81st Congress, 1st Session - - - - - House Document No. 209

REPORT ON AUDIT OF FEDERAL HOME LOAN BANK ADMINISTRATION AND THE FEDERAL HOME LOAN BANKS

LETTER

FROM THE

COMPTROLLER GENERAL OF THE UNITED STATES

TRANSMITTING

A REPORT ON THE AUDIT OF THE FEDERAL HOME LOAN BANK ADMINISTRATION AND THE FEDERAL HOME LOAN BANKS FOR THE FISCAL YEAR ENDED JUNE 30, 1947

JUNE 6, 1949.—Referred to the Committee on Expenditures in the Executive Departments and ordered to be printed

UNITED STATES
GOVERNMENT PRINTING OFFICE
91774 WASHINGTON : 1949

LETTER OF TRANSMITTAL

General Accounting Office,
Comptroller General of the United States,
Washington 25, June 3, 1949.

The honorable the Speaker of the House of Representatives.

Dear Mr. Speaker: There is presented herein report on the audit of Federal Home Loan Bank Administration and the Federal Home Loan Banks for the fiscal year ended June 30, 1947. This audit was made by the Corporation Audits Division of the General Accounting Office, pursuant to and in accordance with the requirements of section 202, title II, of the Government Corporation Control Act (31 U. S. C. 857).

Respectfully submitted.

Lindsay C. Warren,
Comptroller General of the United States.

CONTENTS

	Page
SUMMARY	1
Federal Home Loan Bank Administration	2
1. Authority for audit	2
2. History, organization, and functions	2
3. Allocation of administrative expenses	2
4. Survey of organization	2
5. Status and cost of savings and loan association examinations	3
6. Public Law 895 and Public Law 901, 80th Congress	3
7. General	3
Federal home loan banks	4
1. Creation and purpose	4
2. Organization and management	4
3. Sources of funds	4
4. General	6
RECOMMENDATIONS TO THE CONGRESS	6
Federal Home Loan Bank Administration	6
Recommendations adopted by the Congress	6
1. Examination expense classified as "nonadministrative" (Public Law 895, 80th Cong.)	6
Previous recommendations to the Congress	7
1. Reorganization of Home Loan Bank Board	7
2. Separation of regulatory and insurance functions	7
3. Title I of Government Corporation Control Act be amended to include HLBB	7
New recommendations to the Congress	7
4. Payment of Government's share of the cost of civil service retirement system and employees' compensation fund	7
Federal home loan banks	8
Previous recommendations to the Congress	8
1. Change in composition of bank directorates	8
2. Capitalization of banks	8
3. Dividends equal interest cost to the United States Treasury	9
New recommendations to the Congress	9
4. Titles II and III of Government Corporation Control Act applicable to bank after retirement of Government investment	9
5. Annual examination of banks	9
RECOMMENDATIONS TO THE MANAGEMENT	9
Federal Home Loan Bank Administration	9
Recommendations adopted	9
1. Review and approval of applications for insurance	9
2. Elimination of operating functions from legal department	10
Previous recommendations to the management	10
1. Examinations to be under administrative control of Federal Savings and Loan Insurance Corporation	10
2. Revision of budgetary procedures	11
3. Revision of accounting system	11
4. Disposition of HLBB surplus	11
New recommendations to the management	11
5. Discontinuation of budget office	11
6. Consolidation of comptrollers' offices	12
7. Expansion of auditor's duties	12
8. Discontinuation of home loan banks as supervisory agents of the HLBB	12

	Exhibit	Page
RECOMMENDATIONS TO THE MANAGEMENT—Continued		
Federal home loan banks		13
New recommendations to the management		13
9. Fill "public interest" vacancies in bank boards		13
10. Improve financial reporting by banks		13

PART I—FEDERAL HOME LOAN BANK ADMINISTRATION

	Exhibit	Page
COMMENTS ON OPERATIONS		15
COMMENTS ON FINANCIAL POSITION		19
Cash		19
Accounts receivable		19
Surplus		20
EXCEPTIONS		21
SCOPE OF AUDIT		22
OPINION		22
FINANCIAL STATEMENTS	Exhibit	
Balance sheet, June 30, 1947	1	25
Statement of expenses, their allocation, and surplus, for the fiscal year ended June 30, 1947	2	26
Summary of expenses, their allocation, and surplus, for the fiscal years 1933 to 1947, inclusive	3	27
	Schedule	
Administrative Department—Statement of expenses and their allocation, for the fiscal year ended June 30, 1947	1	28
Federal Home Loan Bank System—Statement of expenses and their allocation, for the fiscal year ended June 30, 1947	2	29

PART II—FEDERAL HOME LOAN BANKS

	Exhibit	Page
COMMENTS ON OPERATIONS		31
COMMENTS ON FINANCIAL POSITION		32
Statutory and unrestricted reserves		33
Investments in United States Government securities		33
Advances		34
Members' deposits		36
Interbank deposits		37
Consolidated obligations		37
Capital stock, surplus, and reserves		39
EXCEPTIONS		40
SCOPE OF SURVEY		40
OPINION		41
AUDIT CERTIFICATE OF THE COMPTROLLER OF THE HOME LOAN BANK BOARD		41
FINANCIAL STATEMENTS	Exhibit	
Consolidated balance sheet, by banks, June 30, 1947	1	
Notes to consolidated balance sheet		44
Consolidated statement of income, by banks, for the fiscal year ended June 30, 1947	2	
Consolidated surplus, by banks, for the fiscal year ended June 30, 1947	3	
Consolidated statement of sources and application of funds, by banks, for the fiscal year ended June 30, 1947	4	
	Schedule	
Consolidated statement of compensation, travel, and other expenses, by banks, for the fiscal year ended June 30, 1947	1	
Statement of compliance with section 11 (g) of the Federal Home Loan Bank Act, by banks, June 30, 1947	2	

	Appendix	Page
HISTORY, ORGANIZATION, AND FUNCTIONS OF THE FEDERAL HOME LOAN BANK ADMINISTRATION	A	47
Origin and purpose		47
Organization and management		47
Federal Home Loan Bank Administration		47
Administrative Department, Federal Home Loan Bank Administration		48
Federal Home Loan Bank System		48
Functions		49
Federal Home Loan Bank Administration		49
Administrative Department		49
Federal Home Loan Bank System		49
HISTORY, ORGANIZATION, AND FUNCTIONS OF FEDERAL HOME LOAN BANKS	B	51
Origin and purpose		51
Organization and management		51
Functions		52

REPORT ON AUDIT OF FEDERAL HOME LOAN BANK ADMINISTRATION AND THE FEDERAL HOME LOAN BANKS FOR THE FISCAL YEAR ENDED JUNE 30, 1947

GENERAL ACCOUNTING OFFICE,
CORPORATION AUDITS DIVISION,
Washington 25, D. C.

Hon. LINDSAY C. WARREN,
Comptroller General of the United States.

DEAR MR. WARREN: We submit herewith our report on the audit of the financial statements and records of the FEDERAL HOME LOAN BANK ADMINISTRATION and the FEDERAL HOME LOAN BANKS for the fiscal year ended June 30, 1947.

The audit of the Federal home loan banks was made in accordance with the requirements of section 202, title II, of the Government Corporation Control Act (31 U. S. C. 857). As required by section 301 (a) of title III of the act (31 U. S. C. 866 (a)), we utilized, to the fullest extent deemed practicable, the reports of examinations made by the supervising administrative agency pursuant to law.

SUMMARY

The Federal home loan banks perform substantially the same function in the field of home mortgage credit as the Federal Reserve System performs in providing a credit reservoir for private banks and as the Federal land banks perform in the field of farm finance. Created in 1932, pursuant to the Federal Home Loan Bank Act (12 U. S. C. 1421), they exert a stabilizing and strengthening effect upon the savings and loan and similar institutions which are members of the system, as well as nonmembers, by providing both with a source of short- and long-term mortgage credits. The banks are owned in part by the private associations and savings banks which they serve. During the fiscal year ended June 30, 1947, the banks, as an integral system, along with Federal Savings and Loan Insurance Corporation and Home Owners' Loan Corporation, under the supervision of the Federal Home Loan Bank Administration, were a constituent agency of the National Housing Agency.[1]

[1] The President's Reorganization Plan No. 3 of 1947, which became effective July 27, 1947, created a Housing and Home Finance Agency with the same constituents as the former National Housing Agency. H&HFA is headed by an Administrator who has the responsibility for general supervision and coordination of its constituents. The plan also created a Home Loan Bank Board of three members who were given the functions of the Federal Home Loan Bank Board, the board of directors of HOLC, and the board of trustees of FS&LIC, and abolished these three boards. Inasmuch as this report covers the fiscal year 1947, the terminology applicable to that year has been used.

91774—49——2

FEDERAL HOME LOAN BANK ADMINISTRATION

1. The Federal Home Loan Bank Administration received no appropriated funds from the United States Treasury, but the Congress authorized and limited its administrative expenses for the year under audit. With the exception of the costs of examining savings and loan associations, all of these expenses were allocated to and paid by wholly or partly owned Government corporations (Home Owners' Loan Corporation, Federal Savings and Loan Insurance Corporation, and the 11 Federal home loan banks). Under the circumstances, and although the Administration is not a corporation, we concluded that a satisfactory audit of the 13 supervised corporations could not be performed without making an examination of the Administration's operations. (See, in this connection, recommendation 3, p. 7.) However, in examining and testing the financial transactions of the Administration, considerable reliance was placed on the audit made by another division of the General Accounting Office under the Budget and Accounting Act of 1921.

2. There were no major changes in the organizational structure of the FHLBA during the year under review. The chart presented as an appendix to our audit report for the fiscal years 1945 and 1946 (H. Doc. 706, 80th Cong.) outlines the organization as it existed at June 30, 1947. The history, organization, and functions of the Administration are summarized in appendix A of this report (p. 47).

3. The expenses of the FHLBA for the fiscal year 1947 totaled $2,038,004, approximately $220,000 more than for the preceding year. (See p. 15.) These expenses were allocated for reimbursement by:

Federal home loan banks	$530,000
HOLC	144,332
FS&LIC	178,085
Insured associations, for examinations	1,065,500
Long Beach conservatorship	83,170
Miscellaneous	455
Total	2,001,542
Deficiency in assessments charged to surplus	36,462
	$2,038,004

No funds were appropriated from the United States Treasury to defray any part of the expenses of the Federal Home Loan Bank Administration. The administrative expenses were limited by the Congress to $1,641,000; such expenses, totaling $1,634,059 for the year, were $6,941 less than the authorization. (See p. 17.)

The surplus, $387,239 at June 30, 1947, was accumulated from excessive assessments against the district banks and has been reduced by the absorption of underassessments in several years and by the deficits sustained by the Examining Division through insufficient charges for examinations of savings and loan associations. In our opinion, the surplus has been unjustifiably accumulated. (See recommendation on p. 11.)

4. Our survey of the organization disclosed a lack of coordination between divisions and constituent units, overlapping of functions, misplaced functions, divided authority, assignment of responsibilities without commensurate authority, and several small departments with functions that could be consolidated to produce greater efficiency and permit a reduction in the number of high-salaried personnel employed.

The Home Loan Bank Board has made some changes, but further improvements await its attention. (See p. 17.)

5. Public Law 895, 80th Congress (62 Stat. 1239), effective July 3, 1948, amends section 19 of the Federal Home Loan Bank Act and section 402 (c) of the National Housing Act to provide that "All necessary expenses in connection with the making of supervisory or other examinations (except examinations of Federal home loan banks), including the provision of services and facilities therefor, shall be considered as nonadministrative expenses." On October 2, 1948, the Examining Division staff consisted of 193 examiners. (There were 152 examiners at June 30, 1948, and 165 at the preceding year-end.) FHLBA policy requires annual examinations of all insured institutions. The division is considerably in arrears in its examinations but, since June 30, 1948, has decreased the number of delinquent examinations. The following data showing the number of examinations in arrears at selected dates were furnished by the Examining Division:

	Number of insured associations	*Examinations in arrears*
June 30, 1946	2,490	385
June 30, 1947	2,529	478
June 30, 1948	2,566	746
Nov. 30, 1948	2,604	611

During the fiscal year 1947 the division's expenses were $1,115,225 and the examination fees were $1,065,500, leaving a deficit of $49,725. In 1945 and 1946 the deficits were $19,757 and $19,217, respectively, and for the fiscal year 1948 the deficit amounted to approximately $100,000. (These deficits are charged against the surplus of the FHLBA.) In August 1948 the HLBB established a single per diem rate which it believes is sufficient to place the division on a self-sustaining basis. (See p. 20.)

6. In addition to the legislation mentioned in (5) above, the Eightieth Congress enacted the following legislation affecting the Home Loan Bank Board:

a. Public Law 895, 80th Congress (62 Stat. 1239), amends the Home Owners' Loan Act of 1933 and provides that (a) subject only to the conditions stated in the amendment, any Federal savings and loan association may convert itself into a savings and loan (mutual) type of institution and (b) subject to approval by the Home Loan Bank Board and Federal Savings and Loan Insurance Corporation, any Federal savings and loan association may convert itself into a State institution upon an equitable basis.

b. Public Law 901, 80th Congress (62 Stat. 1268), amends the National Housing Act and provides that, effective upon the date of enactment (August 10, 1948), the members of the Home Loan Bank Board shall receive compensation at the rate of $15,000 per annum.

7. The system of internal control is generally satisfactory; however, accounting records, although adequate for current needs, were maintained in unnecessary detail. Many of our suggestions for improvements have been adopted, and we understand that others will be put into effect in the near future. On pages 11 and 12 of this report, we have proposed a reorganization of the accounting and budgetary functions in the interest of greater efficiency and economy.

FEDERAL HOME LOAN BANKS

1. The Federal home loan banks were established by the Federal Home Loan Bank Board, which was created for that purpose by the Federal Home Loan Bank Act (12 U. S. C. 1421, et seq.), approved July 22, 1932. The banks constitute a credit reserve system for thrift and home-financing institutions, including savings banks and insurance companies. (See p. 51.)

2. Under the act and Executive Order 9070, the operations of each bank were controlled by a board of directors whose actions were subject to approval by the Federal Home Loan Bank Administration. Each board consists of 12 members, of whom four are appointed by the FHLBA (now HLBB) and the remainder are elected by the member associations. Thus the member associations have majority representation on each board, although the Government owns the majority of the aggregate capital stock of the banks (in 1947, 56 percent; in 3 banks it held the minority interest).

3. The principal sources of the funds with which the banks financed their activities during the year were:

Net income (exhibit 4)	$4,012,000	
Add amortization of premiums	248,000	
	4,260,000	
Less dividends paid (U. S. Government, $1,500,000)	2,500,000	$1,760,000
Net realization from sale of bonds		73,000,000
Capital stock purchased by members (net increase)	16,000,000	
Less retirement of Government's investment	1,000,000	15,000,000
Deposits by members (net increase)		31,000,000
Decrease in cash and other assets		240,000
Total funds available for investment		$121,000,000

These funds were used for:

Increased advances to members	$86,000,000
Additional investments in Government securities	35,000,000
Total, as above	$121,000,000

The net income of all of the banks for the fiscal year 1947 was $4,011,654, including $358,703 profit on the sale of Government securities; the comparable figures for 1946 were $4,666,142 and $1,559,012, respectively. The return on the average of the capital and surplus at the beginning and end of the year was 1.7 percent (1946, 2.1 percent). The net operating income for 1947 was $3,651,883 (1946, $3,105,131), which approximated 1.6 percent (1946, 1.4 percent) on the average of the capital and surplus at the beginning and end of the year. (See p. 31.)

Each bank is required by law to transfer to a reserve account 20 percent of its net earnings until the reserve equals 100 percent of its paid-in capital. Some of the banks have credited substantial additional amounts to reserves for contingencies. The amounts so added to reserves were approximately $1,456,000 for the fiscal year 1947 and $1,895,000 for the fiscal year 1946.

Dividends declared were (unpaid at June 30, 1947, $943,627):

	Year ended June 30		Total dividends from inception
	1947	*1946*	
Member associations	$1,075,367	$902,860	$8,169,826
Reconstruction Finance Corporation [1]	1,505,992	1,482,287	21,325,234
	$2,581,359	$2,385,147	$29,495,060

[1] See note 1, p. 39.

The dividends received by RFC (since 1934 each bank has been required to apply the same dividend rate to all stockholders (12 U. S. C. 1426 (k))) were at a rate lower than the average interest rate (1.83 percent) on marketable issues of the public debt. To the extent that the Government's interest cost exceeds the return on its investment, it is subsidizing the banks. The average cost to the Treasury on the Government's investment in the banks was approximately $748,000 (1946, $718,000) more than the income received from the investment in 1947. The Chicago bank is the only bank which failed to earn its current dividends. (See p. 40.)

Undivided profits decreased approximately $83,000 during the year as a result of transfers to "legal reserves", transfers to reserves for contingencies, and declarations of dividends, the total of which exceeded the net income of $4,011,654. (See p. 39.)

