds have traditionally been used for this purpose. Total resources of those associations which are members of the Federal Home Loan Bank System have been increasing rapidly, as can be seen from the following table. For comparison, the assets of uninsured nonmember associations are also listed.

### Assets

[Thousands of dollars]

Date	All member savings and loan associations	All State-chartered insured associations <sup>1</sup>	All Federal associations	Uninsured nonmember associations <sup>2</sup>
June 30, 1938	\$3,704,259	\$769,827	\$1,210,744	\$2,113,806
June 30, 1939	3,935,641	899,654	1,439,988	1,943,049
June 30, 1940	4,232,681	983,367	1,725,817	1,957,681
June 30, 1941	4,626,920	1,131,625	2,028,138	1,292,245
June 30, 1942	4,885,049	1,255,307	2,205,921	1,227,649
June 30, 1943	5,249,414	1,454,920	2,426,079	1,061,147
June 30, 1944	5,962,319	1,702,292	2,881,276	1,001,640
June 30, 1945	7,013,906	2,021,536	3,528,027	1,016,706
June 30, 1946	8,358,532	2,431,374	4,311,747	1,040,829

<sup>1</sup> Figures for State-chartered insured associations in this and the following tables include 4 insured associations which are not members of the Federal Home Loan Bank System. On June 30, 1946, these associations held total assets of \$7,264,700.

<sup>2</sup> Estimated.

<sup>1</sup> As used throughout this report, the term "savings and loan associations" includes cooperative banks, homestead associations, and similar thrift and lending institutions.

## HOME LOAN BANK BOARD

*Personnel of the Bank Board*

Prior to July 27, 1947, when Reorganization Plan No. 3 of 1947 became effective, all functions and activities of the Bank Board and its three operating units were under the Federal Home Loan Bank Administration with John H. Fahey as its Commissioner. Pending the initial appointment of the Members of the new Home Loan Bank Board provided by the Plan, existing officials were designated to perform temporarily the functions of the Board Members. On August 15, 1947, John H. Fahey, Nathaniel Dyke, Jr., and J. Alston Adams were given recess appointments as Members of the Home Loan Bank Board, Mr. Fahey being designated as Chairman. Upon the expiration of these appointments, on December 20, 1947, William K. Divers and J. Alston Adams were appointed Members of the Board. Mr. Divers was designated as Chairman. (On April 2, 1948, O. K. LaRoque became the third Member of the Home Loan Bank Board.)

*Reports of the Bank System, Insurance Corporation, and H. O. L. C.*

Reports of the three operating units of the Home Loan Bank Board—the Federal Home Loan Bank System, the Federal Savings and Loan Insurance Corporation, and the Home Owners' Loan Corporation—for the calendar year 1947 follow.

**FEDERAL HOME LOAN BANK SYSTEM****Summary**

At the end of 1947 a total of 3,705 institutions with combined resources of approximately \$11,500,000,000 were members of the Federal Home Loan Bank System. In the past year, the resources of members of the System increased by some 13 percent; since 1941 they have more than doubled.

Savings of the public held by member institutions aggregated approximately \$9,600,000,000 as of December 31, 1947, a net increase of more than \$1,000,000,000 for the year. The 1947 gain in savings invested with members of the System was equivalent to nearly 10 percent of the estimated net personal savings of all individuals in the country and illustrates the influence which these member institutions can bring to bear in combating inflationary pressures through converting expendable income into long-term savings.

Outstanding home mortgage loans of members of the Federal Home Loan Bank System at the end of 1947 aggregated approximately \$8,300,000,000. During the year these member institutions made new home mortgage loans totaling \$3,600,000,000 of which nearly one-quarter was for financing the construction of new homes. It is estimated that members of the Bank System currently are accounting for approximately one-third of all home mortgage financing in the country. Over \$1,000,000,000 was loaned by member institutions in 1947 for the

purpose of enabling veterans to acquire homes under the "G. I. Bill".

As of December 31, 1947, the regional Federal Home Loan Banks had outstanding advances to their member institutions of \$435,572,185, as compared with \$293,454,767 of such advances outstanding at the beginning of the year.

### Origin and Purpose of the System

The Federal Home Loan Bank System came into being in 1932 in response to widely recognized need for a national reserve credit system for savings institutions specializing in home mortgage finance. Two decades earlier, the commercial banking structure of the country had been immeasurably strengthened by the organization of the Federal Reserve System. But prior to the establishment of the Federal Home Loan Bank System, savings institutions of the country were left to shift for themselves as best they could in the face of widely fluctuating economic conditions and problems. They had no dependable source of reserve credit with which to meet local financing or withdrawal demands exceeding their own immediate resources.

There was in existence no mechanism for assuring an adequate national supply of home mortgage credit or for assuring the diffusion of such credit into all areas of the country where it was needed. When the depression struck, many savings institutions were forced to defer payment of withdrawal requests and to curtail sharply the volume of credit they were able to make available for the financing of homes in their communities. It was this weakness in the over-all financial structure that the Federal Home Loan Bank System was designed to correct.

The Bank System operates through a network of regional Federal Home Loan Banks located in key cities throughout the country. Membership in these Banks is open to savings and loan associations, cooperative banks, savings banks, and insurance companies making long-term home mortgage loans. Each Federal Home Loan Bank is authorized to accept deposits from and to make both secured and unsecured advances to its member institutions.

The capital of the Banks is derived in part from the stock subscriptions of member institutions and in part from initial stock subscribed for by the Treasury and now gradually being retired. Additional funds for use in the operations of the Bank System are obtained through the issuance of bonds, notes and debentures of the Federal Home Loan Banks. Through adjustments in the degree of participation of each Bank in such security issues, as well as through the medium of inter-bank deposits, regional variations in the credit requirements of member institutions can be dealt with effectively.

In the 15 years which have passed since it was established, the various credit mechanisms employed by the Bank System have been

## HOME LOAN BANK BOARD

thoroughly tested and widely utilized. Although other eligible institutions have participated in lesser degree, the System now includes in its membership institutions of the savings and loan type, the combined resources of which are equivalent to approximately 90 percent of the assets of all such institutions in the country. For these member savings institutions and their many millions of borrowers and savers the Federal Home Loan Bank System stands as a firmly established bulwark against recurrence of difficulties encountered in past periods of economic and financial strain.

None of the income required to defray operating expenses of the Federal Home Loan Bank System is derived from appropriations out of general funds of the United States Treasury. The annual earnings of the Federal Home Loan Banks, after dividend and reserve allocations, are sufficient to cover not only the operating expenses of the Banks but to absorb their portion of the annual administrative expenses of the Home Loan Bank Board in Washington.

**Continuance of Inflationary Problems**

Conditions prevailing in the real-estate market and throughout the economy since the war have posed serious problems for savings institutions operating in the field of home-mortgage finance and one of the major objectives of the Bank System in this period has been the full mobilization of its facilities to assist member institutions in their efforts to guard against operating hazards inherent in the existing inflationary situation.

Despite a substantial increase in housing production during 1947, no material abatement of the inflationary problems confronting members of the System occurred. The demand for housing of all types continued to be far in excess of supply and real-estate prices remained at peak levels. Although some indications of a tightening of home mortgage credit became discernible toward the end of the year, mortgage money remained plentiful in most sections of the country, particularly in the large urban centers.

The extraordinary postwar price rise in residential real estate has presented home financing institutions with an especially difficult problem. Local increases in current market prices have had to be weighed with the utmost caution to determine the extent to which they may or may not justify higher valuations for long-term financing purposes. Strict adherence to values prevailing prior to the inflation, for all practical purposes, would have the effect of taking an individual institution out of the mortgage market altogether. Disproportionate emphasis on current market prices, on the other hand, obviously would result in rapid deterioration in the quality of the institution's mortgage portfolio. In the case of each institution, the development of a valuation approach representing a sound middle ground between

these extremes demands the exercise of fully informed, long-range business judgment of the highest order.

Current operating problems of the System's members have not been confined entirely to the lending side of their business. Of equal importance have been the difficulties attendant upon the attraction and maintenance of an adequate volume of savings. One of the important effects of inflation has been the increasingly higher proportion of individual incomes absorbed by current living costs and the shrinking proportion of such incomes available for savings. The declining annual volume of savings by the people of the country has been accompanied by intensified competition for such savings which, in turn, has tended to accentuate the earnings problem of the individual institution.

The ability of any savings institution to maintain a fair rate of return on its savings accounts is limited by the gross income obtainable from its investments and by the dictates of sound reserve and liquidity policies. In recent years prevailing mortgage interest rates have dropped to the lowest levels on record. At the same time the hazards of present-day operations and the need for providing maximum protection against future contingencies, properly have impelled the majority of institutions to adopt more than usually conservative policies with respect to liquidity and reserves. The maintenance under present conditions of a competitive rate of return on savings without sacrifices in the soundness of basic operating policies has presented a challenge of no mean proportions to the directors and managers of these institutions and one calling for the utmost in ingenuity, resourcefulness, and balanced judgment on their part.

*Protective Measures.*—Throughout the year continued effort was made to assist members of the System in maintaining a sound perspective on present distortions in the economy and potential sources of future difficulty. Three fundamental protective measures were stressed. First, the utilization of all available resources contributing to the development of sound lending policies and practices. Secondly, the building of reserves against future contingencies over and above minimum statutory or regulatory requirements. Thirdly, the maintenance of sufficient liquidity to assure continued normal operations regardless of economic fluctuations in the period ahead. Emphasis of these objectives found expression not only in the supervisory relationships of Bank System officials with individual institutions but in conferences and group meetings with managing officers and in the preparation and general distribution of detailed studies and recommendations on many aspects of current operating problems.

## HOME LOAN BANK BOARD

**Member Institutions**

As of December 31, 1947, there were 3,705 member institutions of the Federal Home Loan Bank System. Their estimated aggregate resources at that date amounted to \$11,459,000,000, reflecting a growth in member assets during 1947 of \$1,326,000,000 or 13.1 percent. In contrast to the continued substantial increase in total resources of member institutions of the Bank System, the number of members has remained comparatively static for many years. During 1947 the number of member institutions increased from 3,698 to 3,705.

