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# REPORT ON AUDIT OF FEDERAL HOME LOAN BANKS AND HOME LOAN BANK BOARD

## LETTER

FROM THE

## COMPTROLLER GENERAL OF THE UNITED STATES

TRANSMITTNG

A REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS AND RECORDS OF THE FEDERAL HOME LOAN BANKS AND THE HOME LOAN BANK BOARD FOR THE FISCAL YEAR ENDED JUNE 30, 1948

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## LETTER OF TRANSMITTAL

General Accounting Office,
Comptroller General of the United States,
*Washington 25, October 4, 1949.*

The Honorable the Speaker of the House of Representatives.

Dear Mr. Speaker: There is presented herein report on the audit of the financial statements and records of the Federal Home Loan Banks and the Home Loan Bank Board for the fiscal year ended June 30, 1948. This audit was made by the Corporation Audits Division of the General Accounting Office, 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

## PART II—HOME LOAN BANK BOARD

# REPORT ON AUDIT OF FEDERAL HOME LOAN BANKS AND HOME LOAN BANK BOARD FOR FISCAL YEAR ENDED JUNE 30, 1948

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 Banks and the Home Loan Bank Board for the fiscal year ended June 30, 1948.

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. Our comments and recommendations are presented in part I of this report.

The Home Loan Bank Board received no appropriated funds from the United States Treasury, but the Congress authorized and limited its administrative expenses for the year under review. 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 HLBB 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 Board's operations. However, in examining and testing the financial transactions of the Board, considerable reliance was placed on the audit made by another division of the General Accounting Office under the Budget and Accounting Act of 1921. Our comments and recommendations appear in part II of this report.

## PART I—FEDERAL HOME LOAN BANKS

### Summary

#### CREATION AND PURPOSE

The Federal home loan banks were established by the Federal Home Loan Bank Board (now Home Loan Bank Board) which was created for that purpose by the Federal Home Loan Bank Act (12 U. S. C. 1421), approved July 22, 1932. The banks constitute a credit reserve system for thrift and home-financing institutions, including savings banks and insurance companies. The origin, purpose, organization, management, and sources of funds of the home loan banks are summarized in appendix A.

## ORGANIZATION AND MANAGEMENT

The operations of each bank are controlled by a board of directors whose actions are subject to approval by the Home Loan Bank Board. Each board consists of 12 members, of whom 4 are appointed by the HLBB and the remainder are elected by the member institutions. Thus the members have majority representation on each board, although the Government is the majority stockholder in seven of the eleven banks.

## FINANCIAL DATA

### *Changes in financial position*

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

| | |
|---|---|
| Net income for the year, less dividends | $2,000,000 |
| Realization from sale of obligations—net | 166,500,000 |
| Sale of capital stock, less retirements | 15,000,000 |
| Deposits by members (net increase) | 13,000,000 |
| Net changes in other assets and liabilities | 1,500,000 |
| Total | $198,000,000 |

These funds were used for:

| | |
|---|---|
| Increased advances to members | $186,000,000 |
| Increase in cash and investments | 12,000,000 |
| Total, as above | $198,000,000 |

### *Net income and its disposition*

The net income of all the banks for the fiscal year 1948 was $4,981,861, including $334,420 profit on the sale of Government securities; the comparable figures for 1947 were $4,011,654 and $358,703, respectively. The return on the average of the capital and surplus at the beginning and end of the year was 2.0 percent (1947, 1.7 percent).

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. This legal reserve was about 5 percent of the total paid-in capital of all banks at June 30, 1948. Some of the banks have credited substantial additional amounts to reserves for contingencies. The amounts so added to reserves were approximately $1,059,000 for the fiscal year 1948 and $1,456,000 for the fiscal year 1947.

Dividends declared during the fiscal year 1948 (of which $1,074,560 were unpaid at June 30, 1948) are compared with the declarations in the previous year and from inception:

| *Payable to* | *Year ended June 30* | | *Total dividends from inception* |
|---|---|---|---|
| | *1948* | *1947* | |
| Member associations | $1,453,089 | $1,075,367 | $9,622,915 |
| United States Treasury | 1,627,877 | 1,505,992 | 22,953,111 |
| Total | $3,080,966 | $2,581,359 | $32,576,026 |

The dividends received by the Government in 1948 were at a rate lower than the average interest rate (1.94 percent) on marketable issues of the public debt. Since 1934 each bank has been required to apply the same dividend rate to all stockholders (12 U. S. C. 1426 (k)). To the extent that the Government's interest cost exceeds the return on its investment, the banks are receiving a benefit in the nature of a subsidy. The average interest cost to the Treasury on the Government's investment in the banks was approximately $726,000 (1947, $748,000) more than the income received from the investment in 1948.

The net increase in surplus and surplus reserves of all the banks was $1,827,000 against $1,373,000 in 1947.