Thus the net increase in surplus of all the banks was $1,373,000 against $2,252,000 in 1946.

Open market financing was used to a greater extent during the fiscal year 1947. The consolidated obligations outstanding at June 30, 1947 ($140,000,000), were $73,000,000 greater than at the preceding June 30. These bonds, bearing interest at the rate of 1¼ percent and maturing April 15, 1948, were the joint and several obligations of all the banks. At maturity date, $84,500,000 of these bonds were refinanced by issuance of consolidated notes bearing interest at the rate of 1⅝ percent and maturing April 15, 1949. The cost of borrowed money ($1,794,000) was $1,207,000 (206 percent) greater than in 1946. The average cost of borrowed money increased from 1.007 percent in 1946 to 1.370 percent in 1947. (See pp. 38 and 39.)

The original investment of the Government of $124,741,000 in the banks has been reduced $2,068,800 by the partial retirement of its capital stock in the following banks during the past 3 years.

Fiscal year	*Total*	*Federal home loan bank*	
		Cincinnati	*Indianapolis*
1947	$979,000	$581,100	$397,900
1946	858,700	329,600	529,100
1945	231,100		231,100
	$2,068,800	$910,700	$1,158,100

At June 30, 1947, the Government's investment in the banks ranged from 37 percent of the total capital stock in the Indianapolis bank to 71 percent in the Little Rock bank.

The investment of the member associations was increased during the year by $16,040,350 ($17,373,350 additional investment less $1,333,000 retirements) to $95,599,800 at June 30, 1947.

Deposits of member associations at June 30, 1947, amounted to $85,885,527 (June 30, 1946, $54,794,700), about 77 percent (1946, 69 percent) of which were time deposits. These deposits, the highest in the banks' history, were 56 percent greater than at June 30, 1946. The maximum interest rate on time deposits was 1 percent, and the interest cost was $389,380; in 1946 the interest cost was $269,831. (See pp. 36 and 37.)

Loans (advances) are evidenced by notes of borrowers (member associations), and if their term exceeds 1 year they must be secured. The average interest rate earned on advances was 1.89 percent; in 1946 it was 1.73 percent and in 1945, 1.82 percent.

The advances outstanding at June 30, 1947, aggregated $289,088,899, an increase of about $85,800,000 (42 percent) over the preceding year-end. Advances made totaled $302,500,000 in 1947 and $314,800,000 in 1946; these two years accounted for nearly 30 percent of the $2,098,000,000 loaned by the banks since their inception in 1932. Although membership in the banks was virtually unchanged during the year, the borrowing members at June 30, 1947, had increased 30 percent to 1,455, or 39 percent of the total membership of 3,700.

At June 30, 1947, long-term advances represented 50 percent of the total outstanding whereas at the close of the preceding year they represented 20 percent of the total. The face value of mortgage collateral at the close of 1947 was 126 percent greater than at the end of 1946 and was 78 percent of the total collateral.

During the year under review, the banks earned $4,614,300 in interest on advances, an increase of $2,114,000 (85 percent) over the 1946 income. (See p. 36.)

The banks held $155,463,500 (par value) in Government securities at the close of 1947—nearly $35,000,000 more than at the beginning of the year. Of the total, approximately $55,000,000 was needed to comply with statutory reserve requirements, leaving $100,000,000 as an unrestricted secondary reserve. Earnings on these investments totaled $2,755,079 during the year, $62,000 less than in 1946. (See p. 33.)

At June 30, 1947, the Government (RFC) owned 56 percent of the outstanding capital stock of the banks. If it is assumed, for purposes of comparison, that the Government's equity in the United States securities owned by the banks amounted to 56 percent or $87,060,000, it is interesting to note that the interest of $1,543,000 (out of a total of $2,755,000 for 1947) paid on this equity by the Treasury approximately equals the dividends of $1,506,000 on FHLB capital stock owned by RFC. In other words, the income on $87,060,000 of United States securities was sufficient to pay the dividends on $122,672,000 of capital stock owned by the Government.

4. In general, the accounting records and system of internal control of the banks were adequate. We found some deficiencies in the system of internal control of certain banks and made suggestions for their correction. The volume of transactions in some banks was and still is too small to justify the employment of personnel in a number sufficient to provide adequate internal checks and balances. In those cases we recommended greater vigilance on the part of the bank examiners. Our suggestions were adopted promptly.

Recommendations to the Congress

FEDERAL HOME LOAN BANK ADMINISTRATION (NOW HOME LOAN BANK BOARD)

Recommendations adopted by the Congress

The substance of a recommendation included in our 1945–1946 audit report was embodied in an act (62 Stat. 1239) approved on July 3, 1948, which granted authority to the HLBB to classify as nonadministrative expenses the costs of examination of savings-and-loan-type institutions made by its Examining Division.

Previous recommendations to the Congress

We offer for further consideration by the Congress the following recommendations the substance of which was included in our previous audit report (H. Doc. 706, 80th Cong.).

1. In common with our recommendations concerning Government corporations, we believe that the functions of the Home Loan Bank Board should be those of policy-making and general supervision rather than administration and operation. Under this plan the members should serve and be compensated on a part-time basis. The membership of the Board should be increased to five or seven members in order to provide a balanced representation of the interests of the public at large with the interests of the institutions it supervises. The chairman of the Board should be elected by the directors. We recommend, therefore, that the Board be reconstituted somewhat along the general outline suggested on page 8 of our previous report.

2. We believe that there is a serious question as to the desirability of permitting an agency having the authority to promote and charter Federal savings and loan associations, which are required by law to be insured, also to administer insurance underwriting. Experience has shown that the responsibilities for these functions are inherently conflicting. (See pp. 13 and 16 of our 1945–1946 audit report on Federal Savings and Loan Insurance Corporation, H. Doc. 660, 80th Cong.)

Therefore, it is recommended that the Congress consider separation of Federal Savings and Loan Insurance Corporation from the Federal Home Loan Bank Administration (now HLBB) but not, of course, from the overall supervision of National Housing Agency (now H&HFA). Such a separation of functions exists in the commercial banking field. Federal Deposit Insurance Corporation is independent of the Federal and State bank supervisory authorities, but coordination is an objective of the requirement that the Comptroller of the Currency be one of the members of the board of directors of FDIC.

Such a separation would necessitate the creation of a board of trustees (directors) for Federal Savings and Loan Insurance Corporation. Detailed suggestions as to the composition of the board were offered on pages 4 and 5 of our 1945–1946 audit report on FS&LIC.

3. The financial transactions of the Administrative Department and the Federal Home Loan Bank System of the Federal Home Loan Bank Administration (now HLBB) should be subject to budgetary control and audit in the same manner as Government corporations, under the Government Corporation Control Act (31 U. S. C. 841, et seq.) rather than under the Budget and Accounting Act of 1921 (31 U. S. C. 41–58, 71 et seq.), since all of the revenues (exclusive of reimbursements for examinations of savings and loan associations) are obtained from wholly or partly owned Government corporations and no appropriations are received from the United States Treasury.

Therefore, it is recommended that the Congress consider amending title I of the Government Corporation Control Act (31 U. S. C. 841, et seq.) to include the Home Loan Bank Board.[1]

New recommendations to the Congress

4. In accordance with generally accepted accounting principles and sound business practice, all costs in connection with the operations

[1] The HLBB has expressed agreement with this recommendation.

of an organization should be reflected in its accounts and financial statements. The Home Loan Bank Board does not bear its portion of the Government's share of the cost of the civil service retirement system or of the Federal employees' compensation fund.

While this condition exists generally in Government agencies whose employees are under the civil service retirement system, we recommend that the Congress enact legislation to require that the Home Loan Bank Board contribute to the civil service retirement and disability fund on the basis of annual billings, as determined by the Civil Service Commission, for the Government's share of the cost of the civil service retirement system applicable to the Board's employees and their beneficiaries and for a fair portion of the cost of administration of the fund.

We recommend further, for the same reason, that the Board reimburse the Federal employees' compensation fund, on the basis of billings determined by the Federal Security Agency, for the cost of benefits paid under the provisions of the Federal Employees' Compensation Act of September 7, 1916, on account of employees of the Board and for a fair portion of the cost of administration.

FEDERAL HOME LOAN BANKS

Previous recommendations to the Congress

We offer for further consideration by the Congress the following recommendations the substance of which was included in our previous audit report.

1. It is recommended that consideration be given to changing the method of electing directors as now provided by law. Representation on the board of directors of each bank should be proportionate to the degree of risk of the stockholders. In the case of member institutions this risk is measured by their stockholdings alone. In the case of the Government it must comprehend also the moral and potential financial responsibilities inherent in the policy of the underlying legislation. The Government supervises the banks, approves or disapproves the election of bank directors, holds a veto power over the acts of the boards of directors, establishes credit limits, requires that public borrowings and transactions in Government securities by the banks have the approval of the Secretary of the Treasury; and may be called upon for financial support in periods of recession or depression in order to maintain an adequate credit reserve system.

Under existing law the Government is represented by four of the twelve directors on the board of each bank. A more desirable plan would be an arrangement similar to that prescribed for the corporations supervised by the Farm Credit Administration. The members of the district farm credit boards are elected as follows: Three members are chosen, one each by the national farm loan associations, the production credit associations, and the cooperatives which are stockholders of the banks for cooperatives; four members are appointed by the Governor of Farm Credit Administration, one of whom is selected from three persons nominated by the national farm loan associations.

2. We believe that the Federal home loan banks should not have excessive capital. It is recommended, therefore, that:

a. The banks should not be permitted to borrow for any purpose other than to provide funds for advances to member institutions.

b. Provision should be made for flexibility in the capital structure of the banks. To this end, the revolving fund plan employed in the corporations supervised by Farm Credit Administration should be considered.

3. It is suggested that the banks be required to pay cumulative dividends or interest on the Government's investment, at a rate determined by the Secretary of the Treasury, calculated to reimburse the Treasury for its cost. (See p. 40.)

New recommendations to the Congress

4. At January 31, 1949, member institutions owned all of the capital stock in one bank (Indianapolis) and a majority in three banks (Winston-Salem, Cincinnati, and Des Moines).

Upon retirement of the Government's investment, the banks, individually or as a system, are not subject to the General Accounting Office audit or to certain other controls contained in titles II and III of the Government Corporation Control Act (31 U. S. C. 841, et seq.), but, as noted in recommendation number 1 on page 8, the Government's responsibilities are not diminished. Therefore, it is recommended that so long as the responsibilities for direction and potential financing remain with the Government, each bank should be subject to the provisions of the cited titles of the Government Corporation Control Act.[1]

5. The law provides that "The board shall from time to time, at least twice annually, require examinations * * * of all Federal Home Loan Banks * * *." Our recent field survey of the 11 banks and our review and observation of the examination program and procedures of the bank examination staff of the Home Loan Bank Board indicate that under existing conditions an annual examination would be sufficent, so long as the General Accounting Office is authorized to audit the banks in accordance with requirements of the Government Corporation Control Act. In our opinion, however, the Board should be permitted, as a safeguard against unsatisfactory conditions in the banks, to make more frequent examinations if necessary. We recommend, therefore, that the act be amended to provide that the Board shall from time to time, at least annually, require examinations of all Federal home loan banks.[1]

Recommendations to the Management

FEDERAL HOME LOAN BANK ADMINISTRATION (NOW HOME LOAN BANKBOARD)

Recommendations adopted by the management

Of the recommendations included in our audit report for the fiscal years 1945–1946, the HLBB has adopted the following:

1. The review of the eligibility for insurance of associations seeking a Federal charter and the approval of all admissions should be assigned to Federal Savings and Loan Insurance Corporation; final approval

[1] Legislation proposed by the HLBB has been submitted through the Bureau of the Budget to the President.

and issuance of the insurance certificates should rest with the Board. (For the part of this recommendation not yet adopted, see item 1 below.)

2. The Board should remove the policy and operating functions previously granted to the Legal Department.

Previous recommendations to the management

Pending the possible enactment of legislation for the separation of FS&LIC from the HLBB (see recommendation to the Congress on p. 7), the following recommendations are renewed in light of the conditions that existed at the date of preparation of this report (December 1948).

1. In order to protect the insurance fund more adequately, the administrative responsibility for examining insured institutions and enforcing insurance regulations, now operating functions of the HLBB, should be transferred to FS&LIC. These activities are primarily the responsibility of FS&LIC by law, and it is desirable also from the standpoint of internal control that such functions be divorced from the HLBB, which is responsible for promotion and development of Federal associations and the Federal home loan banks. However, the HLBB would continue to promote and charter Federal associations, to review examination reports of Federal associations to determine that its supervisory regulations are complied with, and to initiate action for the correction of deficiencies in Federal associations.

Although the administrative responsibility for examinations of insured institutions and applicants for insurance would rest with FS&LIC and for examinations of noninsured institutions with the HLBB, for purposes of economy and efficiency the technical responsibility for conducting the examination of savings-and-loan-type institutions should be assigned to the recently created Office of the Auditor of the HLBB acting on behalf of FS&LIC. The subject matter to be included in examinations and the schedule of examinations to be undertaken should be determined by the cooperative and coordinated efforts of FS&LIC and of the chief supervisor and the Office of the Auditor of the HLBB. Examination standards and the extent of examination procedures would be the responsibility of the auditor. Copies of all examination reports made for insurance purposes should be issued to FS&LIC by the auditor. In addition, copies of reports on examinations of Federal associations and noninsured associations should be submitted to the Office of the Chief Supervisor of the HLBB.

The Office of the Auditor is charged now with the internal audit of the HLBB, HOLC, and FS&LIC, as well as audit of the 11 district Federal home loan banks. The addition of the audit of savings-and-loan-type institutions to his responsibilities would eliminate the present lack of coordination between the Office of the Chief Examiner of the HLBB (savings and loan associations) and the Office of the Auditor (audits of 11 Federal home loan banks). There are phases of the examination of the associations which should be but are not now complementary to the audit of the 11 banks; common control of both programs, we believe, would remove this deficiency. Consolidation of the functions should provide also an opportunity to develop a more competent audit staff through diversification of assignments and reduction of existing travel requirements.

2. We believe that administrative determination of the nature and extent of legal, budget, personnel, and housekeeping requirements and their control should rest with the chief operating executive for the HLBB, HOLC, and FS&LIC. In the past this determination has been made by the Administrative Department of the Federal Home Loan Bank Administration without sufficient consideration of the constituent units. The HLBB, however, should retain the responsibility for general supervision and coordination of its constituents in order to insure compliance with its policies. In our opinion, such a policy would promote economy, facilitate operations, and more clearly define management responsibility. We recommend that (1) operating managements of the constituents prepare and justify their respective budget estimates, (2) managements of the constitutents be consulted in the preparation of the Board's own budget in order that there may be no duplicated or unnecessary services or facilities in the Board's offices, (3) constituents submit their estimates to a representative of the HLBB for coordination and approval by the Board and for transmittal to the Bureau of the Budget through Housing and Home Finance Agency, (4) the respective managements adjust their estimates to reflect any changes made by the Congress, (5) the several managements be charged with full responsibility and authority for compliance with the budgets, and (6) a system of monthly reports of operations in comparison with the total budgeted allowance for each expense classification replace the present system of monthly allotments, separate budget reports, and approval of variations from the allotments.[1] (See items 5 and 6, below and on p. 12.)

3. The accounting system of the HLBB should be maintained on a corporate basis in order to reflect readily the total operating costs and the allocation of such costs to its constituent organizations. Elimination of budgetary accounts from the general accounting records and adoption of the accrual basis of accounting (rather than the "obligation" basis) would curtail administrative expenses and simplify procedures. Since the subject was broached, some revisions have been made,[2] and others requiring further study are under consideration. (For additional recommendations see items 5 and 6, below and on p. 12.)

4. The surplus of the HLBB (exhibit 1, p. 25), has been unjustifiably accumulated over a period of years. Its origin was in excessive assessments against the district banks, and the aggregate has been reduced by the absorption of underassessments in several years and by the deficits sustained by the Examining Division through insufficient charges for examinations of savings and loan associations. Therefore, we recommend that (1) the excessive assessments be returned to the district banks, (2) the Examining Division deficits be paid by FS&LIC, (3) policies and procedures for the final settlement of advances made by the constituent units for each year be established, and (4) a uniform closing date for the accounting records of all constituent units be adopted. (See pp. 20 and 21.)

New recommendations to the management

As a result of further study during our audit for the fiscal year 1947, we offer the following additional recommendations.

5. We have proposed (item 2 above) a simplified procedure for the preparation of budget estimates and the control of operations under

[1] Adopted by the HLBB on December 29, 1948.
[2] Adopted by the HLBB during the fiscal year 1948.

the approved budgets. The adoption of this plan would eliminate virtually all of the detail work of the present Budget Office.[1] We recommend that the Budget Office be discontinued and that its remaining functions of coordination and submission of the several budgets be transferred to the Office of the Comptroller of the HLBB.