Savings institutions of the savings and loan type presently account for the great bulk of both the number and total assets of members of the Bank System, the combined resources of member savings and loan associations being equivalent to approximately 90 percent of the assets of all such institutions in the country. Changes in the composition of the System's membership during 1947 are summarized in the following table:

*Number and Assets of Member Institutions*

[Dollar amounts in millions]

	Dec. 31, 1947		Dec. 31, 1946		Net change	
	Number	Assets	Number	Assets	Number	Assets
All member institutions.....	3,705	\$11,459	3,698	\$10,133	+7	+\$1,326
Savings and loan associations.....	3,670	10,439	3,661	9,017	+9	+1,422
Federal.....	1,478	5,460	1,471	4,671	+7	+789
Insured State.....	1,054	3,079	1,021	2,615	+33	+464
Uninsured State.....	1,138	1,900	1,169	1,731	-31	+169
Savings banks.....	25	700	25	645	0	+55
Insurance companies.....	10	320	12	471	-2	-151

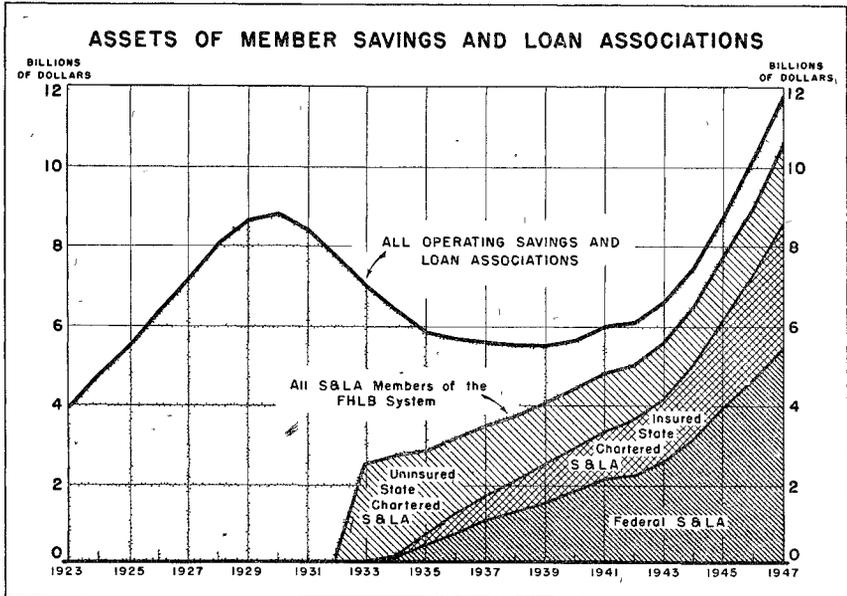
NOTE: Assets as of December 31, 1947, based on preliminary estimates.

In connection with the figures shown in the foregoing table, it should be observed that during 1947 seven associations with resources aggregating approximately \$7,300,000 converted from State to Federal charter, while four new Federal associations with assets at December 31, 1947, of approximately \$788,000 were organized during the year. Three Federal associations with assets of \$607,000 consolidated with other Federals and one Federal savings and loan association with assets of \$93,000 completed voluntary liquidation.

*Average Size of Members.*—At the close of 1947 the average size of all member institutions of the Bank System was \$3,093,000, an increase of 12.9 percent during the year. The average size of member savings banks and insurance companies was \$28,000,000 and \$32,000,000, respectively. The average size of Federal savings and loan associations was \$3,694,000, of insured State-chartered savings and loan associations \$2,922,000, and uninsured State-chartered savings and

loan associations \$1,670,000. Among members of the System, Federal savings and loan associations recorded the largest increase in average size during the year, 16.3 percent. Insured and uninsured State-chartered associations followed with increases of 14.1 and 12.8 percent, respectively.

*Mortgage Loans.*—Preliminary estimates indicate that at the close of 1947 member institutions of the Federal Home Loan Bank System held outstanding first mortgage loans aggregating \$8,300,000,000 of



which approximately \$2,000,000,000 or nearly 25 percent consisted of home mortgage loans to veterans under the G. I. bill. Member savings and loan associations held loans of approximately \$8,100,000,000, reflecting a net increase in their combined portfolios of \$1,613,000,000 during the year.

In 1947 new home mortgage loans of \$3,600,000,000 were made by all members of the System, including approximately \$1,000,000,000 loaned to veterans under the G. I. bill. Loans made by member savings and loan associations during 1947 aggregated \$3,465,776,000, an increase of 4.3 percent over the \$3,321,881,000 loaned in the preceding calendar year. Of this total, Federal savings and loan associations made \$1,818,510,000, insured State-chartered member associations made \$1,046,336,000, and uninsured State-chartered member associations made \$600,930,000. It is estimated that loans by savings and loan associations which were not members of the Bank System aggregated approximately \$345,000,000.

## HOME LOAN BANK BOARD

Loans for the financing of new construction accounted for 24.4 percent of the dollar volume of all loans made by member savings and loan associations in 1947. This was an increase of 42.1 percent over the amount loaned for this purpose in 1946. The following table summarizes new mortgage loans made in 1947 by member associations, by the purpose for which made, and affords comparison of these figures with the corresponding data for 1946:

*New mortgage loans by all member savings and loan associations*

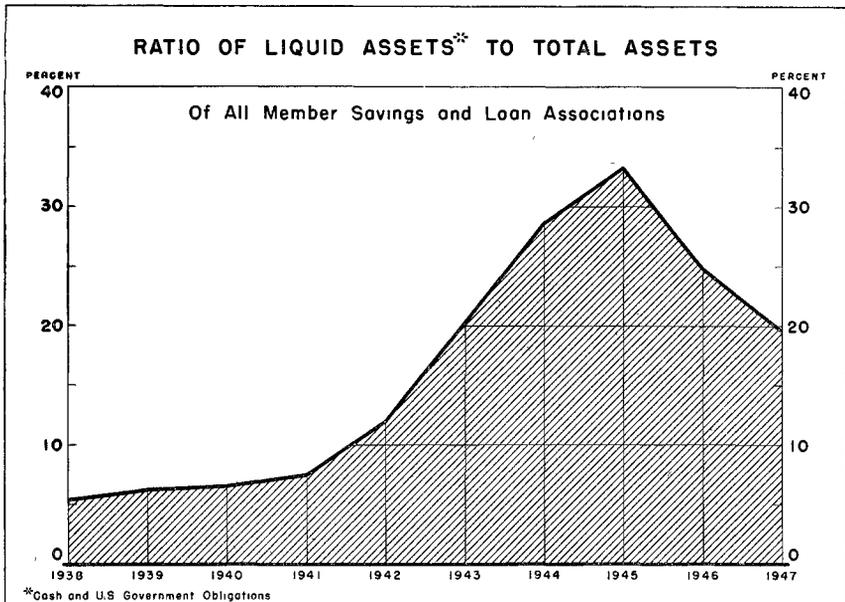
[Dollar amounts in thousands]

Purpose	1947		1946		Percent change in 1947
	Amount	Percent of total	Amount	Percent of total	
Construction.....	\$844,732	24.4	\$594,320	17.9	+42.1
Home purchase.....	1,899,348	54.8	2,155,565	64.9	-11.9
Refinancing.....	291,106	8.4	255,508	7.7	+13.9
Reconditioning.....	113,110	3.3	72,563	2.2	+55.9
Other.....	317,480	9.1	243,925	7.3	+30.2
Total.....	3,465,776	100.0	3,321,881	100.0	+4.3

*Liquid Assets.*—The combined holdings of cash and United States Government obligations by member savings and loan associations of the Bank System at the end of 1947 aggregated approximately \$2,050,000,000. During the year, the ratio of liquid assets to total assets continued to decline, although at a somewhat less rapid rate, from the peak levels reached toward the end of the war. The ratio of liquid assets to total assets was 33.4 at the end of 1945, 24.9 at the end of 1946 and 19.6 at the end of 1947. Despite the recent downward trend, the liquidity ratio of member savings and loan associations still is far in excess of levels prevailing in the prewar period.

*Savings.*—The dollar volume of savings of the public held by all member institutions of the Bank System rose by more than \$1,000,000,000 in 1947, increasing the estimated year-end total of such savings to \$9,600,000,000. Savings accounts in member savings and loan associations increased by \$1,081,752,000 during the year, bringing the total amount of such accounts outstanding as of December 31, 1947, to approximately \$8,700,000,000; the net gain in savings during 1947 closely approximated the increase of \$1,109,219,000 recorded in 1946.

Of the growth in savings registered by all member savings and loan associations of the Bank System in 1947, approximately \$632,956,000 was accounted for by Federal savings and loan associations. The increase for insured State-chartered savings and loan members was \$364,581,000 and for uninsured State-chartered member savings and loan associations \$84,215,000.



A summary of the 1947 trend in savings for the various types of member savings and loan associations, as contrasted with their experience in 1946, is shown in the following table:

*Trend in savings*

[Dollar amounts in thousands]

	1947 <sup>1</sup>			1946		
	December 31	Increase	Percent gain	December 31	Increase	Percent gain
Federal associations.....	\$4,608,769	\$632,956	15.9	\$3,975,813	\$623,581	18.6
Insured State associations.....	2,566,742	364,581	16.6	2,202,161	348,874	18.8
Uninsured State associations.....	1,524,489	84,215	5.8	1,440,274	136,764	10.5
All member associations.....	8,700,000	1,081,752	14.2	7,618,248	1,109,219	17.0

<sup>1</sup> Preliminary.

*Federal Home Loan Bank Advances.*—Advances to member savings and loan associations by the Federal Home Loan Banks outstanding at the close of 1947 aggregated \$431,222,185. This figure compares with a balance of \$291,367,247 in Bank advances outstanding to such institutions at the end of 1946. As of December 31, 1947, the bulk of advances to member associations was secured by long-term amortized home mortgage loans and obligations of the U. S. Government. At that date \$272,777,735 of advances were outstanding to Federal savings and loan associations, \$118,927,171 to insured State-chartered associations and \$39,517,279 to uninsured State-chartered associations.