*Open market financing*

Open market financing was used to a greater extent during the fiscal year 1948 than ever before. Consolidated obligations outstanding at June 30, 1948 ($306,500,000), were $166,500,000 greater than at the preceding June 30. These notes, bearing interest at rates of 1¼ to 1¾ percent and maturing within the following fiscal year, were the joint and several obligations of all the banks. The cost of borrowed money ($3,725,000) was $1,931,000 (108 percent) greater than in 1947. The average cost of borrowed money increased from 1.37 percent in 1947 to 1.52 percent in 1948. These obligations are not guaranteed by the United States Government.

*Changes in capital stock ownership*

The original investment of the Government of $124,741,000 in the banks has been reduced $4,949,800 by the partial retirement of its capital stock in the following banks during the past 4 years.

| | *1945 to 1947* | *1948* | *Total* |
|---|---|---|---|
| Cincinnati | $910,700 | $721,300 | $1,632,000 |
| Des Moines | ............ | 96,200 | 96,200 |
| Indianapolis | 1,158,100 | 636,000 | 1,794,100 |
| Winston-Salem | ............ | 1,427,500 | 1,427,500 |
| | $2,068,800 | $2,881,000 | $4,949,800 |

At June 30, 1948, the Government's investment in the banks ranged from 31 percent of the total capital stock in the Indianapolis bank to 66 percent in the Little Rock bank.

The investment of the member associations was increased during the year by $17,573,600 to $113,173,400 at June 30, 1948.

*Deposits of members*

Deposits of member associations at June 30, 1948, amounted to $98,898,978, about 74 percent of which were time deposits. These deposits, the highest in the banks' history, were 15 percent greater than at June 30, 1947. The maximum interest rate on time deposits was 1 percent and the interest cost was $572,000; in 1947 the interest cost was $389,000.

*Advances to members*

Advances (loans) are evidenced by notes of the borrowers (member associations), and if their term exceeds 1 year collateral must be pledged as security. The average interest rate earned on advances was 1.96 percent; in 1947 it was 1.89 percent and in 1946, 1.73 percent.

Advances outstanding at June 30, 1948, aggregated $475,248,000, an increase of about $186,200,000 (64 percent) over those at the preceding year-end. Advances made totaled $402,714,000 in 1948, $302,543,000 in 1947, and $314,878,000 in 1946; these three years accounted for nearly 41 percent of the $2,500,863,000 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, 1948, had increased 31 percent to 1,911, or 51 percent of the total membership of 3,733.

At June 30, 1948, long-term advances represented 52 percent of the total advances outstanding, as compared with 50 percent at the close of the preceding year. The face value of mortgage collateral at the close of 1948 was 64 percent greater than at the end of 1947 and was 83 percent of the total collateral.

During the year under review, the banks earned $7,302,000 in interest on advances, an increase of $2,688,000 (58.3 percent) over the 1947 income.

*Government securities owned*

The banks held $162,100,000 (par value) in Government securities at the close of 1948—about $6,600,000 more than at the beginning of the year. Of the total, approximately $42,200,000 was needed to comply with statutory reserve requirements, leaving $119,900,000 as an unrestricted secondary reserve. Earnings on these investments totaled $3,147,000 during the year, $392,000 more than in 1947.

## GENERAL

In general, we consider that the accounting records and system of internal control of the banks were adequate. We found some weaknesses in the system of internal control of certain banks. Our suggestions for their correction were adopted promptly.

## RECOMMENDATIONS

### NEW RECOMMENDATIONS TO THE CONGRESS

1. *Retirement of Government's investment*

We have reviewed legislation (H. R. 5596) pending before the Eighty-first Congress covering, among other matters, accelerated retirement of the Government's investment, purchase of Federal home loan bank bonds by the Federal Reserve banks, and advances by the Treasury to the Federal home loan banks. In our opinion the methods proposed below for the accomplishment of these objectives are preferable to those contained in the pending bill.

Retirement of the stock would require that provision be made for flexibility in the capital structure of the banks. We recommend therefore, that:

a. A maximum limit be placed on the total indebtedness that may be outstanding at any time to meet the demands of the members. This limitation should not be less than that prescribed for advances to members. (See p. 13.)

b. Authority to borrow from the public be continued.

c. Authority be granted to the Federal Reserve banks to purchase obligations of the Federal home loan banks.

d. Authority be granted to the Treasury to make advances to the banks whenever, in the opinion of the HLBB and the Secretary of the Treasury, such financing is advisable. (See p. 15.) Advances from the Treasury should be made on a revolving fund basis and bear interest at a rate sufficient to reimburse the Treasury for its costs.

e. The requirement for members' stockholdings be increased from 1 to 2 percent of the aggregate of the unpaid principal of members' home mortgage loans.