6. The volume of transactions and the resulting accounting work in the offices of the comptrollers of FS&LIC and the HLBB do not appear to be sufficient to warrant the employment of the present staff (26 including supervisory personnel). In addition, the revised budgetary procedures (item 2, p. 11) would greatly reduce the work of the Office of the Comptroller of both the HLBB and FS&LIC. Also the transfer of the computation of insurance premiums from the comptroller's office of FS&LIC to the insured associations (proposed in our 1947 audit report on that Corporation) would eliminate a substantial part of the work now performed by that office. We have suggested (item 3, p. 11) that the accounting records of the HLBB be revised and simplified. The adoption of these proposals would, in our opinion, make both practicable and desirable the consolidation of these offices under the comptroller of the HLBB. We therefore recommend the consolidation of these functions under a single comptroller who would be directly responsible to the HLBB. The comptroller's office would be a service organization responsible for formulating budget, fiscal, accounting, and statistical procedures and maintaining related records, rendering to the general manager and/or operating division chiefs necessary financial and statistical information and reports pertinent to their operations, and submitting special reports or data to the operating executives as requested by them.

7. The auditor, who is responsible directly to the HLBB, should have the duty of surveying the organizational structure and the operating procedures of all the constituents and offices under the Board's control. Such a continuing survey would be designed to insure compliance with the Board's policies and to provide an independent basis for the evaluation of performance and the improvement of organization and procedures. In other words, to be of maximum service the auditor should be specifically authorized to extend his functions beyond the mere examination of accounting records.[2] The auditor should attend meetings of the HLBB if the Board is to realize the greatest benefit from his services as an advisor and an important element of internal control.

8. Officers of the district Federal home loan banks, as agents for the HLBB, review reports of examinations of insured associations and take such supervisory action as they deem necessary. The bank officers are elected by the district bank directors, most of whom are officials of institutions subject to examination and to supervisory criticism and action. This situation could interfere with the independence of the supervision and so constitute a weakness in the administration of the law. However, an offset to this contingency is the existence of the Office of the Chief Supervisor of the HLBB, which receives examination reports and independently reviews both the reports and the actions of the district supervisors and takes such action as the circumstances warrant.

[1] Adopted by the HLBB on December 29, 1948.
[2] Effective January 1949 these additional responsibilities were assigned to the auditor by the HLBB.

At present the general manager of FS&LIC does not receive copies of examination reports for his review, nor does he receive official notification of important deficiencies, whether disclosed by examinations or otherwise, prior to the time that the imminence of default requires financial assistance to insured institutions or payment of insurance claims to shareholders. The general manager should have under his control all available data bearing on conditions in insured associations in order to determine weaknesses in each association and to initiate corrective action for protection of the insurance fund. At present the general manager has the operating responsibility but lacks the means and the authority to take action to eliminate deficiencies.

Therefore, we recommend that:

a. Use of bank officers as agents of the HLBB in the supervision of Federal associations and of FS&LIC in the enforcement of insurance regulations be discontinued.

b. Direct responsibility for the supervision of Federal associations rest with the Office of the Chief Supervisor of the HLBB and the function be performed by representatives of his office.

c. Direct responsibility for the enforcement of insurance regulations rest with the general manager of FS&LIC. A copy of each examination report of insured institutions should be issued directly to FS&LIC for review and analysis and for determination of any action that may be necessary for protection of the insurance fund. Requests for corrective action with respect to State associations should be directed by FS&LIC to the State regulatory bodies; with respect to Federal associations, such requests should be directed to the Office of the Chief Supervisor of the HLBB. In all cases in which action may be necessary, FS&LIC, in cooperation with regulatory officials, would formulate a plan for correction of the deficiencies.

FEDERAL HOME LOAN BANKS

New recommendations to the management

9. We have stated in our suggestions to the Congress (item 1, p. 8) that the statutory provisions for the selection of directors results in majority representation for the minority stockholders. The disproportion has been increased by the Administration's failure to fill vacancies among the "public interest" directors in several of the banks. We recommend that the Board make appointments to present and future vacancies as promptly as possible.[1]

10. Our review of the banks' published financial statements disclosed wide variations in their form and degree of disclosure. We observed, also, that there is no uniform policy as to the financial statements and minimum information to be included in the banks' reports to their stockholders. We recommend that the HLBB set requirements for such published statements that will be in keeping with generally accepted standards of financial reporting and prescribe the minimum content of reports to be released to the banks' stockholders.

[1] As of February 9, 1949, all vacancies among the "public interest" directors have been filled.

PART I

Federal Home Loan Bank Administration

COMMENTS ON OPERATION

The expenses of the Administrative Department and the Federal Home Loan Bank System of the Federal Home Loan Bank Administration for the fiscal year ended June 30, 1947, were $2,038,004, approximately $220,000 more than for the preceding fiscal year. A summary of expenses for the two years and their allocation to the organizations supervised by the Administration follows.

	Year ended June 30		*Increase (—decrease)*
	1947	*1946*	
Salaries	$1,607,655	$1,411,242	$196,413
Other operating expenses	415,118	377,284	37,834
Office of Administrator, NHA	15,231	29,411	—14,180
	$2,038,004	$1,817,937	$220,067
Allocated to:			
Federal home loan banks	$530,000	$450,000	$80,000
Insured institutions, for examinations	1,065,500	958,707	106,793
HOLC	144,332	140,572	3,760
FS&LIC	178,085	235,137	—57,052
Long Beach conservatorship	83,170		83,170
Miscellaneous income	455	7,113	—6,658
Balance transferred to surplus	36,462	26,408	10,054
	$2,038,004	$1,817,937	$220,067

A comparison of the expenses of the Administrative Department and their allocation for the fiscal years 1947 and 1946 follows:

	Year ended June 30		*Increase (—decrease)*
	1947	*1946*	
Salaries:			
Office of Commissioner	$26,835	$24,330	$2,505
Office of Executive Assistant to Commissioner	29,619	29,665	—46
Office of Assistant to Commissioner	24,294	19,392	4,902
Legal Department	68,426	64,538	3,888
Personnel Department	70,432	45,489	24,943
Budget Office	17,490	15,569	1,921
Office of the Secretary	122,609	109,110	13,499
	359,705	308,093	51,612
Other expenses:			
Communications		5,892	—5,892
Rents and utilities		36,557	—36,557
Other contractual services	6,953	2,051	4,902
Supplies and materials	2,003	1,526	477
Newspapers and periodicals		79	—79
Total expense to be allocated	$368,661	$354,198	$14,463
Allocation of expenses:			
FHLB System	$136,347	$126,163	$10,184
FS&LIC	88,185	87,608	577
HOLC	144,129	140,427	3,702
Total, as above	$368,661	$354,198	$14,463

The expenses of the Federal Home Loan Bank System and their allocation for the two years are compared:

	Year ended June 30 1947	Year ended June 30 1946	Increase (−decrease)
Operating expenses:			
Salaries:			
Office of the Governor	$56,695	$60,537	−$3,842
Office of the Chief Supervisor	100,942	101,577	−635
Office of the Comptroller	117,550	96,799	20,751
Operating Statistics Division		64,105	−64,105
Review and Analysis Section	14,432	12,516	1,916
Examining Division	864,460	735,874	128,586
Legal Department personnel assigned in the Administrative Department, carried on the payroll of the bank system	34,844	31,741	3,103
Nonadministrative—Long Beach conservatorship	59,027		59,027
	1,247,950	1,103,149	144,801
Miscellaneous operating expenses:			
Travel:			
FHLBS	179,080	184,719	−5,639
Savings and Loan Advisory Council	3,935	3,789	146
Administrative Department, FHLBA	1,460	1,797	−337
Transportation of things	1,322	1,329	−7
Communications	25,971	10,515	15,456
Rents and utilities	82,591	63,033	19,558
Printing and binding	1,647	287	1,360
Other contractual services	18,618	26,588	−7,970
Supplies and materials	9,135	8,640	495
Newspapers and periodicals	62	217	−155
Equipment	15,246	8,674	6,572
Services rendered by HOLC (Personnel Department)		14,591	−14,591
Miscellaneous expenses, prior years (−reduction)	−468		−468
	338,599	324,179	14,420
Other expenses:			
Office of Administrator, NHA	15,231	29,411	−14,180
Administrative Department, FHLBA	136,347	126,163	10,184
FS&LIC (Operating Analysis Division)	67,563	7,000	60,563
	219,141	162,574	56,567
Total expenses	1,805,690	1,589,902	215,788
Less miscellaneous income	455	7,113	−6,658
Net expenses	1,805,235	1,582,789	222,446
Expenses allocated:			
Insured institutions, for examinations	1,065,500	958,707	106,793
FHLB	530,000	450,000	80,000
FS&LIC	89,900	147,529	−57,629
HOLC	203	145	58
Long Beach conservatorship	83,170		83,170
Total expenses allocated	1,768,773	1,556,381	212,392
Balance of expenses transferred to surplus	$36,462	$26,408	$10,054

These statements do not reflect the cost of employees' accumulated annual leave. At June 30, 1947, the accrued leave amounted to $77,129 for the Administrative Department and $234,660 for the bank system; the combined liability was $311,789. Had this amount been recorded and allocated in 1947, HOLC would have borne $31,581, FS&LIC $41,921, and the FHLBA $238,287. The amount at June 30, 1946, is not readily available because the leave records were maintained by the Personnel Department on a calendar year basis.

The increase of $196,413 (FHLBS $144,801, Administrative Department $51,612) in salaries is largely the result of salary increases of $199,000 under the Federal Employees Pay Act of 1946 (5 U. S. C. 901, et seq.); periodic salary increases, $16,000; and additional personnel, $58,000; partially offset by decreased overtime payments, $14,000, and the transfer of the Operating Analysis Division to FS&LIC, $64,000.

Many significant items have been stated differently in the two years, and, consequently, in those cases the variation shown is meaningless. In 1946 a number of expenses were paid by the Administrative Department and recovered through assessments against the organizations under its supervision, but in 1947 some of these costs were paid directly by the constituent organizations. Included in this category were communications, $6,000, and rents and utilities, $37,000. On the other hand, in 1946 some expenses were paid by affiliated organizations and recovered through assessments by or against FHLBS, but in 1947 certain of these costs were paid directly by the bank system; among these items were communications, $15,000 (of which $12,000 was formerly paid by NHA); rents and utilities, $16,000 (paid by Administrative Department, FHLBA in 1946); and Personnel Department salaries formerly paid by HOLC $15,000.

A comparison of the administrative expenses with the amount authorized by the Congress follows:

Authorization		$1,641,000
Total expenses (exhibit 2)		2,038,004
Less charges against:		
HOLC and FS&LIC	$314,151	
Long Beach conservatorship	87,688	
Prior years' expenses applied in current year—not deducted above	2,106	403,945
Total administrative expenses		1,634,059
Excess of authorization over expenses		$6,941

For the three years 1945, 1946, and 1947 we reviewed the expenses, their justification, and the bases upon which they were allocated to the various subordinate organizations. In our opinion, the Administration was overstaffed, it performed unnecessary and often overlapping functions, and the cost of its activities was assessed against its constituent entities with little regard for the need of those activities. We found no reasonable basis for the changes in the composition of the assessments and the varying allocations of their components that occurred in the fiscal years 1945, 1946, and 1947. Some of these deficiencies have been corrected by the present Home Loan Bank Board, but much remains to be done.

The Legal Department salaries ($103,270 in 1947) were borne by the corporate constituents, which also had other expenses for legal services:

	HOLC	*FS&LIC*	*Federal home loan banks*
Assessments by FHLBA (total, $103,270)	$17,107	$24,633	$61,530
Legal Department—New York	219,427		
Salaries paid directly by FS&LIC for FHLBA Legal Department		31,198	
Counsels' compensation			38,125
	$236,534	$55,831	$99,655

Thus the total cost of legal services for the FHLBA and its constituents was $392,020.

The present detailed internal budgetary procedures not only require a separate staff in the Administrative Department but impose on the comptrollers' offices an additional burden of record-keeping and reporting. We believe that the essential functions of budget preparation and budgetary control can be performed by the comptroller of the FHLBA more economically than under the existing arrangement.

The Administrator of the National Housing Agency was charged, among other things, with the supervision and direction of the Federal Home Loan Bank Administration. We understand that the Administrator has not actively intervened in the operations or policy determinations of the FHLBA or its constituent units. However, the Agency has provided a public relations service for the FHLBA and has been required, as a matter of form, to integrate the budgets and other financial reports of the FHLBA and its constituent organizations into its own reports. Further, it has been required to act as a channel for many intragovernmental matters affecting the FHLBA. Assessments paid to NHA for services to, and supervision of, the FHLBA and its constituent organizations were as follows:

	Year ended June 30	
	1947	1946
Federal Home Loan Bank System	$15,231	$29,411
Home Owners' Loan Corporation	46,962	85,443
Federal Savings and Loan Insurance Corporation	5,307	7,925
	$67,500	$122,779

The Office of the Chief Supervisor is concerned primarily with the supervision of insured institutions. During the course of our audit for the fiscal years 1945 and 1946, we informed the management that its policy of charging the full cost of this activity to FS&LIC was improper. In 1947 the charge to FS&LIC was reduced to 75 percent ($74,882) of the total; one-half of the balance ($26,060) was allocated to the Examining Division of the FHLBA and the rest to the Federal home loan banks.

Officers of the district banks, as agents for FS&LIC and the FHLBA (now HLBB), review the reports of examinations of associations and take such supervisory action as they deem necessary. The bank officers are elected by the district bank directors, most of whom are officials of institutions subject to examination and to supervisory criticism and action. This situation could interfere with the independence of the supervision and so constitute a weakness in the administration of the law. However, an offset to this contingency is the existence in the FHLBA of the Office of the Chief Supervisor, which receives examination reports and independently reviews both the reports and the actions of the district supervisors and takes such action as the circumstances warrant.

At present the general manager of FS&LIC does not receive copies of examination reports for his review, nor does he receive official notification of important deficiencies, whether disclosed by examinations or otherwise, prior to the time that the imminence of default requires financial assistance to an insured institution or payment of insurance claims to shareholders. The general manager should have under his control all available data bearing on conditions in insured institutions in order to determine weaknesses in each association and initiate corrective action for the protection of the insurance fund. At present the general manager has the operating responsibility but lacks the means and the authority to take corrective action. (See p. 12 for our recommendation.)

COMMENTS ON FINANCIAL POSITION

A comparison of the financial position of the Federal Home Loan Bank Administration at the close of the fiscal years 1947 and 1946 is:

	June 30		Increase (−decrease)
Assets	*1947*	*1946*	
Cash	$341,656	$380,768	−$39,112
Accounts receivable:			
Insured institutions for examination fees	139,395	250,256	−110,861
Long Beach conservatorship	90,974	4,542	86,432
Other	23	------------	23
FS&LIC	26,079	26,892	−813
HOLC	24	566	−542
NHA	------------	142	−142
Deferred expenses	159	500	−341
	$598,310	$663,666	−$65,356
Liabilities			
Accounts payable	$139,965	$159,696	−$19,731
Trust liabilities	63,843	59,011	4,832
Excessive contributions, to be refunded:			
HOLC	4,625	12,055	−7,430
FS&LIC	960	9,203	−8,243
Deferred income	1,678	------------	1,678
Surplus—excessive assessments against district banks, less examining division deficits	387,239	423,701	−36,462
	$598,310	$663,666	−$65,356

Cash

The cash balances were derived largely from excessive assessments made against organizations supervised by the FHLBA and constitute, in effect, a revolving fund for the Administration.

Accounts receivable

Examination fees

The Examining Division of the FHLBA examines insured institutions (Federal and State) and such other institutions, including applicants for insurance, as the Administration (now HLBB) may require.

According to section 8 of the Federal Home Loan Bank Act, "In any State where state examination of members or nonmember borrowers is deemed inadequate for the purposes of the Federal home loan banks the board shall establish such examination, all or part of the cost of which may be considered as part of the cost of making advances in such state." Virtually no examinations have been made under this provision.

Section 403 (b) of the National Housing Act (12 U. S. C. 1726 (b)) provides that applications for insurance shall contain an agreement "(1) to pay the reasonable cost of such examinations as the Corporation [FS&LIC] shall deem necessary in connection with such insurance, and (2) if the insurance is granted, to permit and pay the cost of such examinations as in the judgment of the Corporation may from time to time be necessary for its protection and the protection of other insured institutions." The FS&LIC regulations require that all insured institutions permit and pay for at least annual examinations by the Corporation. These examinations are made by the Examining Division, under control of the FHLBA.

It is our opinion that the responsibility for the examinations of insured institutions and the determination that such institutions have complied with the insurance regulations should be vested in the general manager of FS&LIC. The general manager at all times should be cognizant of conditions existing in each and every insured association in order that he may discharge his duty of safeguarding the insurance fund. (See p. 10.) Further, we believe that the present delegation of responsibilities from an insurance standpoint does not provide adequate management control. In addition, there is a serious question as to the desirability of permitting a regulatory body (FHLBA) having authority to promote and charter Federal associations, which are required by law to be insured, also to supervise insurance underwriting.