## HOME LOAN BANK BOARD

*Reserves.*—As of December 31, 1947, the combined general reserve and undivided profits accounts of member savings and loan associations stood at approximately \$716,000,000 and were equivalent to 6.9 percent of their estimated total assets. At that date reserves of Federal associations aggregated approximately \$330,000,000 or 6 percent of assets, of insured State-chartered members \$212,000,000 or 6.9 percent of assets, and of uninsured State-chartered members \$174,000,000 or 9.1 percent of assets. Although the combined total of reserve accounts of all member associations increased by over \$93,000,000 in 1947, the ratio of such accounts to total assets at the end of the year reflected virtually no change from the ratio at the end of 1946 due to concurrent growth in their total resources.

## Federal Home Loan Bank Operations

*Bank System Financing.*—Consolidated Federal Home Loan Bank obligations outstanding at the beginning of the calendar year 1947 totaled \$169,000,000. These consisted of \$140,000,000 in consolidated bonds maturing April 15, 1948 and \$29,000,000 in consolidated notes maturing February 17, 1947. The \$29,000,000 in notes due February 17, 1947 was retired at maturity. During the latter part of the year the credit demands of members upon the Federal Home Loan Banks necessitated the issuance of two series of consolidated notes aggregating \$121,700,000 with the result that as of the end of the year the following consolidated Bank obligations were outstanding:

1¼% Series A-1948 bonds dated 10-15-46, due April 4, 1948.....	\$140,000,000
1¼% Series A-1948 notes dated 9-15-47, due September 15, 1948..	85,000,000
1¼% Series B-1948 notes dated 12-1-47, due February 16, 1948..	36,700,000

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261,700,000

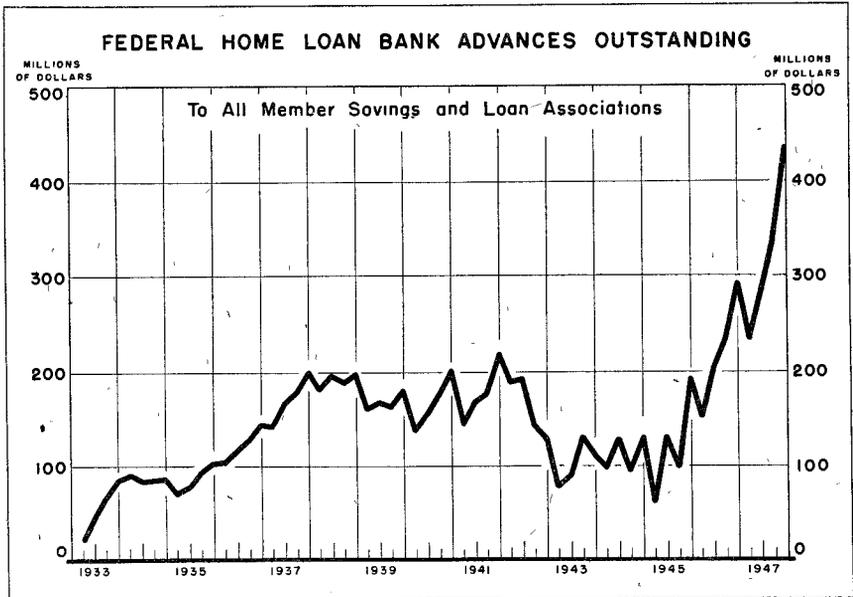
As has been true since consolidated Federal Home Loan Bank obligations were first issued in 1937, the public offering of \$85,000,000 of consolidated notes in 1947 was heavily oversubscribed shortly after the offering was announced. Marketing of the \$36,700,000 of consolidated notes, due February 16, 1948, was accomplished by private sale.

For a considerable number of years, borrowings by one Federal Home Loan Bank from another in order to facilitate the regional distribution of credit have been accomplished through the medium of deposits. At the beginning of 1947, \$6,500,000 in interbank deposits were outstanding. During the year demands for advances from members in certain Bank Districts were so great that an unprecedented volume of interbank transactions took place. Interbank deposits of \$66,000,000 were made in 1947 and \$61,000,000 repaid, resulting in \$11,500,000 remaining outstanding as of December 31, 1947. The annual rate of interest on interbank deposits is based on the average

## HOME LOAN BANK BOARD

cost of all consolidated Federal Home Loan Bank obligations outstanding plus one-fourth of 1 percent. During the year, such rates ranged from 1.62 percent to 1.67 percent.

*Advances to Members.*—At the beginning of the calendar year 1947 the eleven Federal Home Loan Banks had total outstanding advances to their members of \$293,454,766. New advances made during the year aggregated \$351,079,351, the largest volume of advances ever



made in any one calendar year. Repayments totaled \$208,961,932. The \$435,572,186 in advances outstanding at the end of the year represented the highest such total since the Bank System was established. The average balance of advances outstanding during 1947 was \$299,900,000, which was considerably in excess of the 1946 average of \$206,000,000.

As of December 31, 1946, advances for periods of one year or less aggregating \$184,330,000 were outstanding to 1,273 members. During 1947, \$228,630,000 of such advances were made and \$194,614,000 repaid or transferred to a long-term basis, resulting in a balance of \$218,346,000 outstanding on December 31, 1947 to 1,429 members. As of the end of 1946 advances for more than one year aggregating \$109,125,000 were outstanding to 482 members. During the year \$122,449,000 of such advances were made, \$47,635,000 transferred from a short-term basis, and \$61,983,000 repaid, resulting in total long-term advances of \$217,226,000 outstanding as of December 31, 1947 to 741 members.

## HOME LOAN BANK BOARD

Outstanding secured advances to members increased from \$230,443,000 as of December 31, 1946 to 1,006 borrowers to \$344,006,000 to 1,294 borrowers as of December 31, 1947. As of the end of 1946, 576 member borrowers were indebted on an unsecured basis to their Federal Home Loan Banks in the aggregate amount of \$63,012,000, as compared to 720 borrowers with an indebtedness of \$91,566,000 as of the end of 1947.

At the beginning of 1947, 1,420 members were borrowers from their Federal Home Loan Banks, representing 38.4 percent of the total membership, as contrasted with 1,804 members at the end of the year, representing 48.7 percent of the membership. During the year the percent and number of Federal savings and loan associations borrowing from their Federal Home Loan Banks increased from 46.2 percent and 680 respectively, to 57.4 percent and 849, respectively. The percent of insured State-chartered members borrowing from their Banks increased from 43.8 to 52.1 percent and the number of such borrowers from 447 to 549. As of December 31, 1946, 293 noninsured State-chartered members, representing 24.3 percent of that type of institution, were Bank borrowers as compared to 34.6 percent and 406 borrowers as of the end of the year.

Throughout the year, no borrowers were reported more than 30 days delinquent on their indebtedness to the Federal Home Loan Banks.

In conformity with the firming of the general money markets during the year, interest rates of 1.5 percent on 1-year advances were discontinued. A 2 percent rate on all advances was maintained by five Banks, while four Banks charged 2 percent on 1-year advances and 2.5 percent on all others. The Indianapolis and Chicago Banks established a 2 percent rate on advances up to 2 years and a 2.5 percent rate on those in excess of 2 years.

*Member Deposits.*—During the year there was little change in the amount of members' demand deposits with their Federal Home Loan Banks, such deposits having decreased from \$21,881,845 at the beginning of the year to \$21,877,598 as of December 31, 1947. However, members' time deposits with their Banks increased from \$48,365,700 to \$65,957,473.

As of December 31, 1947, members' time deposits bore interest at 1 percent per annum in seven Banks, 0.75 percent in two Banks, and 0.5 percent in two Banks. One Bank, in addition to paying 0.5 percent on deposits remaining over 90 days, had a special 1 percent rate for deposits of 6 months or more.

*Financial Condition and Operations.*—A comparative consolidated statement of condition of the eleven Federal Home Loan Banks as of December 31, 1947, is set forth in exhibit 1. Total resources of the

## HOME LOAN BANK BOARD

Banks rose from approximately \$473,000,000 at the end of 1946 to more than \$612,000,000 at the end of 1947. This increase of more than \$139,000,000 resulted mainly from increases of \$142,000,000 in advances to member institutions and \$3,000,000 in cash and a decrease of approximately \$6,000,000 in investments in Government obligations. On the liability side, the \$139,000,000 increase consisted of \$93,000,000 in consolidated obligations outstanding, \$28,000,000 in deposits, and \$18,000,000 in capital.

Under the provisions of the Federal Home Loan Bank Act, whenever the capital stock of a Federal Home Loan Bank held by its member institutions equals the amount of the Government's investment in that Bank's capital stock, the Bank must apply annually to the retirement of Government-held capital 50 percent of all further payments on capital stock by member institutions. As of December 31, 1946, Government-held stock in the Federal Home Loan Banks aggregated \$123,651,200. Pursuant to the above provisions of the law, Government capital in the amount of \$979,000 was retired during 1947, reducing the amount of such capital in the Banks outstanding at the close of the year to \$122,672,200. Prior to the beginning of the year, the amount of capital stock held by members of the Federal Home Loan Banks of Cincinnati and Indianapolis had increased to the point where it equaled the amount of stock held by the Government and these two Banks accounted for the reduction in Government-held capital which occurred in 1947.

During the year, member capital in the Federal Home Loan Banks of Winston-Salem and Des Moines also rose above the amount of their stock held by the Government. Accordingly, on the basis of December 31, 1947, closing figures, these four Banks on January 2, 1948, together effected the further retirement of Government capital aggregating \$2,881,000. This action reduced outstanding Government-held capital in the Banks to \$119,791,200 as against \$103,077,575 paid in on capital stock subscriptions by members. While the amount of Government capital in the Banks is now declining steadily, the amount of capital subscribed by member institutions has increased substantially each year since the System was established. During 1947 the increase in member capital was \$17,249,475 and if this increase is approximated in 1948 member capital will exceed that held by the Government before the close of the year.

Effective as of July 1, 1947, pursuant to an amendment to the Reconstruction Finance Corporation Act, approved June 30, 1947, the Government's investment in the capital stock of the Federal Home Loan Banks; previously held by RFC, was transferred to the Secretary of the Treasury.

