

Federal Home Loan Banks

Annual Report

of the

HOME LOAN BANK BOARD

Washington, D. C.

as of

December 31, 1948

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Reprint of the Report of the Home Loan Bank Board
covering operations of the
FEDERAL HOME LOAN BANK SYSTEM

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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.

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 per cent 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:

	Dec. 31, 1948			Dec. 31, 1947		
	Number	Percent of—		Number	Percent of—	
		Type	Total		Type	Total
Borrowing members:						
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	52.9 ¹	100.0	1,804	48.7 ¹	100.0
Nonborrowing members	1,776	47.1 ¹	1,901	51.3 ¹
Total	3,769	100.0	3,705	100.0

¹ 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. 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. 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	<u>\$241,028,675</u>	<u>\$225,749,775</u>
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	<u>\$ 25,516,758</u>	<u>\$ 24,123,459</u>
Total capital	<u>\$266,545,433</u>	<u>\$249,873,234</u>

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.....	<u>\$416,500,000</u>

Interbank deposits

Interbank deposits, i. e., deposits made by a Federal Home Loan Bank in another Federal Home Loan Bank, continued to play an 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 \$4,283,027.01, 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, 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

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.

Income and expense

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. 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
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:

		<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

Federal Home Loan Bank:	Members	United States Government	Total
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.

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.

NOTE: References in the text to exhibits have been deleted as the Consolidated Statements of the Federal Home Loan Banks as of December 31, 1948 were mailed February 3, 1949 to members of the Dealer Selling Group and others.