At June 30, 1947, the examination fees of $139,395 ($110,861 less than at the preceding year-end) shown in the balance sheet comprised:

Fees billed	$48,495
Fees unbilled	90,900
	$139,395

The unbilled portion represents largely the charges, at per diem rates, for work performed on examinations which had not been completed at June 30. All of these accounts were collected during the ensuing fiscal year.

Although progressive increases in rates have been made, the Examining Division has operated at a deficit for several years. The financial results of its operations during the last three years were:

Fiscal year	*Expenses*	*Examination fees*	*Deficit*
1945	$991,699	$971,942	$19,757
1946	977,924	958,707	19,217
1947	1,115,225	1,065,500	49,725
	$3,084,848	$2,996,149	$88,699

The deficits ultimately are absorbed by the assessments made against the district banks. It is our opinion that the deficits should be charged to FS&LIC, because the examinations were made primarily for the protection of the insurance fund. The rates should be increased to avoid additional deficits.[1]

Long Beach Federal Savings and Loan Association—conservatorship costs

The balance sheet at June 30, 1947, reflects the unpaid balance, $90,974, of expenses incurred in the conduct of the association's affairs while the association was in possession of a conservator appointed by the Federal Home Loan Bank Administration on May 20, 1946. After the balance sheet date, a payment of $63,749 was received. Litigation is now pending in the United States District Court for the Southern District of California, Central Division, involving the Long Beach Federal Savings and Loan Association and the validity of the conservatorship.

Surplus

The surplus, $387,239, shown in the accompanying balance sheet is $5,526 greater than that shown on the Administration's (FHLBA) books. The difference represents our adjustments for an additional

[1] In August 1948 the per diem rates were changed by the HLBB from $31 for senior examiners and $26 for assistants to a single rate of $30.

$8,099 due from the Long Beach conservatorship, and an overassessment of $2,573 against FS&LIC, both of which were recorded subsequently by the Administration. This surplus arose from excessive assessments against the district banks and has been reduced by the absorption of underassessments in several years and by the deficits sustained by the Examining Division through insufficient charges for examinations of savings and loan associations. (See p. 11.) The bank assessments are authorized by section 18 (b) of the Federal Home Loan Bank Act (12 U. S. C. 1438) for the purpose of defraying the expenses of the Federal Home Loan Bank Board. The general counsel of the Federal Home Loan Bank Administration has ruled that the examinations of insured savings and loan associations are made for the primary benefit of Federal Savings and Loan Insurance Corporation. In our opinion, the surplus has been unjustifiably accumulated, and the Examining Division deficits are a proper charge against FS&LIC.

For a number of years the distribution of expenses was such that the costs of the Examining Division were substantially understated, and, consequently, the records reflected a profit from operations. In 1941 an effort was made to redistribute the prior years' expenses so as to reflect the proper operating results. Our review of the entries made at that time leads us to conclude that the achievement was far short of its goal. Believing that the ownership of these funds should be determined with sufficient accuracy to permit an equitable settlement with their contributors, we undertook their identification. After a brief survey it became apparent that this task could be accomplished more expeditiously and economically by the staff of the HLBB, and at our request the Board's comptroller and its auditor agreed to make the necessary analyses. Upon completion of the work, the Board should be able to make a reasonably satisfactory disposition of the funds.

In order to eliminate any further accumulation of surplus funds we suggest that the FHLBA (HLBB) establish policies and procedures for the final settlement of advances made by constituent units for each year, based upon the closing of the accounting records as of June 30. Further, a uniform closing date for the accounting records of all constituent units should be adopted and the interunit accounts should be in agreement at the end of the fiscal year.

Exceptions

Insofar as we were able to observe during the course of our audit, no program, expenditure, or other financial transaction had been carried on, incurred, or entered into by the Federal Home Loan Bank Administration without authority of law. However, we question the propriety of the accumulation by the Federal Home Loan Bank System (a division of the Federal Home Loan Bank Administration) of funds derived from excessive assessments against the Federal home loan banks and the use of these funds to absorb deficits incurred by the Examining Division of the Administration in its examinations of insured savings and loan associations which are made primarily for the benefit of Federal Savings and Loan Insurance Corporation.

Scope of Audit

We have examined the balance sheet of the Federal Home Loan Bank Administration as of June 30, 1947, and the related statements of expenses and their allocation and surplus for the year then ended. We have reviewed the system of internal control and the accounting procedures of the Board and, without making a detailed audit of the transactions, have examined or tested accounting records and other supporting evidence by methods and to the extent deemed appropriate. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included all auditing procedures which we considered necessary in the circumstances.

All disbursements were subject to audit by the General Accounting Office under the provisions of the Budget and Accounting Act of 1921 (31 U. S. C. 41–58, 71 et seq.). We were advised by the Audit Division of the General Accounting Office that the accounts had been audited through July 1947 (transportation vouchers, through April 1947) and that no material amount of exceptions was outstanding.

Opinion

In our opinion, the accompanying balance sheet and related statement of expenses and surplus present fairly the financial position of the Federal Home Loan Bank Administration at June 30, 1947, and the results of its operations for the fiscal year ended at that date, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Stephen B. Ives,
Director of Corporation Audits.

FINANCIAL STATEMENTS

EXHIBIT 1

FEDERAL HOME LOAN BANK ADMINISTRATION

BALANCE SHEET—JUNE 30, 1947

ASSETS	*Federal Home Loan Bank Administration*	*Administrative Department*	*Federal Home Loan Bank System*
CASH	$341,656	$38,873	$302,783
ACCOUNTS RECEIVABLE:			
Insured institutions for examination fees	139,395		139,395
Long Beach Federal Savings and Loan Association—conservatorship costs	90,974		90,974
Other	23	23	
ADMINISTRATIVE DEPARTMENT			5,566
FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION	26,079	544	25,535
HOME OWNERS' LOAN CORPORATION	24		24
DEFERRED EXPENSES	159	159	
	$598,310	$39,599	$564,277

LIABILITIES			
ACCOUNTS PAYABLE	$139,965	$12,336	$127,629
TRUST LIABILITIES	63,843	16,112	47,731
EXCESSIVE CONTRIBUTIONS, TO BE REFUNDED:			
Federal Home Loan Bank System		5,566	
Home Owners' Loan Corporation	4,625	4,625	
Federal Savings and Loan Insurance Corporation	960	960	
DEFERRED INCOME	1,678		1,678
SURPLUS—excessive assessments made against district banks, less deficits incurred by the examining division (exhibit 2)	387,239		387,239
	$598,310	$39,599	$564,277

EXHIBIT 2

FEDERAL HOME LOAN BANK ADMINISTRATION

STATEMENT OF EXPENSES, THEIR ALLOCATION, AND SURPLUS FOR THE FISCAL YEAR ENDED JUNE 30, 1947

	Federal Home Loan Bank Administration	*Administrative Department*	*Federal Home Loan Bank System*
Operating expenses:			
Salaries	$1,607,655	$359,705	$1,247,950
Travel	184,475	----	184,475
Transportation of things	1,322	----	1,322
Communications	25,971	----	25,971
Rents and utilities	82,591	----	82,591
Printing and binding	1,647	----	1,647
Other contractual services	93,134	6,953	86,181
Supplies and materials	11,138	2,003	9,135
Newspapers and periodicals	62	----	62
Equipment	15,246	----	15,246
Miscellaneous expenses, prior years (−reduction)	−468	----	−468
Total operating expenses	2,022,773	368,661	1,654,112
Other expenses:			
Office of Administrator, NHA	15,231	----	15,231
Administrative Department	----	----	136,347
Total expenses	2,038,004	368,661	1,805,690
Less miscellaneous income	455	----	455
Net expenses	2,037,549	368,661	1,805,235
Allocation of expenses:			
Insured institutions for examining fees	1,065,500	----	1,065,500
FHLB	530,000	----	530,000
Federal Home Loan Bank System	----	136,347	----
Federal Savings and Loan Insurance Corporation	178,085	88,185	89,900
Home Owners' Loan Corporation	144,332	144,129	203
Long Beach conservatorship	83,170	----	83,170
Total expenses allocated	2,001,087	368,661	1,768,773
Balance of expenses transferred to surplus	36,462	----	36,462
Surplus at June 30, 1946	423,701	----	423,701
Surplus at June 30, 1947 (exhibit 1)	$387,239	----	$387,239

EXHIBIT 3

FEDERAL HOME LOAN BANK ADMINISTRATION

SUMMARY OF EXPENSES, THEIR ALLOCATION, AND SURPLUS

For the Fiscal Years 1933 to 1947, Inclusive

Fiscal year	Allocations: Insured institutions	Allocations: HOLC	Allocations: FS&LIC	Allocations: Federal savings and loan promotion fund (note 1)	Allocations: Other	Allocations: Total	Total expenses	Balance charged against assessments on district banks	Assessments on district banks	Surplus: Annual addition	Surplus: Balance at June 30
1933	...	...	...	...	$223,407(2)	$223,407	$223,407	...	...	...	...
1934	...	$188,862	...	$58	465	189,385	403,457	$214,072	$266,373	$52,301	$52,301
1935	$151,757	112,211	$52,212	41,557	287	358,024	544,513	186,489	231,358	44,869	97,170
1936	336,803	206,808	47,466	42,167	...	633,244	822,887	189,643	296,994	107,351	204,521
1937	563,000	230,716	88,870	26,307	...	908,893	1,074,872	165,979	232,003	66,024	270,545
1938	740,776	268,377	55,232	...	...	1,064,385	1,120,894	56,509	150,000	93,491	364,036
1939	668,426	145,876	69,586	...	...	883,888	1,124,062	240,174	225,000	−15,174	348,862
1940	735,028	148,720	120,099	...	677	1,004,524	1,286,706	282,182	300,000	17,818	366,680
1941	917,955	129,522	138,174	...	1,519	1,187,170	1,345,447	158,277	300,000	141,723	508,403
1942	1,007,954	36,210	151,322	...	8,402	1,203,888	1,462,434	258,546	300,000	41,454	549,857
1943	911,566	37,599	99,791	...	2,893	1,051,849	1,311,597	259,748	300,000	40,252	590,109
1944	958,657	2,854	98,390	...	453	1,060,354	1,535,388	475,034	350,000	−125,034	465,075
1945 (note 3)	971,942	149,013	221,317	...	2,874	1,345,146	1,810,112	464,966	450,000	−14,966	450,109
1946 (note 3)	958,707	140,572	235,137	...	9,357	1,343,773	1,820,181	476,408	450,000	−26,408	423,701
1947 (note 3)	1,065,500	144,332	178,085	...	83,625	1,471,542	2,038,004	566,462	530,000	−36,462	387,239
Total	$9,988,071	$1,941,672	$1,555,681	$110,089	$333,959	$13,929,472	$17,923,961	$3,994,489	$4,381,728	$387,239	

NOTES:

1. The Federal savings and loan promotion fund was appropriated from the general funds of the U. S. Treasury pursuant to section 6 of the Home Owners' Loan Act of 1933, for use of the Federal Home Loan Bank Board to encourage local thrift and home financing.
2. Pursuant to section 18 of the Federal Home Loan Bank Act of 1932, $250,000 was appropriated from the general funds of the U. S. Treasury to organize and establish the Federal Home Loan Bank System, of which $223,407 was expended and the balance returned to the Treasury.
3. The accounts as stated reflect adjustments which were recorded by the FHLBS in different fiscal years. During 1945, 1946, and 1947 the FHLBA expenses were recorded on the books of the Administrative Department and of the FHLBS.

SCHEDULE 1

FEDERAL HOME LOAN BANK ADMINISTRATION

ADMINISTRATIVE DEPARTMENT

STATEMENT OF EXPENSES AND THEIR ALLOCATION

For the Fiscal Year Ended June 30, 1947

		Allocated to and reimbursed by			
		Federal Home Loan Bank System			
	Total expenses	Examining Division	Other activities	Federal Savings and Loan Insurance Corporation	Home Owners' Loan Corporation
Salaries:					
Office of Commissioner	$26,835	$886	$7,969	$8,856	$9,124
Office of Executive Assistant to Commissioner	29,619		13,181	10,959	5,479
Office of Assistant to Commissioner	24,294		3,742	2,429	18,123
Legal Department	68,426		26,686	24,633	17,107
Personnel Department	70,432	7,995	10,599	5,635	46,203
Budget Office	17,490	414	4,395	2,414	10,267
Office of the Secretary	122,609	1,831	55,337	31,117	34,324
Total salaries	359,705	11,126	121,909	86,043	140,627
Other expenses:					
Other contractual services	6,953		2,571	1,663	2,719
Supplies and materials	2,003		741	479	783
Total	$368,661	$11,126	$125,221	$88,185	$144,129

SCHEDULE 2

FEDERAL HOME LOAN BANK ADMINISTRATION

FEDERAL HOME LOAN BANK SYSTEM

STATEMENT OF EXPENSES AND THEIR ALLOCATION

For the Fiscal Year Ended June 30, 1947

	Total expenses	Federal Home Loan Bank System		Federal Savings and Loan Insurance Corporation	Home Owners' Loan Corporation
		Examining Division	Other activities		
OPERATING EXPENSES:					
Salaries:					
Office of the Governor	$56,695	$6,187	$40,251	$10,257	
Office of the Chief Supervisor	100,942	13,030	13,030	74,882	
Office of the Comptroller	117,550	23,546	94,004		
Review and Analysis Section	14,432		14,432		
Examining Division	864,460	864,064		396	
Legal Department personnel assigned in the Administrative Department, carried on the payroll of the Bank System	34,844		34,844		
Nonadministrative—Long Beach conservatorship	59,027		59,027		
Total salaries	1,247,950	906,827	255,588	85,535	
MISCELLANEOUS OPERATING EXPENSES:					
Travel:					
FHLBS, regular	177,403	138,494	40,960	−2,124	$73
FHLBS, conventions	1,677	141	1,536		
Savings and Loan Advisory Council	3,935		3,935		
Administrative Department, FHLBA, regular	1,167		1,167		
Administrative Department, FHLBA, convention	293		293		
Transportation of things	1,322	1,005	317		
Communications	25,971	12,410	13,560		1
Rents and utilities	82,591	34,036	48,555		
Printing and binding	1,647	6	1,641		
Other contractual services	18,618	5,764	12,854		
Supplies and materials	9,135	3,876	4,334	818	107
Newspapers and periodicals	62		62		
Equipment	15,246	1,540	13,706		
Miscellaneous expenses, prior years (−reduction)	−468		2,105	−2,573	
Total miscellaneous expenses	338,599	197,272	145,025	−3,879	181
OTHER EXPENSES:					
Office of Administrator, NHA	15,231		15,231		
Administrative Department, FHLBA	136,347	11,126	125,221		
FS&LIC (Operating Analysis Division)	67,563		67,563		
Total other expenses	219,141	11,126	208,015		
Total expenses	1,805,690	1,115,225	608,628	81,656	181
ALLOCATION OF EXPENSES:					
Insured institutions for examination fees	1,065,500	1,065,500			
Assessments against district banks	530,000		530,000		
Charged to FS&LIC, and HOLC	90,103			89,900	203
Nonadministrative—Long Beach conservatorship	83,170		83,170		
Miscellaneous	455		455		
Total expenses allocated	1,769,228	1,065,500	613,625	89,900	203
NET INCREASE (−DECREASE) IN SURPLUS FOR THE PERIOD	−$36,462	−$49,725	$4,997	$8,244	$22

PART II

Federal Home Loan Banks

COMMENTS ON OPERATIONS

The results of operations in the fiscal year 1947 are shown for each of the 11 banks in the consolidated income statement (exhibit 2, part II). A summary of the consolidated operations, in comparison with like data for the preceding fiscal year, is:

	Combined (after interbank eliminations)		
	June 30, 1947	*June 30, 1946*	*Increase (−decrease)*
Income:			
Interest on advances	$4,614,300	$2,500,630	$2,113,670
Interest on securities	2,755,079	2,817,259	−62,180
Miscellaneous	1,973	1,713	260
Total income	7,371,352	5,319,602	2,051,750
Expenses:			
Operating:			
Compensation, travel, and other expenses (schedule 1)	990,569	890,657	99,912
Assessment by Federal Home Loan Bank Administration	530,000	450,000	80,000
Furniture and equipment purchased	15,867	17,117	−1,250
	1,536,436	1,357,774	178,662
Financing:			
Interest on consolidated obligations	1,656,975	513,430	1,143,545
Consolidated obligations expense—concessions (discounts)	102,181	50,418	51,763
Consolidated obligations expense—office of fiscal agent	34,497	23,018	11,479
Interest on members' deposits	389,380	269,831	119,549
	2,183,033	856,697	1,326,336
Total expenses	3,719,469	2,214,471	1,504,998
Net operating income	3,651,883	3,105,131	546,752
Other income:			
Profit on sale of securities (net)	358,703	1,559,012	−1,200,309
Miscellaneous	1,068	1,999	−931
Total other income	359,771	1,561,011	−1,201,240
Net income	$4,011,654	$4,666,142	−$654,488

The income of the Federal home loan banks is not subject to Federal income taxes.