## HOME LOAN BANK BOARD

A consolidated statement of the income and expense of the 11 Federal Home Loan Banks for the year 1947 is set forth in exhibit 2 of this report. It will be observed that the 1947 net income of the Banks approximated \$4,600,000. This represented an increase of nearly \$600,000, or 14.4 percent over 1946. Such gain was due primarily to an increased income from advances. Interest from securities, while \$304,632 greater than for 1946, represented only 32.7 percent of operating income as compared to 41.2 percent for 1946. Profits from security sales declined \$235,755 from the 1946 total of \$598,030.

Although the Banks' dividend declarations for the first half of 1947 with one exception were at the same rates as those declared on December 31, 1946, declarations were higher in the case of five Banks for the second half of the year. The rates for the year ranged from 1 to 2 percent and resulted in aggregate dividend payments of \$1,328,367 to members and \$1,612,890 to the Government. This latter amount represented a return of 1.31 percent on the Government's investment in the Banks, which had been reduced by \$979,000 since last year. Irrespective of this reduction, the 1947 dividend declarations on Government stock subscriptions were \$115,113 greater than the amounts declared in 1946. During 1947 the Banks increased their reserves by \$975,959 and their undivided profits by \$651,902 to totals of \$15,598,709 and \$8,524,750, respectively, as of December 31, 1947.

*Bank Examinations and Audits.*—Under the provisions of the Federal Home Loan Bank Act, as amended, each Federal Home Loan Bank must be examined at least twice annually. Accordingly, 22 examinations, including detailed audits, were conducted as of effective dates in the calendar year 1947 and appropriate reports thereon submitted to the Board and the Banks concerned. No loss of principal or interest on advances made by the Banks was reported.

## FEDERAL SAVINGS AND LOAN ASSOCIATIONS

The establishment of Federal savings and loan associations was authorized under section 5 of the Home Owners' Loan Act of 1933. At that time many communities in the country were without adequate local facilities for the investment of savings and were without adequate local sources of home mortgage credit. Accordingly, provision was made for the organization of new Federal savings and loan associations in communities where there was a clear need for their services and where they could be established without injury to existing local institutions of a similar type. Provision also was made for the conversion of existing savings and loan associations from State to Federal charter.

The enabling legislation vested in the Home Loan Bank Board responsibility for the organization, chartering and regulation of Federal

## FEDERAL HOME LOAN BANK SYSTEM

The Federal Home Loan Banks were created by act of Congress approved July 22, 1932, to serve as a permanent reservoir of credit for thrift and home financing institutions. The Banks assist both borrowers and investors in such institutions through the supply of money to maintain liquidity or to provide for mortgage lending when local funds are insufficient. With the establishment of the Federal Home Loan Banks, a basic weakness of the American home financing structure—the lack of any credit reserve facilities—has been eliminated. The principal function of the Federal Home Loan Banks is to supply, primarily on first mortgage collateral, funds required by member institutions in order to enable them to meet the home financing needs in their communities as well as the withdrawal demands of savers and investors. Through the Federal Home Loan Bank System, thrift and home mortgage finance have been better protected against local and Nation-wide economic fluctuations, home ownership has been placed on a more secure basis, and the construction of new homes as well as the improvement of housing conditions has been encouraged. The establishment of the Federal Home Loan Bank System has afforded member home financing institutions not only a larger volume of potential credit, but cheaper money and a type of credit adapted to their special needs.

### *Membership of the Bank System*

Membership in the System is open to building and loan associations, savings and loan associations, cooperative banks, homestead associations, insurance companies, and savings banks. On December 31, 1948, the membership of the Federal Home Loan Bank System comprised 3,769, consisting of 3,733 savings and loan associations, 26 savings banks, and 10 insurance companies. This total membership represented a net increase of 64 members during the year, resulting from the admission of 74 State-chartered savings and loan associations, 7 new Federal savings and loan associations, 4 cooperative banks, and 2 savings banks, and the cancellation of 23 memberships through withdrawals. Eight of the withdrawals represented voluntary liquidations, 1 reincorporation, and 9 consolidations; 4 were due to members' requests, and 1 resulted from removal by action of the Home Loan Bank Board. As of December 31, 1948, 51 applications for membership were pending.

*Advances to members*

From October 15, 1932, when the 12 Federal Home Loan Banks (now 11 Federal Home Loan Banks) first opened for business, to December 31, 1948, advances to home financing institutions totaled \$2,687,049,028.65, of which \$2,172,032,939.46 has been repaid, resulting in a balance of \$515,016,089.19 outstanding on the latter date. This indicates the extent to which the Federal Home Loan Bank System has been called upon to serve as a national credit reservoir.

Advances made by the Federal Home Loan Banks during the year ended December 31, 1948, totaled \$359,612,776.74. Repayments of advances aggregated \$280,168,873.35, and the balance outstanding at the close of 1948, as stated above, aggregated \$515,016,089.19. Exhibit 1 contains a summary of the lending operations of the Banks, by years, through December 31, 1948.

*Number of borrowing members*

On December 31, 1948, there were 1,993 member borrowers from the Banks, representing 52.9 percent of the total membership, as compared with 1,804 member borrowers and 48.7 percent of the membership on December 31, 1947. During the year 1948 the average number of borrowers was 1,863, which represented an increase of 24.5 percent over the average of 1,496 borrowers during the preceding calendar year. There have been no nonmember borrowers from the Federal Home Loan Banks since August 1939.

The 1,993 borrowing members as of December 31, 1948, consisted of 868 Federal savings and loan associations, the outstanding advances to which aggregated \$308,100,000, which represented 5.9 percent of the share accounts in this type of association; 632 insured State-chartered members, the indebtedness of which to the Banks totaled \$145,500,000, or 4.9 percent of the savings held by this type of institutional member; and 491 noninsured State-chartered associations with advances of \$55,800,000, which amount approximated 3.3 percent of the total savings held by all members of this type. One insurance company and one savings bank member held advances outstanding to the Federal Home Loan Banks aggregating \$5,400,000 and \$300,000, respectively.

The following tabulation presents comparative figures on the number and percent of borrowing members as of December 31, 1948, and December 31, 1947:

## HOME LOAN BANK BOARD

	Dec. 31, 1948			Dec. 31, 1947		
	Number	Percent of—		Number	Percent of—	
		Type	Total		Type	Total
<b>Borrowing members:</b>						
Federals.....	868	58.5	43.6	849	57.4	47.1
Insured State.....	632	56.1	31.7	549	52.1	30.4
Noninsured State.....	493	42.6	24.7	406	34.6	22.5
Total borrowers.....	1,993	152.9	100.0	1,804	148.7	100.0
<b>Nonborrowing members.....</b>	1,776	147.1	-----	1,901	151.3	-----
<b>Total.....</b>	3,769	100.0	-----	3,705	100.0	-----

<sup>1</sup> Percentage of total membership.

### *Secured and unsecured advances*

The growth in the volume of secured advances outstanding to a peak of \$400,800,000 on December 31, 1948, represented the borrowings of 1,461 members. More than one-half of such advances were for terms in excess of 1 year. A total of 146,237 home mortgages having unpaid balances aggregating \$684,300,000 together with \$93,600,000 face amount of United States Treasury obligations and 16 insured home mortgages having a principal amount of \$3,100,000, collateralized these advances. The face value of all collateral, exclusive of Federal Home Loan Bank stock, was \$780,900,000, or 194.8 percent of the secured advances, while the collateral value assigned by the Banks was \$556,500,000. A continued increase in the average unpaid balance of individual home mortgages is noted from the amounts of \$4,680 on December 31, 1948, \$4,426 on June 30, 1948, and \$4,207 on December 31, 1947. The prewar average approximated \$2,300.

Unsecured advances of \$114,200,000 represented 22.2 percent of total advances outstanding to 770 members. The Federal Home Loan Banks held a statutory lien on \$68,500,000 paid-in stock as further security to both types of advances outstanding on December 31, 1948.

### *Interest on advances*

The changes in interest rates charged members on advances by the Federal Home Loan Banks followed the general firmness of the money markets during the year. One Federal Home Loan Bank increased its rate on all types of advances to members from 2 percent to 2.25 percent, while two Banks discontinued their 2 percent rates on short-term advances and placed all advances on a 2.5 percent basis. Exhibit 2 reflects the interest rates charged on advances which were in effect on December 31, 1948. Since the organization of the Federal Home Loan Banks, interest rates charged on their advances to members have been substantially reduced. In 1932, at the inception of the Federal

Home Loan Bank System, when money was still scarce and costly, interest rates on Federal Home Loan Bank advances ranged from 4 percent to 5 percent. On December 31, 1948, however, as here reported, such rates ranged from 2 percent to 2.5 percent.

#### *Source of funds*

The Federal Home Loan Banks obtain their funds from their capital stock, the proceeds from the sale of consolidated Federal Home Loan Bank obligations to the public, and deposits received from member institutions. From these sources the Federal Home Loan Banks are able to advance funds to their member institutions on long terms, up to 10 years, in line with the essential long-term character of the mortgage loans made by these institutions.

The capital stock of the Federal Home Loan Banks is made up by subscription of member institutions and of the United States Government. In order to assist in the organization of the Federal Home Loan Bank System, the Congress authorized the Secretary of the Treasury, in behalf of the United States Government, to invest up to \$125,000,000 in the capital stock of the Federal Home Loan Banks. The amount originally invested by the Government aggregated \$124,741,000. Initial investments of members were small. Each is required to invest an amount equal to 1 percent of the aggregate of the unpaid principal of its home mortgage loans, but in no event less than \$500. With the growth in number and assets of member institutions, the proportion of Federal Home Loan Bank stock owned by the United States Government to the total capital stock of the Banks has decreased during 1948 to a point where, for the first time, the members owned a majority of the stock.

#### *Retirement of Government stock*

Pursuant to the provisions of the Federal Home Loan Bank Act, whereby the Government-owned capital stock in the Federal Home Loan Banks must be retired to the extent of 50 percent of all payments on capital stock made by members subsequent to such time as the amount of member-owned stock equals that owned by the Government, four of the Federal Home Loan Banks made further statutory retirements of Government-owned stock during the year to the extent of \$2,881,000.