The average rate of interest earned during the year on advances was 1.89 percent and on Government securities it was 1.69 percent; for 1946 the rates were 1.73 percent and 1.76 percent, respectively. During the year under review, the 11 banks earned $4,614,300 interest on advances, $2,113,670 (85 percent) more than during the preceding year. Further comment on this point is included in the discussion of advances on page 36.

A substantial offset to these higher earnings was the marked increase in the cost of financing. The cost of borrowed funds rose $1,206,787 (206 percent) over the preceding year (see p. 39) and interest on members' deposits was $119,549 (44 percent) higher than in 1946.

Changing business conditions are reflected in the composition and disposition of the banks' operating income. In 1947, 63 cents of each dollar of operating income was earned on advances and 37 cents on Government obligations; in 1946 the ratios were 47 cents and 53 cents, respectively. Despite higher costs in 1947, expanded volume reduced the operating expense requirements to 21 cents per income dollar from 26 cents needed in the preceding year. The rise in the cost of money borrowed was only partly offset by the effect of the trend from low-rate short-term paper to high-rate long-term paper incident to the increased loan activity of member associations; consequently, the direct expense of open market financing required 24 cents of the income dollar in 1947, 13 cents more than in 1946. As a result of these conflicting influences the residue of the operating income dollar available for reserves and dividends was 50 cents in 1947, a decline of 8 cents from 1946 (interest on members' deposits took about 5 cents in both years). In the opinion of the management there is no reason to anticipate any reduction in the cost of open market financing in the near future.

COMMENTS ON FINANCIAL POSITION

The financial position of each of the 11 banks as of June 30, 1947, is presented in the consolidated balance sheet, exhibit 1, part II. The consolidated financial position of the banks at the close of the last two fiscal years is compared:

Assets	*June 30, 1947*	*June 30, 1946*	*Increase (−decrease)*
Cash	$20,688,650	$21,380,273	−$691,623
U. S. Government securities at amortized cost	157,846,102	122,510,618	35,335,484
Advances to members	289,088,899	203,295,571	85,793,328
Accrued interest on securities and advances	952,419	713,705	238,714
Other assets	279,316	161,925	117,391
	$468,855,386	$348,062,092	$120,793,294
Liabilities			
Deposits	$85,885,527	$54,845,326	$31,040,201
Consolidated bonds outstanding	140,000,000	67,000,000	73,000,000
Dividends payable	943,627	858,771	84,856
Accrued interest on deposits and consolidated bonds	413,221	162,267	250,954
Accounts payable	13,622	30,609	−16,987
Capital stock:			
Owned by members	95,599,800	79,559,450	16,040,350
Owned by U. S. Government (held by RFC)	122,672,200	123,651,200	−979,000
Surplus:			
Legal reserve	10,751,230	9,923,899	827,331
Reserve for contingencies	4,249,673	3,620,594	629,079
Undivided profits	8,326,486	8,409,976	−83,490
	$468,855,386	$348,062,092	$120,793,294

A further analysis of the changes in financial position resulting from the operations for the year under review is presented in the following statement of sources and applications of funds:

Resources provided by:		
Net income for the fiscal year ended June 30, 1947	$4,011,654	
Add charges not represented by expenditure of funds:		
Amortization of premium or discount on U. S. securities (net)	248,347	
	4,260,001	
Deduct dividends (U. S. Government $1,500,000)	2,581,359	
		$1,678,642
Net realization from sale of bonds and debentures:		
Sale of bonds and debentures [1]	239,000,000	
Less redemption of bonds and debentures [1]	166,000,000	
		73,000,000
Sale of capital stock (net):		
To members (less retirements $1,333,000)	16,040,350	
Less retirement of Government's investment	979,000	
		15,061,350
Increase in deposits of members (net)		31,040,201
Decrease in cash		691,623
Total		121,471,816
Resources applied to:		
Advances to members	302,543,107	
Less repayment of advances by members	216,749,779	
		$85,793,328
Purchases of U. S. securities	281,816,680	
Less sale or redemption of securities (exclusive of profit from sales, $358,703, which is included in income above)	246,232,849	
		35,583,831
Net changes in other assets and liabilities		94,657
Total		$121,471,816

[1] Includes $137,000,000 for refunding.

Statutory and unrestricted reserves

Cash and investments at June 30, 1947, amounted to $176,100,000. The statutory reserves (see p. 34) and the unrestricted balances which were available for current operations were:

	Total	Statutory reserve	Unrestricted
Cash	$20,700,000	$11,000,000	$9,700,000
Investments (par)	155,400,000	55,100,000	100,300,000
	$176,100,000	$66,100,000	$110,000,000

Investments in United States Government securities

A comparative summary of the securities (at par value) held by the banks is:

	Par values June 30		Increase (−decrease)
	1947	1946	
Treasury bonds:			
2%	$37,099,500	$33,899,500	$3,200,000
2¼%	55,445,000	47,540,000	7,905,000
2½%	29,023,500	22,113,500	6,910,000
2¾%	913,000	1,123,000	−210,000
	122,481,000	104,676,000	17,805,000
Savings bonds, 2½%	6,517,500	5,717,500	800,000
Treasury notes, 1½%	6,500,000	5,500,000	1,000,000
Certificates of indebtedness, ⅞%	9,365,000	2,500,000	6,865,000
Treasury bills, discount	10,600,000	2,450,000	8,150,000
	$155,463,500	$120,843,500	$34,620,000

The distribution of maturities (at par values) was:

	June 30, 1947	Increase during the year	
		Amount	Percent
Less than 1 year	$20,065,000	$15,115,000	305
1 to 5 years	10,699,000	5,199,000	95
5 to 10 years	47,858,000	981,000	2
Over 10 years	76,841,500	13,325,000	21
Total	$155,463,500	$34,620,000	

While the aggregate market value was in excess of amortized cost at both dates, the margin at the close of 1947 was $1,300,000 (approximately one-third) less than at the preceding year-end:

	June 30		Increase (—decrease)
	1947	1946	
Book value (amortized cost)	$157,846,102	$122,510,618	$35,335,484
Market value	160,366,904	126,341,773	34,025,131
Excess of market value over book value	$2,520,802	$3,831,155	—$1,310,353

Securities purchased during the year totaled $281,816,680 (par value, $280,587,000), including premiums of $1,229,680. Securities having an amortized cost of $246,232,849 (par value, $245,967,000) were sold at a net profit of $358,703.

Of the securities held at June 30, 1947, approximately $15,000,000 was necessary to meet the "legal" and contingent reserve requirements. An additional $40,000,000 was needed to comply with statutory requirements as to the investment of members' capital subscriptions (see p. 39) and their current deposits (see pp. 36 and 37). Thus approximately $100,300,000 was left as an unrestricted secondary reserve.

During the fiscal year 1947 the banks earned $2,755,079 on their securities investments; in 1946 the earnings were $2,817,259. The yield on the average investment was 1.69 percent in 1947 and 1.76 percent in 1946. The smaller return is attributable, chiefly, to the emphasis on liquidity reflected in the tabulation above.

Advances

Advances are evidenced by notes of member or nonmember borrowers, and if their term exceeds one year the loans must be secured. Interest rates in the past three years have ranged from a minimum of 1½ percent on short-term to 2½ percent on long-term paper (the permissible maximum has been 3 percent).

At June 30, 1947, the outstanding advances totaled $289,089,000, an increase of about $85,800,000 (42 percent) over the preceding year-end. The advances made during 1947, $302,543,000, were $12,335,000 less than the peak reached in 1946. The banks, from inception, have loaned $2,098,000,000, of which nearly 30 percent was advanced during the last two fiscal years. The average advance per borrowing member rose from $71,000 at June 30, 1939, to $181,000 at June 30, 1946, and to $199,000 at June 30, 1947—a general indication of the growth in the average size of savings and loan institutions and, in turn, their importance in the home mortgage field. Federal Savings and Loan Insurance Corporation has estimated that during 1947 about 32 percent of all nonfarm mortgages of $20,000 or less were placed by institutions of this type. The use of the banks' credit facilities has varied widely over the years:

Fiscal year	Advances	Repayments	Balance outstanding at June 30
1933	$48,895,000	$1,231,000	$47,664,000
1934	62,872,000	25,387,000	85,149,000
1935	36,683,000	42,599,000	79,233,000
1936	78,195,000	38,841,000	118,587,000
1937	114,287,000	65,817,000	167,057,000
1938	105,432,000	76,264,000	196,225,000
1939	76,659,000	103,923,000	168,961,000
1940	108,010,000	119,574,000	157,397,000
1941	142,875,000	130,375,000	169,897,000
1942	155,025,000	132,277,000	192,645,000
1943	96,346,000	198,800,000	90,191,000
1944	222,501,000	184,415,000	128,277,000
1945	232,948,000	229,559,000	131,666,000
1946	314,878,000	243,248,000	203,296,000
1947	302,543,000	216,750,000	289,089,000
	$2,098,149,000	$1,809,060,000	

For the second consecutive year, the number of borrowing associations increased substantially; in each of the preceding six years the number had declined. At June 30, 1947, 39 percent of the members were borrowers; in 1946, 30 percent; in 1945, 19 percent; and in 1939, 60 percent. Additional details are:

June 30	Total membership	Borrowing members: Number	Borrowing members: Percent of total
1939	3,946	2,385	60
1940	3,914	2,090	53
1941	3,839	2,010	52
1942	3,815	1,826	48
1943	3,774	981	26
1944	3,714	856	23
1945	3,696	717	19
1946	3,699	1,121	30
1947	3,700	1,455	39

In contrast with June 30, 1946, which showed substantial increases in outstanding advances for all districts except San Francisco, June 30, 1947, showed two decreases (Boston 25 percent and Cincinnati 4 percent); the increases in 1947 varied from 1 percent at Chicago to 138 percent at Winston-Salem. A comparison of the advances outstanding, by districts, at the close of the fiscal year 1947 is:

Federal home loan bank	Balance at June 30, 1947	Increase (—decrease): Amount	Increase (—decrease): Percent
Boston	$10,221,000	—$3,381,000	—24.9
New York	18,866,000	6,284,000	49.9
Pittsburgh	30,903,000	10,283,000	49.9
Winston-Salem	46,904,000	27,197,000	138.0
Cincinnati	18,744,000	—778,000	—4.0
Indianapolis	24,273,000	11,210,000	85.8
Chicago	41,210,000	506,000	1.2
Des Moines	23,620,000	6,900,000	41.3
Little Rock	17,179,000	6,685,000	63.7
Topeka	15,225,000	8,123,000	114.4
San Francisco	41,944,000	12,764,000	43.7
	$289,089,000	$85,793,000	

The movement from short- to long-term advances observed in 1946 became more pronounced in 1947; long-term paper represented 11 percent of the total advances outstanding at the close of the fiscal year 1945, 20 percent at the 1946 year-end, and 50 percent at the 1947 closing date. This transition reflected the increasing mortgage lending activities which prudent management would seek to finance through long-term paper.

Accompanying this trend was an increase of 126 percent in mortgage collateral and a decline of 32 percent in Government securities pledged during the year. The proportion of pledged mortgages to the total collateral at the close of the last three fiscal years was: 1945, 42 percent; 1946, 52 percent; and 1947, 78 percent.

Further details of the classes of loans and the types of underlying collateral as of June 30, 1947 and 1946 are:

	June 30, 1947		*June 30, 1946*		*Increase (— decrease)*	
	Number	*Amount*	*Number*	*Amount*	*Number*	*Amount*
Secured advances to members:[1]						
Long-term—under section 10 (a) of the act	573	$145,101,488	267	$41,685,687	306	$103,415,801
Short-term—under section 10 (a) of the act	613	88,518,445	596	117,382,309	17	−28,863,864
Short-term—under section 11 (g) (3) of the act	13	2,660,000	6	582,500	7	2,077,500
Secured advances to members	1,038	236,279,933	770	159,650,496	268	76,629,437
Unsecured advances to members:						
Short-term—under section 11 (g) (3) of the act	6	360,000	10	610,000	−4	−250,000
Short-term—under section 11 (g) (4) of the act	556	52,448,966	480	43,035,075	76	9,413,891
Unsecured advances to members	562	52,808,966	490	43,645,075	72	9,163,891
Total	1,455	$289,088,899	1,121	$203,295,571	334	$85,793,328
Collateral:						
Home mortgages	91,763		49,240		42,523	
Unpaid balances of home mortgages		$363,428,132		$161,663,658		$201,764,474
U. S. securities direct or guaranteed (par)		101,167,200		149,248,800		−48,081,600
Mortgages guaranteed by FHA or VA		4,353,080		905,337		3,447,743
Total face value of collateral		$468,948,412		$311,817,795		$157,130,617
Collateral value assigned by banks		$341,774,490		$251,195,217		$90,579,273

[1] A member having more than one class of advance is listed in each category; however, the totals are the actual number of borrowers.

No borrowers were reported to be more than 30 days delinquent on their indebtedness at June 30, 1947.

Interest earned on advances was $4,614,300 in 1947, an increase of $2,113,670 (85 percent) over the 1946 earnings. Underlying this enhancement were two factors: (1) an increase of $100,900,000 (70 percent) in the average outstanding advances, all in long-term borrowings, and (2) the trend, noted above, toward the conversion of short-term advances to long-term paper. The overall average interest rate earned on advances in 1947 was 1.89 percent; in 1946 it was 1.73 percent and in 1945, 1.82 percent.

Members' deposits

Deposits are accepted from members under terms and conditions prescribed by the FHLBA. The banks are permitted to reserve the right to require at least 30 days notice of intention to withdraw time deposits. Interest was paid on time deposits at varying rates, the maximum rate approved by the FHLBA being 1 percent.

Members' deposits have been a highly variable source of funds as shown by the following tabulation (deposits of applicants for membership, a relatively unimportant item, are not included):

Year ended June 30	*Time*	*Demand*	*Total*	*Increase (—decrease) over preceding year*
1936	$8, 205, 000	$1, 152, 000	$9, 358, 000	$5, 747, 000
1937	12, 330, 000	2, 418, 000	14, 748, 000	5, 390, 000
1938	16, 669, 000	3, 205, 000	19, 874, 000	5, 126, 000
1939	27, 730, 000	4, 462, 000	32, 192, 000	12, 318, 000
1940	28, 102, 000	5, 013, 000	33, 115, 000	923, 000
1941	25, 417, 000	5, 890, 000	31, 307, 000	—1, 808, 000
1942	21, 354, 000	6, 343, 000	27, 697, 000	—3, 610, 000
1943	26, 324, 000	2, 892, 000	29, 216, 000	1, 519, 000
1944	18, 933, 000	2, 427, 000	21, 350, 000	—7, 856, 000
1945	35, 445, 000	9, 883, 000	45, 328, 000	23, 968, 000
1946	37, 776, 000	17, 019, 000	54, 795, 000	9, 467, 000
1947	66, 010, 000	19, 542, 000	85, 552, 000	30, 757, 000

The regulations of the FHLBA, in accordance with authority granted it in section 11(g) of the Federal Home Loan Bank Act (12 U. S. C. 1431 (g)), require that 25 percent of these deposits be maintained in cash and Treasury bills. The remaining 75 percent were required to be kept in cash, Treasury bills, certificates of indebtedness, Treasury notes, Treasury bonds eligible for purchase by commercial banks, or short-term advances to members. At June 30, 1947, each bank held investments of the prescribed types which were substantially in excess of the requirements for the total of its members' deposits. (See schedule 2, pt. II.) However, the Chicago bank did not comply with the requirement that 25 percent of its members' deposits be maintained in cash and Treasury bills; the deficiency was slightly more than $1,000,000 or about 51 percent. At the request of the FHLBA, the situation was corrected in the following month.

Interest paid on members' deposits by the 11 banks aggregated $389,380 during the fiscal year 1947, an increase of $119,549 over the preceding period.

Interbank deposits

An important attribute of such a credit reservoir as the Federal home loan banks is the ability to supply temporarily the needs of any bank from the surplus funds of other banks in the system. For this purpose, the statute authorizes the use of interbank deposits. These deposits were made largely from funds derived from the sale of short-term Treasury securities and the proceeds, not immediately needed, of consolidated obligations. The interest paid on such deposits varied from 1 percent to 1.67 percent; the latter rate reflects a recently adopted FHLBA policy under which the interest is fixed at the cost of financing consolidated obligations plus one-fourth of 1 percent. Interest paid on interbank deposits aggregated $39,208 in 1947.