Within the 12 months ended December 31, 1948, the paid-in capital stock of the Banks held by members increased \$18,159,900, to a total paid in by members of \$121,237,475, which amount is 50.3 percent of the total stock subscriptions on that date. During the same period, the United States Government-owned stock was reduced to \$119,791,200, resulting in a net increase in paid-in capital stock of \$15,278,900.

## HOME LOAN BANK BOARD

On December 31, 1948, the total outstanding capital stock of the Banks was \$241,028,675, of which \$119,791,200 was owned by the Government and \$121,237,475 was owned by the members. At that time the Government owned 49.7 percent of the outstanding total, whereas the members owned 50.3 percent. The following table reflects the capital structure of the Federal Home Loan Banks as of December 31, 1948, and December 31, 1947:

	Dec. 31, 1948	Dec. 31, 1947
Capital Stock:		
U. S. Government.....	\$119,791,200	\$122,672,200
Members:		
Stock subscribed.....	121,249,300	103,083,400
Less unpaid subscriptions.....	11,825	5,825
Total member.....	121,237,475	103,077,575
Total paid-in capital.....	241,028,675	225,749,775
Surplus:		
Legal reserve.....	12,232,449	11,307,097
Reserve for contingencies.....	4,283,027	4,291,612
Undivided profits.....	9,001,282	8,524,750
Total surplus.....	25,516,758	24,123,459
Total capital.....	266,545,433	249,873,234

*Sale of consolidated obligations*

Consolidated obligations as a supplementary source of funds of the Federal Home Loan Banks have been marketed for the past 12 years. The first public sale of \$24,700,000 was made May 10, 1937. Up to January 1, 1948, total obligations of \$1,152,200,000 had been issued, of which \$890,500,000 had been retired, leaving \$261,700,000 outstanding at the beginning of the year. During 1948, four public offerings were made aggregating \$416,500,000 and one private sale of \$40,000,000 was made. This financing represented \$247,000,000 of new funds, \$209,500,000 of refunding, and the paying off of \$92,200,000, resulting in a balance of \$416,500,000 of consolidated Federal Home Loan Bank obligations outstanding on December 31, 1948. These mature on the dates and in the amounts indicated below:

Due	Amount
Jan. 20, 1949.....	\$97,000,000
Apr. 15, 1949.....	84,500,000
July 22, 1949.....	115,000,000
Sept. 15, 1949.....	120,000,000
Total.....	416,500,000

*Interbank deposits*

Interbank deposits, i. e., deposits made by a Federal Home Loan Bank in another Federal Home Loan Bank, continued to play an

## HOME LOAN BANK BOARD

important part in the operations of the Banks during the year. At the beginning of the year, \$11,500,000 of interbank deposits were outstanding. Such deposits were made to the extent of \$62,250,000 during the year; repayments aggregated \$67,500,000, resulting in a balance outstanding on December 31, 1948, of \$6,250,000, of which \$2,000,000 were payable on demand and \$4,250,000 on a time basis.

*Members' deposits*

As previously indicated, deposits of member institutions represent one of the sources of funds of the Federal Home Loan Banks. During the year 1948 there was a substantial increase in such deposits, the total amount of which as of December 31, 1948, aggregated \$133,355,226, consisting of \$24,554,177 on a demand and \$108,801,049 on a time basis. While no interest is paid on the demand deposits of members, interest at the rate of from 1 percent to 1½ percent per annum is paid on members' time deposits remaining for 30 days or more.

As already indicated, the Federal Home Loan Banks obtain their funds (exclusive of interbank deposit transactions) from three sources, i. e., subscriptions to their capital stock, the sale of their consolidated obligations, and deposits of member institutions. During the year ending December 31, 1948, the net accretions to the funds of the Banks from these sources were as follows:

Paid in on capital stock.....	\$15, 278, 900
Sale of consolidated obligations.....	154, 800, 000
Members' deposits.....	45, 520, 100
	215, 599, 000

*Liquidity and reserves*

Section 16 of the Federal Home Loan Bank Act, as amended, provides that each Federal Home Loan Bank shall carry to a reserve account semiannually 20 percent of its net earnings until such reserve account shall show a credit balance equal to 100 percent of the paid-in capital of the Bank, after which time 5 percent of the Bank's net earnings shall be added thereto semiannually. As already indicated, this reserve aggregated \$12,232,449.37 as of December 31, 1948, in addition to which there was a reserve for contingencies amounting to \$4,233,027.01, making total surplus reserves of \$16,515,476.38. As of the same date, undivided profits of the Banks totaled \$9,001,281.70, resulting in a total earned surplus of \$25,516,758.08.

In order to enhance potential ability of the Banks to meet the demands of their member institutions, a liquidity reserve of \$100,000,000 over and above the statutory reserve referred to in the preceding paragraph was established during the year 1948, to consist of 50 percent in 2 percent special series United States Treasury notes,

## HOME LOAN BANK BOARD

15 percent in 1½ percent special series United States Treasury notes, and 35 percent in cash, United States Treasury bills, United States certificates of indebtedness and/or United States Treasury notes commonly traded in on the market on the same basis as United States certificates of indebtedness.

*Status of liquidity reserve*

On December 31, 1948, the special liquidity reserve of \$100,000,000 consisted of—

In cash, U. S. Treasury bills, certificates of indebtedness and/or notes.....	\$35, 000, 000
2 percent special series U. S. Treasury notes.....	50, 000, 000
1½ percent U. S. Treasury notes.....	15, 000, 000
Total.....	100, 000, 000

In addition to the \$100,000,000 liquidity reserve, the Banks held the following highly liquid resources:

U. S. Treasury bills and notes.....	\$43, 150, 000
1½ percent special series U. S. Treasury notes.....	21, 200, 000
Cash.....	34, 911, 490
Total.....	99, 261, 490

As of December 31, 1948, the Banks also held \$92,702,523 par value of other United States Government obligations in excess of the statutory requirements.

*Government securities and consolidated balance sheet*

During the year, United States Government obligations were purchased by the Federal Home Loan Banks to the extent of \$546,084,000 face amount. Government securities having a face amount of \$410,794,000 were matured or sold, and \$271,893,000 face amount of such securities were held by the Banks on December 31, 1948.

A comparative consolidated statement of condition of the 11 Federal Home Loan Banks as of December 31, 1948, is contained in exhibit 3 of this report, from which it will be noted that the total resources of the Banks increased from \$612,689,341 at the close of 1947 to \$820,684,758 at the end of 1948.

*Income and expense*

A comparative consolidated statement of income and expense of the 11 Federal Home Loan Banks for the calendar years 1947 and 1948 is contained in exhibit 4 of this report. It will be noted from this exhibit that the total gross operating income of the Banks for the calendar year 1948 was \$12,684,042.72, as compared with \$8,673,487.26 for the preceding calendar year. This represents an increase

in gross operating income of 46.4 percent over that for 1947, which resulted primarily from increased interest on advances and interest on investments which reflected gains of 53.3 percent and 32 percent, respectively. It will also be observed that the total operating expenses for the calendar year 1948 amounted to \$8,104,323.98, as compared with \$4,221,890.67 for the preceding year. Nonoperating income for the calendar year 1948 aggregated \$99,970.61, as compared with a total of \$376,086.64 for the preceding year. Nonoperating charges for 1948 amounted to \$52,925.43, while such charges for the preceding calendar year aggregated \$28,932.81. Net income of the Banks for the calendar year 1948 aggregated \$4,626,763.92, as compared with \$4,569,044.50 for the calendar year 1947. The increase in the cost of borrowed money and members' deposits, together with other operating expense increases, was sufficient to hold the net income of the Banks for the calendar year 1948 to the figure indicated, which is only 1.3 percent greater than that for the preceding calendar year.

While there was an increase of 46.9 percent in the average balance of Federal Home Loan Bank advances outstanding in 1948 over 1947, the Banks' return was 2.02 percent or only 0.09 percent in excess of the 1.93 percent for the calendar year 1947. However, a yield of 1.67 percent on an average investment balance of \$228,000,000 was slightly lower than the yield of 1.73 percent on the average investment balance in the calendar year 1947. The average weekly balance of members' deposits during 1948 aggregated \$91,000,000 and represented an annual cost of 0.79 percent. Funds derived by the Federal Home Loan Banks from consolidated Federal Home Loan Bank obligations issued and outstanding during 1948 averaged \$347,200,000, the annual cost of which was 1.67 percent as compared with the 1947 average of \$171,500,000, and an annual cost of 1.42 percent.

The total net income of the Banks for the calendar year 1948, which, as indicated above, amounted to \$4,626,763.92, was distributed (in round figures) as follows:

		<i>Percent</i>
Dividends paid.....	\$3,157,820	68.3
U. S. Government.....	1,567,989	33.9
Members.....	1,589,831	34.4
Retirement fund prior service.....	75,645	1.6
Legal reserve.....	925,352	20.0
Contingent reserve.....	(8,585)	(.2)
Undivided profits.....	476,532	10.3
	<hr/>	
Total.....	4,626,764	100.0

The net income of the Banks from the beginning of their operations through December 31, 1948, aggregated \$60,530,687.75 and was distributed (in round figures) as follows:

## HOME LOAN BANK BOARD

		<i>Percent</i>
Dividends paid.....	\$34,511,144	57.0
U. S. Government.....	23,897,392	39.5
Members.....	10,613,752	17.5
Retirement fund prior service.....	502,786	.8
Legal reserve.....	12,232,449	20.2
Contingent reserve.....	4,283,027	7.1
Undivided profits.....	9,001,282	14.9
 Total.....	 60,530,688	 100.0

*Dividend payments*

Dividend declarations by the Banks resulted in the distribution of \$3,157,819 for the year 1948, which amount was \$216,562 greater than that applicable to the preceding year. Of the amount of dividends distributed for the year 1948, the United States Government received \$1,567,989 and member institutions received \$1,589,830. The total amount of dividends received by the United States Government and member institutions on their stock investment in the Federal Home Loan Banks from October 15, 1932, through December 31, 1948, aggregates \$23,897,392 and \$10,613,752, respectively.

The following tabulation reflects the total dividend distribution, by Banks, from the beginning of operations through December 31, 1948:

*Dividend distribution Oct. 15, 1932, to Dec. 31, 1948*

	Members	United States Government	Total
Federal Home Loan Bank			
Boston.....	\$775,704.74	\$1,905,204.61	\$2,680,909.35
New York.....	1,008,053.91	3,297,356.75	4,305,410.66
Pittsburgh.....	747,706.30	2,227,398.89	2,975,105.19
Winston-Salem.....	1,030,479.57	1,641,355.79	2,671,835.36
Cincinnati.....	2,141,926.39	3,128,548.08	5,270,474.47
Indianapolis.....	1,178,281.57	1,523,465.34	2,701,746.91
Chicago.....	1,357,395.74	3,468,859.70	4,826,255.44
Des Moines.....	752,911.73	1,649,669.09	2,402,580.82
Little Rock.....	414,185.32	1,538,199.62	1,952,384.94
Topeka.....	344,712.88	1,083,280.56	1,427,993.44
San Francisco.....	862,393.94	2,434,053.74	3,296,447.68
Total.....	10,613,752.09	23,897,392.17	34,511,144.26

*Supervision of the Federal Home Loan Banks*

In supervising the operations of the Federal Home Loan Banks pursuant to the provisions of the Federal Home Loan Bank Act, as amended, the Home Loan Bank Board requires each Federal Home Loan Bank to submit to it for approval an annual budget covering the expenses to be incurred by it. The semiannual and/or annual (the latter in the case of two of the Federal Home Loan Banks) dividend declarations authorized by the local boards of directors of the

Federal Home Loan Banks are likewise subject to the approval of the Home Loan Bank Board, as are also any changes in the rates of interest on advances, members' deposits, and interbank deposits which are not within the rate ceilings prescribed by the Board.

With the exception of the purchase and/or sale of United States Treasury bills, United States certificates of indebtedness, and United States Treasury notes commonly traded in on the market in the same manner as United States Treasury certificates of indebtedness, all transactions of the Banks in United States Government obligations are subject to the approval of the Home Loan Bank Board.

All officers and counsel appointed by the local Boards of Directors of the Federal Home Loan Banks and their salaries are subject to the approval of the Home Loan Bank Board. The management of each Federal Home Loan Bank is vested in a local Board of 12 directors, 4 of whom are appointed by the Home Loan Bank Board and 8 of whom are elected by the members. Annual elections are held under the auspices of the Home Loan Bank Board pursuant to its rules and regulations on the subject. A list of the directors and officers of each Federal Home Loan Bank as of December 31, 1948, is included in exhibit 5.

#### *Examinations and reports*

The Federal Home Loan Banks are subject to a semiannual examination by examiners attached to the staff of the auditor of the Home Loan Bank Board. In addition to such examination, the Banks as well as the internal fiscal operations of the Home Loan Bank Board are now audited annually by representatives of the Division of Corporation Audits of the General Accounting Office pursuant to the provisions of the Government Corporation Control Act of December 6, 1945. As provided in the same act, all Government security transactions of the Federal Home Loan Banks in excess of \$100,000, as well as all issues by the Home Loan Bank Board of consolidated Federal Home Loan Bank obligations (which are the joint and several obligations of all the Federal Home Loan Banks) are cleared with the United States Treasury Department. Moreover, the Treasury is supplied not only with a copy of the Board's annual report to the Congress, but also with monthly reports reflecting all security transactions of the Federal Home Loan Banks and with special quarterly and annual reports required by Budget-Treasury Regulation No. 3.

## FEDERAL HOME LOAN BANK SYSTEM

The Federal Home Loan Banks, created by act of Congress approved July 22, 1932, constitute a permanent reservoir of credit for their membership which is open to building and loan associations, savings and loan associations, cooperative banks, homestead associations, insurance companies, and savings banks. Eligibility requirements, as defined in section 4 (a) of the Federal Home Loan Bank Act, as amended, provide that each applicant shall be duly organized under the laws of any State or of the United States, be subject to examination and regulation by any State or the United States, and make long-term home mortgage loans. To become eligible as a Bank member, each applicant in the judgment of the Home Loan Bank Board shall be in a sound financial condition so that advances may safely be made to it, and the character of its management and its home financing policy shall be consistent with sound and economical home financing.

There were 3,860 members of the Federal Home Loan Bank System on December 31, 1949, consisting of 3,822 savings and loan associations, 30 savings banks, and 8 insurance companies. This total membership represents a net increase of 91 members during the year, resulting from the admission of 82 State-chartered savings and loan associations, 16 new Federal savings and loan associations, 8 cooperative banks, and 4 savings banks, and the cancellation of 19 memberships through withdrawals. Eight of the withdrawals represent voluntary liquidations, 1 reincorporation, 6 consolidations and 4 were the result of members' requests. Also 13 State-chartered savings and loan association members changed their status during the year—11 converted to Federal charter, 1 to a mutual savings bank, and 1 to a cooperative bank. As of December 31, 1949, 38 applications for membership were pending.

### Functions of the Bank System

The principal function of the Federal Home Loan Banks is to supply funds required by member institutions for the purpose of enabling them to meet the home financing needs in their communities as well as their other legitimate operating requirements. As a result of the establishment of the Federal Home Loan Bank System, thrift and home mortgage financing have been better protected against local and national economic fluctuations, home ownership has been placed on a more secure basis, and the construction of new homes as well as the improvement of housing conditions generally has been encouraged.

## HOME LOAN BANK BOARD

The Federal Home Loan Banks have made credit available to their members at moderate rates and in volume more than sufficient for their needs.

The extent to which the Federal Home Loan Banks have functioned as a national credit reservoir is evidenced by the fact that, since they first opened for business on October 15, 1932, to December 31, 1949, the Federal Home Loan Banks (originally 12, now 11 in number) have made advances to home financing institutions totaling \$2,942,711,670, of which \$2,509,282,520 have been repaid, leaving a balance of \$433,429,150 outstanding on the latter date.

**Advances and Repayments During 1949**

During the year ended December 31, 1949, the Federal Home Loan Banks advanced the sum of \$255,662,642. Repayments during the year aggregated \$337,249,581. A summary of the lending operations of the banks, by years, through December 31, 1949, is contained in exhibit f which follows this text.

On December 31, 1949, 1,799 member institutions, or 46.6 percent of the total membership, were borrowers from the Federal Home Loan Banks, as compared with 1,993 member borrowers, or 52.9 percent of the membership, on December 31, 1948.

There was also one nonmember borrower indebted to a Federal Home Loan Bank at the close of the year 1949, the advance to such nonmember borrower representing the first advance of this type since August 1939. The average number of member borrowers during the year 1949 was 1,715, or a decrease of 7.9 percent under the average of 1,863 borrowing members during the preceding calendar year.

**Number and Percent of Borrowing Members**

Of the 1,799 borrowing members, as of December 31, 1949, 761 were Federal savings and loan associations, the outstanding advances to which aggregated \$260,226,885 on that date. This amount of outstanding advances represented 4.3 percent of the share accounts in this type of association. The borrowing members as of the close of the year also included 584 insured State-chartered institutions, the indebtedness of which to the Federal Home Loan Banks totaled \$130,114,877, or 3.6 percent of the savings held by this type of institutional member, and 453 noninsured State-chartered associations with advances of \$36,862,388, or 2.1 percent of the total savings held by all members of this type. One insurance company member held advances from a Federal Home Loan Bank in the amount of \$6,000,000. The nonmember mortgagee, a noninsured savings and loan association, held advances totaling \$225,000.

The number and percent of borrowing members as of December 31, 1949, and December 31, 1948, are reflected in the following tabulation:

## HOME LOAN BANK BOARD

	Dec. 31, 1949			Dec. 31, 1948		
	Number	Percent of—		Number	Percent of—	
		Type	Total		Type	Total
<b>Borrowing members:</b>						
Federals.....	761	50.5	42.3	868	58.5	43.6
Insured State.....	584	46.9	32.5	632	56.1	31.7
Noninsured State.....	454	41.0	25.2	493	42.6	24.7
Total.....	<sup>1</sup> 1,799	<sup>2</sup> 46.6	100.0	1,993	<sup>2</sup> 52.9	100.0
Nonborrowing members.....	2,061	<sup>2</sup> 53.4		1,776	<sup>2</sup> 47.1	
Total members.....	3,860	100.0		3,769	100.0	

<sup>1</sup> Also 1 nonmember borrower.

<sup>2</sup> Percentage of total membership.

### Collateral for Advances

The secured advances of the Federal Home Loan Banks outstanding on December 31, 1949, amounted to \$321,920,182, which represented the borrowings of 1,230 members and one nonmember mortgagee and were 74.3 percent of the total advances outstanding on that date. \$202,323,231 of such advances were for terms of more than 1 year. These advances were collateralized by 128,196 home mortgages, the unpaid balances of which aggregated \$585,197,549, United States Government obligations having a par value of \$67,094,300, and other collateral permitted by the regulations having a face value of \$5,987,218. The face value of all such collateral, exclusive of \$64,706,000 par value of Federal Home Loan Bank stock representing that portion of members' stock applicable to their loans on which the Banks held a statutory lien as additional collateral, amounted to \$658,279,067, or 204 percent of the secured advances, to all of which collateral, exclusive of the Federal Home Loan Bank stock, the Banks had assigned a collateral value of \$469,194,014. Unsecured advances aggregating \$111,410,968, or 25.7 percent of the total, were outstanding to 751 members on December 31, 1949.

### Interest Rates on Advances

Included in this report as exhibit 2 is a statement reflecting the rates of interest charged by the Federal Home Loan Banks on advances to member institutions which were in effect on December 31, 1949, and the interest rates applicable to time deposits of members. Interest rates charged by the Federal Home Loan Banks on advances to members have been considerably reduced since the commencement of their operations in October 1932, at which time interest rates on Federal Home Loan Bank advances ranged from 4 percent to 5 percent. On December 31, 1949, however, as reflected in exhibit 2, such rates ranged from 1¼ percent to 2½ percent.