Consolidated obligations

Consolidated obligations are the joint and several liability of the Federal home loan banks; they are not guaranteed by the United States Government as to either principal or interest. Prior to the reporting period, the open market financing had been limited to consolidated debentures; during the period, the banks also issued consolidated bonds and consolidated notes. Consolidated bonds, under existing regulations, have maturities in excess of one year whereas consolidated notes mature in one year or less.

Pursuant to the requirements of the Government Corporation Control Act, all bonds, notes, debentures, and similar obligations to be issued by the banks after December 6, 1945, are subject to approval by the Secretary of the Treasury. The maximum amount of consolidated debentures which may be outstanding at any one time is fixed by section 11(b) of the Federal Home Loan Bank Act at five times the total paid-in capital of all the banks as of the time of issuance, but the authority to issue consolidated bonds is subject to (1) retirement of all outstanding debentures and (2) such terms and conditions as the FHLBA may prescribe. The FHLBA regulations provide that consolidated bonds shall not be issued in an amount in excess of 12 times the total paid-in capital stock and reserves under section 16 of the Federal Home Loan Bank Act. (This latter borrowing limitation is substantially more generous than the statutory lending provision, section 10 (c), that advances to any member shall not exceed 12 times the amounts paid in by such member for outstanding capital stock held by it. Paid-in capital stock under the regulation includes the Government's investment as well as the members' stock; at June 30, 1947, these amounts were $122,672,200 and $95,599,800, respectively.) The maximum amount of bonds that could be outstanding was $2,748,279,000 at the close of the fiscal year 1947; the outstanding bonds totaled $140,000,000.

The regulations (section 4.3) also require that the banks shall at all times maintain assets of specified types, free from any lien or pledge, in a total amount at least equal to the amount of consolidated bonds outstanding. At June 30, 1947, the total of the assets so held was $412,400,000; the bonds outstanding at that date aggregated $140,000,000. It is to be noted, however, that this provision is intended as an assurance of ability to pay the bonds rather than as a limitation on the issuing power. Further, the sale of new bonds would provide the unpledged assets (cash) necessary to comply with the regulation. In effect, then, the borrowing power is limited only by the requirement for approval by the Secretary of the Treasury.

During the year under review, the banks borrowed $102,000,000 and repaid $29,000,000, thus increasing their liability for consolidated obligations by $73,000,000; refunding operations totaled $137,000,000. The details of the transactions in consolidated obligations are:

	Face values of consolidated obligations			
	Outstanding June 30, 1946	*Issued*	*Redeemed*	*Outstanding June 30, 1947*
Debentures: Series "B" 1946, .90%, dated April 15, 1946, due October 15, 1946	$67,000,000		$67,000,000	
Debentures: Series "C" 1946, 1%, dated July 1, 1946, due August 15, 1946		$35,000,000	35,000,000	
Debentures: Series "D" 1946, 1%, dated August 15, 1946, due October 15, 1946		35,000,000	35,000,000	
Bonds: Series "A" 1948, 1¼%, dated October 15, 1946, due April 15, 1948		140,000,000		$140,000,000
Notes: Series "A" 1947, 1.10%, dated December 16, 1946, due February 17, 1947		29,000,000	29,000,000	
	$67,000,000	$239,000,000	$166,000,000	$140,000,000

The cost (interest paid, discount on bonds sold, and expenses of the office of the fiscal agent) of borrowed money was $1,793,653 in 1947 as contrasted with $586,866 in 1946. Of the $1,206,787 (206 percent) increase, approximately $731,000 resulted from a rise of $72,600,000 (125 percent) in the average outstanding obligations, and $476,000 reflected the increase in average cost from 1.007 percent in 1946 to 1.370 percent in 1947.

Capital stock, surplus, and reserves

The Government owned [1] $122,672,200 of the banks' capital stock or 56 percent at June 30, 1947, a decrease of $979,000 during the year. This reduction reflected repayments of $397,900 and $581,100 by the Indianapolis and Cincinnati banks, respectively, in accordance with section 6 (g) of the Federal Home Loan Bank Act, which provides that after the members' capital stock equals the Government's investment in a bank, such bank will annually retire an amount of the Government's investment equal to 50 percent of all sums subsequently paid in by members for capital stock.

The members' investment in the capital stock rose to $95,599,800 at the year-end as the result of the following changes during the year:

Capital paid in	$17,373,350
Capital repaid (section 6 (c) of the act)	1,333,000
Increase in members' participation	$16,040,350

The banks have complied with section 11 (g) of the Federal Home Loan Bank Act, which provides that the amount of the members' capital stock will be invested in Government securities, deposits in banks, and advances with maturities not more than one year made in accordance with regulations of the FHLBA.

Surplus increased $1,372,920 during the fiscal year and amounted to $23,327,389 at the year-end. According to established practice of the banks, surplus has been divided into a legal reserve, $10,751,230, contingency reserve, $4,249,673, and undivided profits, $8,326,486. The increase in surplus was attributable to:

Net income for the year		$4,011,654
Less:		
Dividends declared	$2,581,359	
Contribution to pension fund for prior service	57,375	2,638,734
Increase in surplus		$1,372,920
Distributed to:		
Legal reserve		$827,331
Contingency reserve		629,079
Undivided profits		−83,490
Total, as above		$1,372,920

Each bank is required by section 16 of the Federal Home Loan Bank Act (12 U. S. C. 1436) to transfer to a reserve account (legal reserve) semiannually 20 percent of its net earnings until the reserve shall show a credit balance equal to 100 percent of the paid-in capital of such bank. In addition, the act provides that the amount of this reserve shall be invested in United States securities and in such securities as fiduciary and trust funds may be invested in under the laws of the State in which the bank is located. This requirement was

[1] Public Law 132, approved June 30, 1947 (15 U. S. C. 606 note), authorized and directed Reconstruction Finance Corporation to transfer to the Secretary of the Treasury all of the stock of the Federal home loan banks held by RFC. The transfer was made as of July 1, 1947.

met by all of the banks; the Pittsburgh bank transferred to this reserve an additional sum from its undivided profits. However, the Chicago bank failed to earn its current dividends and, consequently, used $32,000 of its undivided profits for the payment of dividends. The Federal Home Loan Bank Administration approved the payment of dividends out of prior years' earnings at the request of the Chicago bank. The Chicago bank's earnings in fiscal year 1948, after provision for legal reserve, were approximately $89,000 more than the dividends for that year.

Seven of the banks have voluntarily established reserves for contingencies. These reserves represent neither provisions for known contingencies nor statutory requirements and, therefore, should be considered as a part of the surplus of the respective banks. The regulations require that the amount of the contingency reserves be invested in the same manner as the legal reserve.

All surplus reserves, both statutory and voluntary, were invested in obligations of the United States Government in accordance with the provisions of section 16 of the act.

Dividends declared by the 11 banks aggregated $2,581,359 during the year under review; the total for 1946 was $2,385,147. The share received by RFC was $1,505,992 in 1947 and $1,482,287 in 1946. The member associations received dividends aggregating $1,075,367 in 1947 and $902,860 in 1946. The increases reflected, principally, a rise of one-fourth of 1 percent in the dividend rate of the Cincinnati bank and an increase in capital investment by members. These dividends represented a return of approximately 1.22 percent on the Government's average investment in 1947 and 1.19 percent in 1946. The average rate of interest paid by the Treasury on marketable issues of the public debt was 1.83 percent in 1947. Thus in 1947 the Government's investment in the 11 banks cost about $748,000 more than it yielded; in 1946 this indirect subsidy cost the Treasury $718,000.

Exceptions

Our survey and review of the activities of the Federal home loan banks disclosed no evidence of any program, expenditure, or other financial transaction that had been carried on, incurred, or entered into without authority of law.

Scope of Survey

Representatives of this office visited the 11 district banks and surveyed the organization and management, the system of internal control, and the financial and operating policies and procedures of each. Our survey of the New York bank was arranged to coincide with a periodic examination by the comptroller's office in order that we might also observe the performance of the prescribed procedures and the quality of the work of the examiners. During our survey we checked the June 30, 1947, financial statements to the respective banks' records and made other tests which we deemed appropriate under the circumstances. In addition, we reviewed the scope, working papers, and reports of the semiannual examinations made under the direction of the comptroller of the Federal Home Loan Bank Administration during the fiscal year 1947.

In general, the accounting records and system of internal control of the banks were adequate. We found some deficiencies in the system of internal control of certain banks and made suggestions for their improvement which were adopted promptly. We observed in the course of our survey and review that the banks had complied with the operating policies and procedures as prescribed by the FHLBA.

As a result of our review of the frequent and comprehensive examinations performed by the comptroller of the FHLBA and the survey made by our representatives, we concluded that an additional examination of financial transactions contemplated under accepted auditing standards and procedures would have resulted in an unjustifiable duplication of effort.

In accepting the audit certificate (see below) of the comptroller of the FHLBA, we have given full recognition to the requirement of the Government Corporation Control Act that the General Accounting Office shall, to the fullest extent deemed practicable, utilize reports of examinations of Government corporations made by a supervisory agency pursuant to law (title III, sec. 301 (a), 31 U. S. C. 866 (a)).

Opinion

In our opinion, reliance may be placed upon the certification of the comptroller of the Federal Home Loan Bank Administration that the accompanying financial statements present fairly the financial position of the Federal home loan banks at June 30, 1947, and the results of operations for the year ended that date.

Stephen B. Ives,
Director of Corporation Audits.

Housing and Home Finance Agency
Home Loan Bank Board
101 Indiana Avenue NW
Washington 25, D. C.

November 10, 1948.

Hon. Lindsay C. Warren,
Comptroller General, United States,
Washington 25, D. C.

Dear Mr. Warren: The following report of the condition of the Federal Home Loan Banks at June 30, 1947, and the results of operations for the fiscal year ended at that date, is based on information and reports furnished by those banks during that year and the data disclosed by examinations made under the supervision of the undersigned, as Comptroller of the Federal Home Loan Bank Administration. The scope of these examinations was summarized in the reports submitted for the fiscal years ended June 30, 1945 and June 30, 1946.

This report is comprised of the following statements:

Exhibit "1"—Balance Sheet, June 30, 1947
" "2"—Income Statement, Year Ended June 30, 1947
Schedule "1"—Compensation, Travel and Other Expenses, Year Ended June 30, 1947
Exhibit "3"—Analysis of Surplus, Year Ended June 30, 1947
" "4"—Sources and Applications of Funds, Year Ended June 30, 1947

In my opinion, the accompanying balance sheet and related statements of income and surplus present fairly the financial position of the Federal Home Loan Banks at June 30, 1947, and the results of their operations for the fiscal year ended at that date, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Respectfully submitted.

(signed) R. R. BURKLIN,
Comptroller, Home Loan Bank Board.

FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED BALANCE SHEET

1. Borrowing authority is provided by section 11 of the Federal Home Loan Bank Act (12 U. S. C. 1431) as follows:

> a. Each bank may borrow upon such terms and conditions as the board may prescribe. (The maximum amount of such borrowings is not specified.)
>
> b. The board may issue consolidated Federal home loan bank debentures, the joint and several obligations of all the banks, upon such terms and conditions as the board may prescribe; but the maximum amount of these debentures shall at no time exceed five times the total paid-in capital of all the banks as of the time of issue of such debentures.
>
> c. If no debentures are outstanding, or to refund all outstanding consolidated debentures, the board may issue consolidated Federal home loan bank bonds, the joint and several obligations of all of the banks, upon such terms and conditions as the board may prescribe; the act does not prescribe the maximum amount of such bonds which may be outstanding, but the regulations of the board fix it at twelve times the total paid-in capital stock and legal reserves of all the banks. The maximum permissible amount of outstanding consolidated bonds at June 30, 1947, was $2,748,279,000. The obligations issued under this power are not guaranteed by the United States Government as to either principal or interest.

Under the Government Corporation Control Act (31 U. S. C. 868 (a)), the issuance of such obligations, on and after December 6, 1945, became subject to the approval of the Secretary of the Treasury.

2. Section 6 of the Federal Home Loan Bank Act (12 U. S. C. 1426 (g)) requires that after the members' capital stock equals the Government's investment in a bank, such bank will annually retire an amount of the Government's investment equal to 50 percent of all sums subsequently paid in by members for capital stock. This equality has been attained in the Winston-Salem, Cincinnati, and Indianapolis banks.

3. A suit is pending in the United States District Court for the Southern District of California, Central Division, against the Federal Home Loan Bank of San Francisco and others, and, after June 30, 1947, a claim was made on behalf of the Long Beach Federal Savings and Loan Association seeking substantial damages. In the opinion of the bank's counsel and the general counsel of the Home Loan Bank Board, the action and claim have no validity and the suit is being defended.

FEDERAL HOME LOAN BANKS

CONSOLIDATED BALANCE SHEET, BY BANKS

JUNE 30, 1947

ASSETS	Consolidated (after interbank eliminations)	Federal home loan bank: Boston	New York	Pittsburgh	Winston-Salem	Cincinnati	Indianapolis	Chicago	Des Moines	Little Rock	Topeka	San Francisco
CASH:												
On hand and on deposit with U.S. Treasurer and commercial banks	$ 20,688,650	$ 697,233	$ 992,183	$ 2,247,871	$ 3,198,373	$ 2,627,110	$ 1,509,879	$ 993,843	$ 447,159	$ 1,389,648	$ 1,490,736	$ 5,094,615
On deposit with other Federal home loan banks	-	4,500,000	11,500,000	-	-	4,500,000	-	3,000,000	-	-	-	-
	20,688,650	5,197,233	12,492,183	2,247,871	3,198,373	7,127,110	1,509,879	3,993,843	447,159	1,389,648	1,490,736	5,094,615
UNITED STATES GOVERNMENT SECURITIES AT AMORTIZED COST (note 1)	157,846,102	16,969,328	26,931,604	7,449,301	4,215,256	32,884,844	15,188,862	12,346,039	12,653,325	7,713,749	8,555,650	12,938,144
ADVANCES:												
Secured (note 2)	236,279,933	6,841,406	18,218,990	25,894,656	26,219,637	14,304,659	18,692,910	35,577,881	18,881,956	16,858,854	14,134,757	40,654,227
Unsecured	52,808,966	3,380,032	646,750	5,008,500	20,684,000	4,439,500	5,580,000	5,631,784	4,738,400	320,000	1,090,000	1,290,000
	289,088,899	10,221,438	18,865,740	30,903,156	46,903,637	18,744,159	24,272,910	41,209,665	23,620,356	17,178,854	15,224,757	41,944,227
OTHER ASSETS:												
Accrued interest	952,419	86,200	136,474	96,522	121,119	136,734	74,631	61,021	59,675	67,262	46,071	67,716
Miscellaneous receivables, deferred charges, and other assets (note 3)	279,316	12,260	5,054	23,450	24,942	93,586	21,989	30,973	20,031	13,985	12,972	20,074
	1,231,735	98,460	141,528	119,972	146,061	230,320	96,620	91,994	79,706	81,247	59,043	87,790
	$468,855,386	$32,486,459	$58,431,055	$40,720,300	$54,463,327	$58,986,433	$41,068,271	$57,641,541	$36,800,546	$26,363,498	$25,330,186	$60,064,776

Notes:	Consolidated	Boston	New York	Pittsburgh	Winston-Salem	Cincinnati	Indianapolis	Chicago	Des Moines	Little Rock	Topeka	San Francisco
1. Par value of securities	$155,463,500	$16,630,000	$26,757,500	$ 7,300,000	$ 4,160,000	$32,414,000	$14,931,000	$12,140,000	$12,465,000	$ 7,640,000	$ 8,375,000	$12,651,000
Market value of securities	160,366,904	17,249,006	27,309,739	7,559,969	4,331,956	33,365,954	15,498,139	12,482,049	12,776,346	7,976,819	8,738,344	13,078,583
2. Collateral deposited to secure advances:												
Unpaid balance of home mortgages	363,428,132	6,220,380	43,696,868	44,399,985	48,192,518	11,735,126	24,241,657	44,693,268	26,206,758	23,024,218	21,572,264	69,445,090
Face amount of U.S. Government obligations	101,167,200	3,444,000	8,987,500	9,669,500	335,000	13,169,000	8,969,700	15,428,500	6,801,500	4,642,000	2,820,000	26,900,500
Other collateral permitted by regulations	4,353,080	-	-	-	199,978	-	172,615	285,929	755,736	867,478	1,661,211	410,133
3. Original cost of furniture and equipment (included in balance sheet at a valuation of $1 for each bank)	172,430	9,570	25,211	15,676	8,755	15,056	11,934	11,160	10,468	17,494	11,213	35,893

The notes on page 44 are an integral part of this statement.

F E D E R A L   H O M E   L O A N   B A N K S

CONSOLIDATED BALANCE SHEET, BY BANKS

JUNE 30, 1947

L I A B I L I T I E S	Consolidated (after interbank eliminations)	Federal home loan bank: Boston	New York	Pittsburgh	Winston-Salem	Cincinnati	Indianapolis	Chicago	Des Moines	Little Rock	Topeka	San Francisco
DEPOSITS:												
Members--time	$ 66,010,141	$ 1,400,458	$18,594,989	$ 1,011,265	$ 4,418,100	$10,308,124	$ 7,008,429	$ 7,954,362	$ 5,139,947	$ 913,700	$ 1,505,000	$ 7,755,767
Members--demand	19,708,034	-	8,794,729	348,359	1,831,875	6,422,338	1,721,848	12,500	7,150	500	539,000	29,735
Receivership funds--Federal Savings and Loan Insurance Corporation	167,352			-	-				63,615	-	103,737	-
Other Federal home loan banks	-	-	-	1,500,000	11,000,000	-	-	-	-	1,500,000	500,000	9,000,000
	85,885,527	1,400,458	27,389,718	2,859,624	17,249,975	16,730,462	8,730,277	7,966,862	5,210,712	2,414,200	2,647,737	16,785,502
CONSOLIDATED BONDS	140,000,000	9,000,000	-	17,000,000	15,000,000	12,000,000	16,000,000	22,500,000	15,000,000	10,000,000	9,500,000	14,000,000
OTHER LIABILITIES:												
Dividends payable:												
Reconstruction Finance Corporation	513,905	62,337				88,988	40,645	106,304	55,462	43,862	36,668	79,639
Members	429,722	38,823	-	-	-	112,281	67,944	74,329	53,017	17,060	19,233	47,035
Total dividends payable	943,627	101,160				201,269	108,589	180,633	108,479	60,922	55,901	126,674
Accrued interest on deposits and consolidated bonds	413,221	26,396		46,008	53,795	41,049	49,253	61,726	39,227	28,110	25,131	43,532
Accounts payable	13,622	-	2,827	-	-	8,445	482	-	493	609	479	287
	1,370,470	127,556	2,827	46,008	53,795	250,763	158,324	242,359	148,199	89,641	81,511	170,493
CAPITAL STOCK AND SURPLUS:												
Capital stock owned by members	95,599,800	7,924,400	9,229,500	7,575,800	10,357,300	15,371,100	9,228,600	10,346,600	7,350,100	3,660,900	4,432,200	10,123,300
Capital stock owned by U.S. Government (held by RFC)	122,672,200	12,467,500	18,963,200	11,146,300	9,208,200	11,865,000	5,419,300	14,173,900	7,394,900	8,772,400	7,333,600	15,927,900
Total capital stock	218,272,000	20,391,900	28,192,700	18,722,100	19,565,500	27,236,100	14,647,900	24,520,500	14,745,000	12,433,300	11,765,800	26,051,200
Surplus (exhibit 3):												
Legal reserve	10,751,230	791,275	1,349,861	1,009,030	943,991	1,471,608	757,174	1,341,649	752,170	636,688	510,493	1,187,291
Reserve for contingencies	4,249,673	-	575,924	-	400,000	500,000	-	-	800,000	73,749	500,000	1,400,000
Undivided profits	8,326,486	775,270	920,025	1,083,538	1,250,066	797,500	774,596	1,070,171	144,465	715,920	324,645	470,290
Total surplus	23,327,389	1,566,545	2,845,810	2,092,568	2,594,057	2,769,108	1,531,770	2,411,820	1,696,635	1,426,357	1,335,138	3,057,581
Total capital stock and surplus	241,599,389	21,958,445	31,038,510	20,814,668	22,159,557	30,005,208	16,179,670	26,932,320	16,441,635	13,859,657	13,100,938	29,108,781
	$468,855,386	$32,486,459	$58,431,055	$40,720,300	$54,463,327	$58,986,433	$41,068,271	$57,641,541	$36,800,546	$26,363,498	$25,330,186	$60,064,776

The notes on page 44 are an integral part of this statement.

91774 O - 49 (Face p. 44) No. 2

FEDERAL HOME LOAN BANKS

CONSOLIDATED STATEMENT OF INCOME, BY BANKS

FOR THE FISCAL YEAR ENDED JUNE 30, 1947

	Consolidated (after interbank eliminations)	Federal home loan bank											
		Boston	New York	Pittsburgh	Winston-Salem	Cincinnati	Indianapolis	Chicago	Des Moines	Little Rock	Topeka	San Francisco
INCOME:												
Interest on advances	$4,614,300	$196,466	$345,567	$552,455	$622,001	$349,519	$364,150	$727,471	$417,839	$272,662	$231,401	$534,769
Interest on securities	2,755,079	263,817	437,863	162,655	92,681	512,711	273,653	173,285	178,826	182,606	171,147	305,835
Interest on deposits with other Federal home loan banks	-	4,415	16,773	-	-	5,145	1,548	3,150	-	-	-	8,177
Miscellaneous	1,973	-	388	16	378	370	30	570	-	200	-	21
Total income	7,371,352	464,698	800,591	715,126	715,060	867,745	639,381	904,476	596,665	455,468	402,548	848,802
EXPENSES:												
Operating:												
Compensation, travel and other expenses (schedule 1)	990,569	70,118	127,918	120,616	78,958	106,747	60,033	96,882	61,599	59,286	61,256	147,156
Assessment of Federal Home Loan Bank Administration	530,000	37,583	62,085	48,898	43,003	65,237	41,882	62,999	41,266	33,020	28,176	65,851
Furniture and equipment purchased	15,867	351	1,250	788	1,148	355	1,785	1,073	295	998	246	7,578
Total operating	1,536,436	108,052	191,253	170,302	123,109	172,339	103,700	160,954	103,160	93,304	89,678	220,585
Financing:												
Interest on consolidated obligations	1,656,975	90,250	6,738	206,283	169,903	126,458	179,811	289,194	176,150	120,706	108,100	183,382
Consolidated obligations expense--concessions (discounts)	102,181	5,896	-	12,952	9,583	8,542	11,778	16,927	11,333	7,361	6,191	11,618
Consolidated obligations expense--Office of Fiscal Agent	34,497	3,036	2,806	3,202	3,183	3,172	3,196	3,243	3,227	3,068	3,028	3,336
Interest on members' deposits	389,380	5,314	138,282	5,969	19,976	59,731	41,660	30,307	21,703	3,073	4,725	58,640
Interest on other Federal home loan banks' deposits	-	2,219	-	1,216	18,968	1,616	1,192	274	-	1,180	4,192	8,351
Total financing	2,183,033	106,715	147,826	229,622	221,613	199,519	237,637	339,945	212,413	135,388	126,236	265,327
Total expenses	3,719,469	214,767	339,079	399,924	344,722	371,858	341,337	500,899	315,573	228,692	215,914	485,912
NET OPERATING INCOME	3,651,883	249,931	461,512	315,202	370,338	495,887	298,044	403,577	281,092	226,776	186,634	362,890
OTHER INCOME:												
Profit on sales of securities (net)	358,703	35,825	171,415	13,308	324	10,304	28,345	131	-468	463	60	98,996
Miscellaneous	1,068	-	161	38	461	159	51	57	5	111	-	25
Total other income	359,771	35,825	171,576	13,346	785	10,463	28,396	188	-463	574	60	99,021
NET INCOME, year ended June 30, 1947 (exhibit 3)	$4,011,654	$285,756	$633,088	$328,548	$371,123	$506,350	$326,440	$403,765	$280,629	$227,350	$186,694	$461,911

FEDERAL HOME LOAN BANKS

CONSOLIDATED SURPLUS, BY BANKS
FOR THE FISCAL YEAR ENDED JUNE 30, 1947

	Consolidated	Federal home loan bank: Boston	New York	Pittsburgh	Winston-Salem	Cincinnati	Indianapolis	Chicago	Des Moines	Little Rock	Topeka	San Francisco
UNDIVIDED PROFITS:												
Balance, June 30, 1946	$ 8,409,976	$ 745,308	$ 824,641	$1,090,109	$1,184,294	$ 792,337	$ 730,518	$1,102,178	$ 130,601	$ 676,088	$ 782,201	$ 351,701
Add net income, year ended June 30, 1947 (exhibit 2)	4,011,654	285,756	633,088	328,548	371,123	506,350	326,440	403,765	280,629	227,350	186,694	461,911
	12,421,630	1,031,064	1,457,729	1,418,657	1,555,417	1,298,687	1,056,958	1,505,943	411,230	903,438	968,895	813,612
Deduct:												
Dividends declared:												
Reconstruction Finance Corporation	1,505,992	124,675	189,632	167,195	92,082	182,333	84,273	212,608	110,924	109,655	73,336	159,279
Members	1,075,367	73,968	84,537	77,214	82,768	217,584	132,801	142,411	99,715	40,305	33,575	90,489
	2,581,359	198,643	274,169	244,409	174,850	399,917	217,074	355,019	210,639	149,960	106,911	249,768
Retirement fund--prior service contribution (-refund)(net)	57,375	-	-	-	56,277	-	-	-	-	-74	-	1,172
Transfer to (-from) reserve for contingencies (net)	629,079	-	136,917	-	-	-	-	-	-	-7,838	500,000	-
Transfer to legal reserve	827,331	57,151	126,618	90,710	74,224	101,270	65,288	80,753	56,126	45,470	37,339	92,382
	4,095,144	255,794	537,704	335,119	305,351	501,187	282,362	435,772	266,765	187,518	644,250	343,322
Balance, June 30, 1947 (exhibit 1)	8,326,486	775,270	920,025	1,083,538	1,250,066	797,500	774,596	1,070,171	144,465	715,920	324,645	470,290
LEGAL RESERVE:												
Balance, June 30, 1946	9,923,899	734,124	1,223,243	918,320	869,767	1,370,338	691,886	1,260,896	696,044	591,218	473,154	1,094,909
Add transfer from undivided profits	827,331	57,151	126,618	90,710	74,224	101,270	65,288	80,753	56,126	45,470	37,339	92,382
Balance, June 30, 1947 (exhibit 1)	10,751,230	791,275	1,349,861	1,009,030	943,991	1,471,608	757,174	1,341,649	752,170	636,688	510,493	1,187,291
RESERVE FOR CONTINGENCIES:												
Balance, June 30, 1946	3,620,594	-	439,007	-	400,000	500,000	-	-	800,000	81,587	-	1,400,000
Transfer from (-to) undivided profits (net)	629,079	-	136,917	-	-	-	-	-	-	-7,838	500,000	-
Balance, June 30, 1947 (exhibit 1)	4,249,673	-	575,924	-	400,000	500,000	-	-	800,000	73,749	500,000	1,400,000
Total surplus (exhibit 1)	$23,327,389	$1,566,545	$2,845,810	$2,092,568	$2,594,057	$2,769,108	$1,531,770	$2,411,820	$1,696,635	$1,426,357	$1,335,138	$3,057,581

FEDERAL HOME LOAN BANKS

CONSOLIDATED STATEMENT OF SOURCES AND APPLICATION OF FUNDS, BY BANKS

FOR THE FISCAL YEAR ENDED JUNE 30, 1947

		Federal home loan bank										
	Consolidated	Boston	New York	Pittsburgh	Winston-Salem	Cincinnati	Indianapolis	Chicago	Des Moines	Little Rock	Topeka	San Francisco
SOURCES OF FUNDS:												
Net income, year ended June 30, 1947 (exhibit 2)	$ 4,011,654	$ 285,756	$ 633,088	$ 328,548	$ 371,123	$ 506,350	$ 326,440	$ 403,765	$ 280,629	$ 227,350	$ 186,694	$ 461,911
Add amortization of premiums or discounts on U.S. securities (net)	248,347	28,218	33,701	14,205	5,979	51,075	26,049	10,694	19,037	8,641	17,052	33,696
	4,260,001	313,974	666,789	342,753	377,102	557,425	352,489	414,459	299,666	235,991	203,746	495,607
Repayment of advances by members	216,749,779	19,846,263	19,952,852	14,776,856	25,445,637	20,757,011	10,160,781	37,916,240	15,780,161	9,564,827	7,927,386	34,621,765
U.S. securities redeemed or sold (cost)[1]	246,232,849	11,970,015	58,759,785	11,396,883	4,503,631	36,404,163	19,731,645	23,250,165	16,750,037	14,520,810	1,820,000	47,125,715
Sale of bonds and debentures	239,000,000	9,000,000	3,500,000	29,000,000	28,500,000	12,000,000	20,000,000	50,000,000	22,500,000	18,000,000	17,500,000	29,000,000
Sale of capital stock to members	17,373,350	1,129,650	1,536,800	2,592,300	2,473,000	1,607,400	876,000	1,482,400	1,374,800	682,600	2,006,400	1,612,000
Increase in deposits of members (net)	31,040,201	428,900	12,098,065	-182,732	6,072,749	1,974,543	2,054,884	3,299,263	3,450,917	735,700	1,319,892	-211,980
Increase in deposits from other Federal home loan banks	-	-	-	1,500,000	9,000,000	-	-	-	-	500,000	-	9,000,000
Decrease in deposits with other Federal home loan banks	-	-	-	-	-	-	1,500,000	-	-	-	-	2,000,000
Decrease in cash (net)	691,623	980,041	491,854	-675,686	-2,372,276	-865,127	830,205	1,623,219	223,946	-202,025	-523,451	1,180,923
	$755,347,803	$43,668,843	$97,006,145	$58,750,374	$73,999,843	$72,435,415	$55,506,004	$117,985,746	$60,379,527	$44,037,903	$30,253,973	$124,824,030
APPLICATION OF FUNDS:												
Advances to members	$302,543,107	$16,465,671	$26,236,503	$25,060,435	$52,642,225	$19,979,250	$21,370,774	$ 38,422,204	$22,680,360	$16,249,330	$16,050,500	$ 47,385,855
Purchase of U.S. securities	281,816,680	20,483,986	58,934,574	11,411,204	4,603,616	44,690,574	21,527,674	31,213,905	21,470,639	14,621,614	2,347,045	50,511,849
Redemption of bonds and debentures	166,000,000	2,000,000	3,500,000	22,000,000	16,000,000	5,000,000	12,000,000	40,000,000	16,000,000	13,000,000	10,000,000	26,500,000
Retirement of capital stock:												
Reconstruction Finance Corporation	979,000	-	-	-	-	581,100	397,900	-	-	-	-	-
Members	1,333,000	1,400	71,700	9,200	504,400	258,000	6,500	24,000	19,800	27,800	260,400	149,800
Decrease in deposits from other Federal home loan banks	-	-	-	-	-	-	-	5,000,000	-	-	1,500,000	-
Increase in deposits with other Federal home loan banks	-	4,500,000	8,000,000	-	-	1,500,000	-	3,000,000	-	-	-	-
Dividends paid	2,581,359	198,643	274,169	244,408	174,849	399,917	217,075	355,019	210,639	149,961	106,911	249,768
Contributions to retirement fund (prior service)	57,375	-	-	-	56,277	-	-	-	-	-74	-	1,172
Net increase in sundry assets, less net increase in sundry liabilities	37,282	19,143	-10,801	25,127	18,476	26,574	-13,919	-29,382	-1,911	-10,728	-10,883	25,586
	$755,347,803	$43,668,843	$97,006,145	$58,750,374	$73,999,843	$72,435,415	$55,506,004	$117,985,746	$60,379,527	$44,037,903	$30,253,973	$124,824,030

[1]Excluding profits on sales of securities which are included in net income.