## HOME LOAN BANK BOARD

**Sources of Funds**

The Federal Home Loan Banks obtain their funds from their capital stock, the sale to the public of consolidated Federal Home Loan Bank obligations, and deposits received from member institutions. The capital stock of each Federal Home Loan Bank was originally owned by both member institutions and by the United States Government, the latter having originally invested in the capital stock of the banks, pursuant to the provisions of the Federal Home Loan Bank Act, in the aggregate amount of \$124,741,000. Each member institution is required by the act to invest in the stock of its Federal Home Loan Bank in an amount at least equal to one percent of the aggregate of the unpaid principal of its home mortgage loans, but in no event less than \$500. The Federal Home Loan Bank Act also requires that the amount paid in on capital stock held by any member shall at all times be not less than one-twelfth of the aggregate outstanding advances made by any Federal Home Loan Bank to such member. With the continued growth in number and assets of member institutions, the total member-owned stock in the banks on November 30, 1948, equaled that owned by the United States Government. By December 31, 1948, the percentage had risen to 50.3 percent of the total capital, so that at the beginning of 1949, the members owned more than half of the capital stock of the Federal Home Loan Bank System.

**Retirement of Government Stock**

The Federal Home Loan Bank Act provides that the Government-owned stock in each Federal Home Loan Bank must be retired to the extent of 50 percent of all payments on capital stock made by members subsequent to such time as the amount of member-owned stock in such equals that originally owned by the Government. The act also provides for the voluntary retirement of Government-owned stock in the Federal Home Loan Banks by direction or with the approval of the Home Loan Bank Board. During calendar year 1949, five of the Federal Home Loan Banks made statutory retirements of Government-owned stock to the extent of \$3,567,300, while six of the banks made voluntary retirements of such stock aggregating \$20,405,600. As a result of these transactions, Government-owned stock declined to \$95,818,800. One bank, during the year, retired in full the balance of its Government-owned stock. During the same period the paid-in capital stock of the banks held by members was increased by \$15,001,775 to a total of \$136,239,250, or 58.7 percent of the total paid-in capital stock of all banks on December 31, 1949, as compared to \$95,818,800, or 41.3 percent held by the United States Government.

## HOME LOAN BANK BOARD

Further retirements of Government-owned stock, totaling \$20,596,900, were accomplished during January 1950 when seven banks made statutory retirements aggregating \$3,723,300 and six banks made voluntary retirements of \$16,873,600, resulting in the Government holdings in two additional banks being retired in full and its total investment being reduced to \$75,221,900 as of January 31, 1950.

The following tabulation reflects, by individual banks, the original Government investments in their capital stock and the balance of such investments as of December 31, 1949, and January 31, 1950:

Federal Home Loan Bank of—	Original Government investment	Balance held Dec. 31, 1949	Balance held Jan. 31, 1950
Boston.....	\$12,467,500	\$10,000,000	\$9,200,000
New York.....	18,963,200	15,963,200	14,000,000
Pittsburgh.....	11,146,300	11,146,300	5,003,000
Winston-Salem.....	9,208,200	6,618,000	5,821,300
Cincinnati.....	12,775,700	5,000,000	-----
Indianapolis.....	6,577,400	-----	-----
Chicago.....	14,173,900	12,000,000	10,000,000
Des Moines.....	7,394,900	3,298,700	-----
Little Rock.....	8,772,400	8,772,400	8,772,400
Topeka.....	7,333,600	7,092,300	6,764,400
San Francisco.....	15,927,900	15,927,900	15,663,800
<b>Total</b> .....	<b>124,741,000</b>	<b>95,818,800</b>	<b>75,221,900</b>

The following tabulation reflects the capital structure of the Federal Home Loan Banks as of December 31, 1949, and December 31, 1948:

	Dec. 31, 1949	Dec. 31, 1948
Capital stock, U. S. Government.....	\$95,818,800	\$119,791,200
Members:		
Stock subscribed.....	136,271,100	121,249,300
Less unpaid subscriptions.....	31,850	11,825
Total paid-in capital.....	136,239,250	121,237,475
Total paid-in capital.....	232,058,050	241,028,675
Surplus:		
Legal reserve.....	13,184,046	12,232,449
Reserve for contingencies.....	4,785,651	4,283,027
Undivided profits.....	9,026,884	9,001,282
Total surplus.....	26,996,581	25,516,758
Total capital.....	259,054,631	266,545,433

### Sale of Consolidated Obligations

As indicated before, the sale of consolidated Federal Home Loan Bank obligations represents one source of funds employed by the Federal Home Loan Banks in the conduct of their operations. These obligations are the joint and several obligations of the 11 Federal Home Loan Banks. They are not guaranteed by the United States Government. Since the first public offering of its consolidated obligations in May 1937, the Federal Home Loan Banks through January 1, 1949, had issued a total of \$1,608,700,000, of which \$1,192,200,000 had been

## HOME LOAN BANK BOARD

retired, leaving \$416,500,000 outstanding at the beginning of 1949. During the year, three public offerings were made aggregating \$206,500,000 and one private sale of \$51,500,000 was made. This financing represented no new funds, but \$258,000,000 of refunding and the liquidating of \$210,000,000, resulting in the balance of \$206,500,000 of consolidated obligations outstanding on December 31, 1949, which mature on the dates and in the amounts indicated below:

*Consolidated obligations*

Federal Home Loan Bank of—	Series A—1950 1½ percent notes due 1-20-50	Series B—1950 1¼ percent notes due 2-15-50	Series C—1950 1.35 percent notes due 9-15-50	Total
Boston.....	\$6,000,000	\$5,000,000	\$5,000,000	\$16,000,000
New York.....	6,000,000			6,000,000
Pittsburgh.....		5,000,000	5,000,000	10,000,000
Winston-Salem.....	7,000,000	10,900,000	11,100,000	29,000,000
Cincinnati.....		3,000,000	3,000,000	6,000,000
Indianapolis.....		9,400,000	9,600,000	19,000,000
Chicago.....		14,900,000	15,100,000	30,000,000
Des Moines.....	3,000,000	7,700,000	7,800,000	18,500,000
Little Rock.....	8,000,000	4,700,000	4,800,000	17,500,000
Topeka.....		7,200,000	7,300,000	14,500,000
San Francisco.....	13,000,000	20,700,000	6,300,000	40,000,000
<b>Total.....</b>	<b>43,000,000</b>	<b>88,500,000</b>	<b>75,000,000</b>	<b>206,500,000</b>

NOTE.—With the maturity of series A—1950 notes on Jan. 20, 1950, it was necessary to refinance a total of \$21,000,000 to meet the estimated requirements of 4 banks. This was accomplished through the private sale to 11 commercial banks of 1¼ percent notes maturing Feb. 15, 1950.

Each offering of consolidated Federal Home Loan Bank obligations has been heavily oversubscribed, an indication of the high regard for and confidence of the dealers and dealer banks in the Federal Home Loan Bank System. As required by the Government Corporation Control Act of December 6, 1945, each issue by the Home Loan Bank Board of consolidated Federal Home Loan Bank obligations is cleared with the United States Treasury Department.

**Interbank Deposits and Deposits of Members**

Deposits of cash by one Federal Home Loan Bank, in an area of smaller loan demand, with another Federal Home Loan Bank, in an area of larger loan demand, continued to represent an important part in the financing of the banks during the year and, to some degree, at least, tended to decrease the extent to which some of the Federal Home Loan Banks might otherwise have had to participate in the sales of consolidated Federal Home Loan Bank obligations. At the beginning of the year 1949, \$6,250,000 of such interbank deposits were outstanding. During the year such deposits were made to the extent of \$47,700,000, repayments amounted to \$25,250,000, resulting in a balance of \$28,700,000 outstanding on December 31, 1949, all of which were payable on demand.

As already indicated, deposits of member institutions represent one

of the sources of funds of the Federal Home Loan Banks, a source of constantly growing importance. During the year 1949 there was a further substantial increase in such deposits, the total amount of which as of December 31, 1949, aggregated \$267,112,161, consisting of \$35,434,559 on a demand and \$231,677,602 on a time basis. No interest is paid by the Federal Home Loan Banks on members' demand deposits. However, on members' time deposits remaining for 30 days or more, interest at rates ranging from 1 percent to 1½ percent per annum is paid. (See exhibit 2.)

#### **Statutory and Other Reserves**

Section 16 of the Federal Home Loan Bank Act, as amended, provides that each Federal Home Loan Bank shall carry to a reserve account semiannually 20 percent of its net earnings until such reserve account shall show a credit balance equal to 100 percent of the paid-in capital stock of the bank, after which time 5 percent of the bank's net earnings shall be added thereto semiannually. As indicated in the tabulation reflecting the capital structure of the banks, this reserve amounted to \$13,184,046 as of December 31, 1949, in addition to which there was a reserve for contingencies aggregating \$4,785,651, making total surplus reserves of \$17,969,697. As was likewise already indicated in the tabulation above referred to, the undivided profits of the banks on December 31, 1949, amounted to \$9,026,884, resulting in a total earned surplus of \$26,996,581 as of that date.

In addition to and exclusive of the statutory and contingent reserves reported, each Federal Home Loan Bank maintains its pro rata portion of a \$100,000,000 "liquidity reserve." While such reserve is not reflected in the balance sheet of the banks, they must, nevertheless, maintain assets aggregating the amount thereof, as follows:

- 50 percent in 2 percent special series United States Treasury notes.
- 15 percent in 1½ percent special series United States Treasury notes.
- 35 percent in cash and/or United States Treasury bills, United States Treasury certificates of indebtedness or United States Treasury notes commonly traded in on the market on the same basis as certificates of indebtedness.