FEDERAL HOME LOAN BANKS

CONSOLIDATED STATEMENT OF COMPENSATION, TRAVEL, AND OTHER EXPENSES, BY BANKS

FOR THE FISCAL YEAR ENDED JUNE 30, 1947

		Federal home loan bank										
	Consolidated	Boston	New York	Pittsburgh	Winston-Salem	Cincinnati	Indianapolis	Chicago	Des Moines	Little Rock	Topeka	San Francisco
COMPENSATION:												
Officers' salaries	$336,880	$32,525	$ 41,000	$ 27,850	$20,875	$ 37,550	$27,950	$34,950	$30,100	$24,525	$21,750	$ 37,805
Other salaries	248,257	9,772	41,130	42,177	23,634	29,001	9,289	22,541	7,889	11,692	14,847	36,285
Directors' fees	41,920	2,800	6,450	5,000	3,707	3,825	2,225	2,885	2,280	2,700	3,235	6,813
Counsels' compensation	38,125	3,750	4,250	5,500	2,900	4,000	3,000	5,000	2,100	50	3,250	4,325
	665,182	48,847	92,830	80,527	51,116	74,376	42,464	65,376	42,369	38,967	43,082	85,228
TRAVEL EXPENSE:												
Directors	38,841	1,609	2,805	4,411	3,678	3,649	1,960	1,810	2,221	3,881	3,471	9,346
Officers	21,478	1,244	2,155	3,204	2,613	1,923	1,765	1,287	1,931	544	1,026	3,786
Counsel and others	6,899	96	229	1,207	3,458	73	138	140	49	43	413	1,053
Maintenance and operation costs of automobile	2,809	185	-	574	-	620	-	-	-	301	277	852
	70,027	3,134	5,189	9,396	9,749	6,265	3,863	3,237	4,201	4,769	5,187	15,037
OTHER EXPENSES:												
Rent of banking quarters, less amount charged Federal Home Loan Bank Administration for district examiners' quarters	77,623	2,500	7,200	11,323	2,865	8,400	3,960	11,700	5,382	3,000	4,200	17,093
Retirement fund contributions	39,445	3,119	6,159	5,762	3,150	4,595	2,737	4,051	-	2,445	3,013	4,414
Stationery, printing and other office supplies	24,281	1,144	2,109	2,019	1,919	1,957	1,698	2,703	1,215	1,562	908	7,047
Telephone and telegraph	21,187	1,229	1,562	2,675	1,437	1,911	1,502	1,103	835	2,137	781	6,015
Postage and expressage	18,491	513	1,992	1,950	2,006	1,548	1,084	2,380	1,220	1,380	738	3,680
Insurance and surety bond premiums	13,539	1,131	2,160	1,560	744	1,355	785	1,294	851	971	808	1,880
Stockholders' annual meeting	12,484	2,315	3,537	1,004	954	1,162	-	822	1,800	347	543	-
Maintenance of banking quarters and equipment	12,122	892	1,578	514	537	1,398	699	1,789	506	2,905	193	1,111
Public relations	9,442	1,985	1,137	681	1,316	1,061	373	732	1,147	209	165	636
Dues and subscriptions	9,366	1,239	1,321	1,264	301	1,136	571	1,132	672	154	273	1,303
Reports and other publications	6,019	887	468	1,724	193	507	157	407	840	249	275	312
Services of Federal Home Loan Bank Administration Examining Division	5,894	1,106	-	99	2,580	21	15	129	-	-	1,008	936
Safekeeping and protection services	3,013	77	272	52	52	59	99	-	442	173	67	1,720
Miscellaneous	2,454	-	404	66	39	996	26	27	119	18	15	744
	255,360	18,137	29,899	30,693	18,093	26,106	13,706	28,269	15,029	15,550	12,987	46,891
Total (exhibit 2)	$990,569	$70,118	$127,918	$120,616	$78,958	$106,747	$60,033	$96,882	$61,599	$59,286	$61,256	$147,156

FEDERAL HOME LOAN BANKS

STATEMENT OF COMPLIANCE WITH SECTION 11(g) OF THE FEDERAL HOME LOAN BANK ACT, BY BANKS

JUNE 30, 1947

	Federal home loan bank										
	Boston	New York	Pittsburgh	Winston-Salem	Cincinnati	Indianapolis	Chicago	Des Moines	Little Rock	Topeka	San Francisco
AMOUNT TO BE INVESTED:											
1. Sums paid in on outstanding capital subscriptions of members	$ 7,924,400	$ 9,229,500	$ 7,575,800	$10,357,300	$15,371,100	$ 9,228,600	$10,346,600	$ 7,350,100	$ 3,660,900	$ 4,432,200	$10,123,300
2. Current deposits received from members	1,400,458	27,288,117	1,353,574	6,245,600	16,711,937	8,722,777	7,954,362	5,139,947	913,700	2,037,000	7,785,002
Total to be invested	9,324,858	36,517,617	8,929,374	16,602,900	32,083,037	17,951,377	18,300,962	12,490,047	4,574,600	6,469,200	17,908,302
INVESTMENTS:											
1. Obligations of the U.S. Treasury in excess of requirements for section 16 of the act	15,838,725	24,808,727	6,290,971	2,816,009	30,440,380	14,172,598	10,798,351	10,911,890	6,929,562	7,364,506	10,063,709
2. Deposits in banks, trust companies, and in U.S. Treasury, less applicants' deposits and requirements for section 16 of the act	5,195,483	12,388,832	2,239,271	3,192,738	7,106,776	1,489,338	3,979,585	438,710	1,387,848	1,482,461	5,092,615
3. Short-term unsecured advances made under section 11(g)(4) of the act	3,380,032	646,750	4,748,500	20,584,000	4,439,500	5,580,000	5,631,784	4,738,400	320,000	1,090,000	1,290,000
4. Short-term advances made under section 11(g)(3) of the act	-	-	260,000	225,000	-	100,000	185,000	300,000	600,000	1,100,000	250,000
5. Short-term advances made under section 10 of the act	3,437,500	6,334,250	24,966,327	1,655,000	9,332,125	3,819,625	8,831,445	3,501,522	12,850,600	1,483,350	12,306,700
Total investments	27,851,740	44,178,559	38,505,069	28,472,747	51,318,781	25,161,561	29,426,165	19,890,522	22,088,010	12,520,317	29,003,024
INVESTMENTS IN EXCESS OF SECTION 11(g) REQUIREMENTS	$18,526,882	$ 7,660,942	$29,575,695	$11,869,847	$19,235,744	$ 7,210,184	$11,125,203	$ 7,400,475	$17,513,410	$ 6,051,117	$11,094,722

91774 O - 49 (Face p. 44) No. 7

APPENDIX

History, Organization, and Functions of the

FEDERAL HOME LOAN BANK ADMINISTRATION

ORIGIN AND PURPOSE

The Federal Home Loan Bank Administration [1] was created in 1942 by Executive Order 9070 to assume the responsibilities and perform the duties which the Congress had assigned earlier to the Federal Home Loan Bank Board.

The Federal Home Loan Bank Board was created in 1932 by section 17 of the Federal Home Loan Bank Act (12 U. S. C. 1437) to organize, establish, and supervise district Federal home loan banks. Accordingly, the Board established 12 district banks to provide a credit reservoir for savings and loan institutions.

Under section 5 (a) of the Home Owners' Loan Act of 1933 (12 U. S. C. 1464 (a)), the Board was given the responsibility for chartering Federal savings and loan associations. In addition, section 4 (a) of the act (12 U. S. C. 1463 (a)) directed the Board to create Home Owners' Loan Corporation and, as its board of directors, to operate it. The preamble of the act stated the purpose of the Corporation to be "To provide emergency relief with respect to home-mortgage indebtedness, to refinance home mortgages, to extend relief to the owners of homes occupied by them and who are unable to amortize their debt elsewhere * * *." The Corporation's authority to acquire mortgages was effective for a 3-year period beginning with the date of the act, June 13, 1933.

Subsequently, section 402 of the National Housing Act of 1934 (12 U. S. C. 1725) created Federal Savings and Loan Insurance Corporation and made the Federal Home Loan Bank Board its board of trustees. The new Corporation was given the function of insuring the accounts of investors in savings and loan associations.

ORGANIZATION AND MANAGEMENT

Federal Home Loan Bank Administration

The Federal Home Loan Bank Act, in section 17 (12 U. S. C. 1437), provided for a Federal Home Loan Bank Board of five full-time members to be appointed by the President of the United States on a bipartisan basis, by and with the advice and consent of the Senate.

Reorganization Plan No. 1, effective July 1, 1939 (5 U. S. C. 133t note) created a Federal Loan Agency to supervise and coordinate the

[1] The President's Reorganization Plan No. 3 of 1947, which became effective July 27, 1947, provides for a Housing and Home Finance Agency with the same constituent agencies as the former National Housing Agency. H&HFA is headed by an Administrator who has the responsibility for general supervision and coordination of its constituents. The plan also created a Home Loan Bank Board of three members who have the functions of the Federal Home Loan Bank Board, the board of directors of HOLC, and the board of trustees of FS&LIC. Inasmuch as this report covers the fiscal year 1947, the terminology applicable to that year has been used.

functions of several Government agencies, including the Federal Home Loan Bank Board, Federal Savings and Loan Insurance Corporation, and Home Owners' Loan Corporation. Executive Order 9070, dated February 24, 1942, transferred the Federal Home Loan Bank Board and all of the organizations under its jurisdiction (as well as certain other agencies) into National Housing Agency.[1] This agency, headed by a National Housing Administrator, had three constituent units, one of which was the Federal Home Loan Bank Administration. By the same order, the offices of the members of the Federal Home Loan Bank Board were vacated, and the chairman became Commissioner of the Federal Home Loan Bank Administration, with all of the functions, powers, and duties of the former board, subject to the supervision and direction of the National Housing Administrator. National Housing Agency provided a public relations service for the Administration and was the channel through which many intragovernmental matters affecting the Administration were handled. Further, NHA was required, as a matter of form, to integrate the budget and other financial reports of the Administration and its constituent units into its own (NHA) reports.

Administrative Department, Federal Home Loan Bank Administration

By order of the Federal Home Loan Bank Commissioner, the Administrative Department[2] was established July 1, 1944. It consisted of the offices of an executive assistant to the Commissioner and an assistant to the Commissioner, and the following consolidated service units: Legal Department, Personnel Department, Budget Office, and Office of the Secretary. Prior to July 1, 1944, the service functions transferred to the Administrative Department were performed largely by employees of the Federal Home Loan Bank System or Home Owners' Loan Corporation; subsequent to that date, some of them were duplicated in varying degrees within the corporate constituents of the Administration.

Federal Home Loan Bank System

The Federal Home Loan Bank System,[3] as here considered, was the organization to which the Commissioner assigned the functions of supervision of the district Federal home loan banks and the chartering of Federal savings and loan associations. In addition, it exercised certain other functions which were properly those of Federal Savings and Loan Insurance Corporation. In a broader sense, it may be likened to the Federal Reserve System in that the district banks provide a reservoir of credit for their members, under the direction of a governing board.

The Federal Home Loan Bank System was headed by a Governor. During the existence of the Federal Home Loan Bank Board (prior to February 24, 1942), the Governor administered the policies established by the Board. Subsequent to the creation of the Federal Home Loan Bank Administration, the Commissioner, under authority contained in Executive Order 9070, delegated his administrative powers

---

[1] See note 1, p. 47.

[2] Effective July 1, 1947, the Administrative Department and the bank system were merged and operated under a single budget as the Federal Home Loan Bank Administration. On July 27, 1947, the Federal Home Loan Bank Administration was replaced, under Reorganization Plan No. 3 of 1947, by a Home Loan Bank Board. (See note 1, p. 47.)

[3] See note 2, above.

and duties with respect to the Federal Home Loan Bank System to its Governor. However, the Governor was required to have the concurrence of the general counsel and an executive assistant to the Commissioner in the adoption, amendment, or repeal of the rules and regulations pertaining to the Federal home loan banks and Federal savings and loan associations. Although the Commissioner retained his policy-making powers, the Governor had a large part in the formulation of policies. The Governor of the bank system participated also in the policies and management of Federal Savings and Loan Insurance Corporation through the requirement that the general manager of the Corporation have his concurrence with respect to the settlement of insurance claims, and contributions or loans to, or the purchase of assets of, insured institutions, and through participation in the supervision of insured institutions and the approval of applications for insurance.

FUNCTIONS

Federal Home Loan Bank Administration

The primary functions of the Administration were the supervision and direction of the Federal home loan banks, Federal Savings and Loan Insurance Corporation, and Home Owners' Loan Corporation. In addition, it performed certain policy-making and service functions for, or in conjunction with, its constituent units.

Administrative Department

In July 1944 certain service functions of the Administration and its constituent units were consolidated in an Administrative Department.[1]

The Legal Department is under the direction of a general counsel who is responsible for all legal matters of the Federal Home Loan Bank System, Federal Savings and Loan Insurance Corporation, and Home Owners' Loan Corporation.

The Personnel Department handles all personnel matters for the Administration and Federal Savings and Loan Insurance Corporation and is responsible for the operation of the Personnel Department of Home Owners' Loan Corporation.

The budget officer (prior to July 27, 1947, an assistant to the Commissioner) had the usual budgetary functions for the Administrative Department and the bank system. In addition, he shares a primary management responsibility with respect to the budget management and financial reporting of each of the corporate constituents.

The Office of the Secretary recorded and preserved the official orders of the Commissioner. It also had the service functions of purchase and supply, building management, communication facilities, and maintenance of files and other records.

Federal Home Loan Bank System

With respect to the Federal home loan banks, the system[1] had the following functions: Supervision of the election of directors and the appointment of officers; review and disposition of applications for membership in the district banks; supervision of investment and loan policies; adoption and supervision of accounting systems and financial report-

[1] See note 2, p. 48.

ing; determination of compliance with laws, rules, and regulations, and semiannual examination of the district banks.

Acting for Federal Savings and Loan Insurance Corporation, the system supervised and examined insured institutions, both Federal- and State-chartered. Officers of the district banks acted as agents of the system and the Corporation in the review of examination reports and the performance of the supervisory function. The office of chief supervisor in the bank system reviewed the examination reports and the action taken by field supervisory agents, and took such action, itself, as the circumstances warranted. The system also acted for FS&LIC, with the assistance of the district banks, in reviewing applications for insurance.

In addition, the system considered and processed applications for Federal savings and loan association charters. It also maintained and audited its own financial records and those of the Administrative Department.

Appendix B

History, Organization, and Functions of

FEDERAL HOME LOAN BANKS

ORIGIN AND PURPOSE

The Federal home loan banks were established by the Federal Home Loan Bank Board, which was created for that purpose by the Federal Home Loan Bank Act (12 U. S. C. 1437), approved July 22, 1932.

The purpose of the Federal home loan banks is to provide a credit reserve system for building and loan associations, savings and loan associations, cooperative banks, homestead associations, insurance companies, and savings banks. The creation of these banks was one of several measures adopted to relieve the financial distress of thrift and home-financing institutions and their borrowers.

ORGANIZATION AND MANAGEMENT

Each Federal home loan bank is an integral part of the permanent home loan credit system under the Federal Home Loan Bank Administration,[1] which exercises general regulatory and supervisory authority over, and conducts examinations of, the banks.

There were originally 12 district banks, each serving an area determined by the Federal Home Loan Bank Board. On March 29, 1946, the Federal Home Loan Bank Commissioner merged the Los Angeles and Portland banks into a new bank located in San Francisco; thus at June 30, 1947, there were 11 banks rather than 12. However, the San Francisco bank continues to operate the Los Angeles and Portland banks as branches.

The regional banks are owned by the United States Government and by savings-and-loan-type associations, insurance companies, and savings banks which have become members under section 4 of the act. The capital stock has a par value of $100 per share, and the act prescribes that the minimum capital of each bank shall not be less than $5,000,000. The total of the minimum capital established for the 12 banks on August 24, 1932, was $134,000,000. The act authorized a maximum participation by the United States Government of $125,000,000; the amount invested was $124,741,000.

Eligible institutions are required to subscribe to stock in the bank of which they become members in an amount equal to 1 percent of the aggregate unpaid principal of their home mortgage loans, but in no event for a sum less than $500. Borrowing members are required to have, at all times, paid-in stock equal to at least one-twelfth of their outstanding advances from the district bank. The Government's

[1] See note 1, p. 47.

participation, which is represented by shares held by RFC,[1] is subject to reduction in each bank after the amount of capital paid in by members equals the amount paid in by the Government. Thereafter, the bank must apply annually to the retirement of the shares held by the United States, 50 percent of all sums paid in as capital until all such stock held by the United States is retired at par. The bank may, with the approval of the Administration, at any time pay off, in whole or in part, the stock held by the United States; and the Administration may at any time require such stock to be paid off at par in whole or in part if, in its opinion, the bank has resources available for that purpose.

The management of each bank is vested in a board of 12 directors, who must be citizens of the United States and residents of the district in which the bank is located. Four of the directors are appointed by the Administration, and the other eight are elected by the member associations subject to approval by the Administration. The membership of each bank is divided, on the basis of the aggregate unpaid principal of home mortgage loans held, into three groups representing the large, medium-sized, and small institutions. Two directors are elected from each of these groups, and the remaining two are chosen by the membership at large. If, at any time when nominations are required, the members hold less than $1,000,000 of the capital stock of a regional bank, the Administration shall fill any position for which a nomination is required. A director may not hold an active political office for which he receives compensation.

While the management of each bank is vested in its board of directors, the board is subject, in all its acts, to the rules and regulations prescribed by the Federal Home Loan Bank Administration.

FUNCTIONS

The Federal home loan banks operate as a credit reserve system for thrift and home-financing institutions of the savings and loan type savings banks, and insurance companies. Advances are made, principally, to provide funds for home-financing activities and for the payment of shareholders' withdrawal requests. These loans are financed through the capital investments of the Government and the member institutions, the sale of bonds or other obligations, and deposits made by members or by other district banks.

Certain officers of the several banks have been appointed agents of the Federal Home Loan Bank Administration, Federal Savings and Loan Insurance Corporation, and Home Owners' Loan Corporation. Thus the banks perform various functions relating to the processing of Federal savings and loan charters and insurance applications, the supervision of insured institutions, and the repurchase of HOLC investments in savings and loan type institutions.

[1] Public Law 132, approved June 30, 1947 (15 U. S. C. 606 note), authorized and directed Reconstruction Finance Corporation to transfer to the Secretary of the Treasury all of the stock of the Federal home loan banks held by RFC. The transfer was made as of July 1, 1947.