The Federal Home Loan Banks are not permitted to use any portion of this "liquidity reserve" without prior approval of the Home Loan Bank Board and, if and when used, the 35 percent portion thereof must first be utilized before resorting to the special series United States Treasury notes which will be redeemed by the United States Treasury Department upon request of the Home Loan Bank Board only in case of an emergency when required funds are not available from the assets of the banks or through the sale of consolidated Fed-

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eral Home Loan Bank obligations. On December 31, 1949, the \$100,000,000 "liquidity reserve" consisted of the following:

Cash, U. S. Treasury bills, certificates of indebtedness and/or notes	\$35,000,000
2 percent special series U. S. Treasury notes	50,000,000
1½ percent special series U. S. Treasury notes	15,000,000
Total	100,000,000

In addition to the \$100,000,000 "liquidity reserve," the Banks held the following highly liquid assets as of December 31, 1949:

Cash, U. S. Treasury bills, certificates of indebtedness and/or notes	\$11,478,884
1¼ percent and 1½ percent special series Treasury notes	60,500,000
Total	71,978,884

Although on December 31, 1949, the Banks held United States Government obligations of approximately \$128,000,000 in excess of statutory requirements, approximately \$77,000,000 of the excess was held in the "liquidity reserve" referred to above. During the year ended December 31, 1949, United States Government obligations were purchased by the Federal Home Loan Banks to the extent of \$559,193,000 face amount. United States Government obligations having a par value of \$558,293,000 were matured and/or sold, and \$272,793,000 face amount of such securities were held by the Banks on December 31, 1949.

### Consolidated Statement of Condition

A consolidated statement of condition of the 11 Federal Home Loan Banks as of December 31, 1949, and December 31, 1948, is contained in exhibit 3 of this report, from which it will be noted that the total resources of the Banks decreased from \$820,684,758 at the close of 1948 to \$734,274,206 at the close of 1949.

### Income and Expense

A consolidated statement of income and expense of the 11 Federal Home Loan Banks for the calendar years 1948 and 1949 is contained in exhibit 4. The figures disclose that the total gross operating income of the Banks for the calendar year 1949 was \$13,426,355 as compared with \$12,684,043 for the preceding calendar year. This represents an increase of 5.9 percent in gross operating income over that applicable to the year 1948, which may be primarily attributable to increased investment interest and decreased interest on advances. The former reflected a gain of 53.2 percent while the latter decreased 14.4 percent. Also disclosed in exhibit 4 is the fact that the total operating expenses for the calendar year 1949 amounted to \$9,016,829

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as compared with \$8,104,324 for the preceding year. The non-operating income for 1949 aggregated \$366,331 compared with the total of \$99,971 for 1948, and nonoperating charges for 1949 amounted to \$17,875 while such charges for the preceding calendar year aggregated \$52,925. The net income of the Federal Home Loan Banks for the calendar year 1949 aggregated \$4,757,983 compared with \$4,626,764 for the preceding calendar year.

While the 1949 net income of the banks exceeded that for 1948 by \$131,200, a comparison, item by item, of the income and expenses for the 2 years reveals that several factors were involved in arriving at this net result. Interest earned on advances declined \$1,276,000 due to the fact that the average amount of advances outstanding during 1949 was \$370,400,000 compared to an average of \$440,500,000 during 1948. This decrease in interest on advances was, however, more than offset by the increase in interest on investments purchased with funds received on account of repayment of advances and from deposits of members. Interest paid on such deposits reflected an increase of \$1,815,000 over 1948 while the cost of money from issuance of consolidated obligations was \$1,055,000 less than the previous year by reason of a \$73,500,000 smaller average amount outstanding at slightly higher interest rates.

The average weekly balance of members' deposits during 1949 aggregated \$217,206,150 and represented an annual cost of 1.17 percent. Funds derived by the Federal Home Loan Banks from the sale of Federal Home Loan Bank obligations and outstanding during 1949 averaged \$274,738,000, the annual cost of which was 1.73 percent compared with the 1948 average of \$347,200,000 and an annual cost of 1.67 percent.

The total net income of the Federal Home Loan Banks for the calendar year 1949, which, as indicated above, amounted to \$4,758,000, was distributed (in round figures) as follows:

Dividends paid:		<i>Percent</i>
U. S. Government.....	\$1, 260, 300	26. 5
Members.....	1, 882, 700	39. 6
Retirement fund—prior service <sup>1</sup> .....	135, 200	2. 8
Legal reserve.....	951, 600	20. 0
Contingent reserve.....	502, 600	10. 6
Undivided profits.....	25, 600	. 5
<b>Total.....</b>	<b>4, 758, 000</b>	<b>100. 0</b>

<sup>1</sup> Represents supplemental contributions to increase retirement benefits of employees computed on services through June 30, 1949.

The net income of the Federal Home Loan Banks from the beginning of their operations in October 1932 through December 31, 1949,

## HOME LOAN BANK BOARD

aggregated \$65,288,670 which was distributed (in round figures) as follows:

Dividends paid:		Percent
U. S. Government.....	\$25, 157, 700	38. 5
Members.....	12, 496, 400	19. 2
Retirement fund—prior service <sup>1</sup> .....	638, 000	1. 0
Legal reserve.....	13, 184, 000	20. 2
Contingent reserve.....	4, 785, 700	7. 3
Undivided profits.....	9, 026, 900	13. 8
<b>Total.....</b>	<b>65, 288, 700</b>	<b>100. 0</b>

<sup>1</sup> Represents contributions applicable to periods prior to date such contributions were made by individual banks.

**Distribution of Dividends**

Dividend declarations by the Federal Home Loan Banks resulted in the distribution of \$3,143,000 for the year 1949, which amount was \$14,800 less than that applicable to the preceding year. The dividend rates ranged from 1 percent to 2½ percent per annum. Of the amount of dividends distributed for the year 1949, the United States Government received \$1,260,300 and member institutions received \$1,882,700. The total amount of dividends received by the United States Government and member institutions on their stock investments in the Federal Home Loan Banks from October 15, 1932, through December 31, 1949, aggregated \$25,157,700 and \$12,496,400, respectively.

The following tabulation reflects the total dividend distribution by the Federal Home Loan Banks from the beginning of their operations through December 31, 1949:

Federal Home Loan Bank of—	Members	U. S. Gov- ernment	Total
Boston.....	\$880, 172. 45	\$2, 015, 204. 61	\$2, 895, 377. 06
New York.....	1, 134, 151. 70	3, 456, 988. 75	4, 591, 140. 45
Pittsburgh.....	899, 588. 89	2, 394, 593. 39	3, 294, 182. 28
Winston-Salem.....	1, 252, 601. 84	1, 740, 625. 79	2, 993, 227. 63
Cincinnati.....	2, 537, 352. 03	3, 234, 798. 08	5, 772, 150. 11
Indianapolis.....	1, 427, 355. 14	1, 523, 465. 34	2, 950, 820. 48
Chicago.....	1, 563, 058. 68	3, 665, 163. 95	5, 228, 222. 63
Des Moines.....	893, 656. 36	1, 717, 899. 59	2, 611, 555. 95
Little Rock.....	465, 420. 50	1, 625, 923. 62	2, 091, 344. 12
Topeka.....	429, 639. 88	1, 189, 665. 06	1, 619, 304. 94
San Francisco.....	1, 013, 452. 24	2, 593, 332. 74	3, 606, 784. 98
<b>Total.....</b>	<b>12, 496, 449. 71</b>	<b>25, 157, 660. 92</b>	<b>37, 654, 110. 63</b>

**Budgets of the Individual Banks**

In supervising the operations of the Federal Home Loan Banks pursuant to the provisions of the Federal Home Loan Bank Act, as amended, the Home Loan Bank Board requires each Federal Home Loan Bank to submit to it for approval an annual budget covering the estimated expenses to be incurred by it. The dividend declarations

by the local boards of directors of the Federal Home Loan Banks are likewise subject to the approval of the Home Loan Bank Board, as are also the maximum rates of interest on advances, members' deposits or interbank deposits.

With the exception of the purchase and sale of United States Treasury bills, United States certificates of indebtedness, and United States Treasury notes commonly traded in on the market in the same manner as United States Treasury certificates of indebtedness, all transactions of the banks in United States Government obligations and in other investment securities are subject to the approval of the Home Loan Bank Board. As provided in the Government Corporation Control Act of December 6, 1945, all Government security transactions of the Federal Home Loan Banks in excess of \$100,000 are first cleared with the United States Treasury Department through an official of the Federal Reserve Bank of New York, designated by the Treasury Department for that purpose. All officers and counsel appointed by the local boards of directors of the Federal Home Loan Banks and their annual salaries are subject to the approval of the Home Loan Bank Board. Under the Federal Home Loan Bank Act, as amended, the management of each Federal Home Loan Bank is vested in a local board of 12 directors, 4 of whom are appointed by the Home Loan Bank Board and 8 of whom are elected by the members. Annual elections of directors are held under the auspices of the Home Loan Bank Board pursuant to its regulations governing the election of directors. Exhibit 5 of this report contains a list of the directors and officers of each Federal Home Loan Bank as of December 31, 1949, and shows the designation or representation of each director.

### **Audits and Reports**

The Federal Home Loan Banks are audited semiannually pursuant to law by examiners attached to the staff of the office of the auditor of the Home Loan Bank Board. In addition thereto, the Federal Home Loan Banks as well as the internal operations of the Home Loan Bank Board are subject to an annual audit by representatives of the General Accounting Office pursuant to the provisions of the Government Corporation Control Act of December 6, 1945. However, the representatives of the General Accounting Office at present are confining their activities in this respect largely to periodic surveys of the operations of the Federal Home Loan Banks and an analysis of reports of examinations and audits thereof made by the examiners attached to the staff of the board's auditor, thereby giving full recognition to the requirements of the Government Corporation Control Act to the effect that the General Accounting Office use to the fullest extent

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deemed practical reports of examinations of Government corporations made by a supervisory agency pursuant to law. This is likewise true to a large extent with respect to the audit of the internal fiscal operations of the Home Loan Bank Board whereby the effectiveness of the internal audits and the use thereof warrant the omission of certain detail auditing procedures that otherwise the Corporation Audits Division should have deemed necessary. This arrangement affords the Home Loan Bank Board and the Federal Home Loan Banks a comprehensive audit and an analysis of operations at a minimum of expense and effort.

The United States Treasury Department is furnished a copy of the Home Loan Bank Board's annual report to the Congress as well as with monthly reports reflecting all security transactions of the Federal Home Loan Banks and with special quarterly and annual reports pertaining to the operations of the Federal Home Loan Banks as required by Budget-Treasury Regulation No. 3.