The Federal home loan banks, individually and as a system, have excess capital sufficient to retire the capital stock owned by the Government. Dividends on the Government's investment have not been sufficient to reimburse the Treasury for its interest cost. For these reasons we recommend that the Government's investment be repaid, thereby returning nearly $102,500,000 (as of May 31, 1949) to the Treasury and eliminating the interest differential which is a financial benefit to the Federal home loan banks in the nature of a subsidy. Retirement of the stock could be accomplished by exchanging Government securities owned by the banks for the capital stock held by the Treasury. If the HLBB exercises its statutory power to require immediate retirement of the stock at par (section 6 (g), Federal Home Loan Bank Act—12 U. S. C. 1426 (g)), there will be no need for action by the Congress on this point. However, in either event, provision should be made to continue the present congressional control. (See recommendations 2 and 3.)

## PREVIOUS RECOMMENDATIONS TO THE CONGRESS

We offer for further consideration by the Congress the following recommendations the substance of which was included in our audit report for the fiscal year 1947.

### 2. *Banks to remain under the Government Corporation Control Act*

At January 31, 1949, member institutions owned all 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 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. 856–869), but, as noted in recommendation 3, the Government's responsibilities are not diminished. Therefore, we recommend 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]

### 3. *Change method of electing bank directors*

We recommend a change in 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 the risk must com-

[1] Legislation proposed by the HLBB to accomplish this end has been transmitted through the Bureau of the Budget to the President.

prehend also the moral and potential financial responsibilities inherent in the policy of the underlying legislation. The Government supervises the banks, prescribes rules and regulations governing the nomination and election of bank directors, may suspend or remove any director, 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 HLBB and 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 seven 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. The adoption of such a method would give representation on the boards more in keeping with the responsibilities of the HLBB.

4. *Annual examinations of banks*

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 sufficient, so long as the General Accounting Office is authorized to audit the banks in accordance with the 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 deemed 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]

5. *Return on Government's investment*

We suggest that the banks be required to pay cumulative dividends or interest on the Government's investment at a rate sufficient to reimburse the United States Treasury for its costs.

This recommendation is offered for consideration if our suggestions for retirement of the Government's investment (recommendations 1, 2, and 3, above) are not approved by the Congress.

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

### RECOMMENDATIONS ADOPTED BY THE MANAGEMENT

1. *Fill "public interest" vacancies in bank boards*

The HLBB should fill all vacancies among the "public interest" directors of the banks as promptly as possible.

### PREVIOUS RECOMMENDATIONS TO THE MANAGEMENT

1. *Improve financial reporting by banks*

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 the banks' stockholders.

## COMMENTS ON FINANCIAL POSITION AND OPERATIONS

The financial position of each of the 11 banks as of June 30, 1948, is presented in the consolidated balance sheet, exhibit 1, page 21. The summary below shows the consolidated financial position of the banks at June 30, 1948 and 1947, and the changes resulting from operations during the fiscal year 1948.

| | June 30 | | Increase (−decrease) |
|---|---|---|---|
| *Assets* | *1948* | *1947* | |
| Cash | $25,689,579 | $20,088,650 | $5,000,929 |
| Government securities at amortized cost | 164,281,212 | 157,846,102 | 6,435,110 |
| Advances to members | 475,247,656 | 289,088,899 | 186,158,757 |
| Accrued interest on securities and advances | 1,334,855 | 952,419 | 382,436 |
| Other assets | 196,136 | 279,316 | −83,180 |
| Total assets | 666,749,438 | 468,855,386 | 197,894,052 |
| *Liabilities* | | | |
| Deposits of members and others | 99,060,292 | 85,885,527 | 13,174,765 |
| Consolidated obligations outstanding | 306,500,000 | 140,000,000 | 166,500,000 |
| Dividends payable | 1,074,560 | 943,627 | 130,933 |
| Accrued interest on deposits and consolidated bonds | 1,983,763 | 413,221 | 1,570,542 |
| Accounts payable | 11,742 | 13,622 | −1,880 |
| Total liabilities | 408,630,357 | 227,255,997 | 181,374,360 |
| Net assets | $258,119,081 | $241,599,389 | $16,519,692 |
| Represented by: | | | |
| Capital stock: | | | |
| Held by members | $113,173,400 | $95,599,800 | $17,573,600 |
| Held by U. S. Treasury | 119,791,200 | 122,672,200 | −2,881,000 |
| | 232,964,600 | 218,272,000 | 14,692,600 |
| Accumulated earnings allocated to: | | | |
| Legal reserve | 11,772,602 | 10,751,230 | 1,021,372 |
| Reserve for contingencies | 4,288,061 | 4,249,673 | 38,388 |
| Undivided profits | 9,093,818 | 8,326,486 | 767,332 |
| | 25,154,481 | 23,327,389 | 1,827,092 |
| | $258,119,081 | $241,599,389 | $16,519,692 |

The results of operations during the fiscal year 1948 are shown for each of the 11 banks in the consolidated income statement, exhibit 2, page 24. A comparison of the consolidated operations for the last two fiscal years follows:

| | Year ended June 30 | | Increase (— decrease) |
|---|---|---|---|
| | *1948* | *1947* | |
| **Income:** | | | |
| Interest on advances | $7,302,156 | $4,614,300 | $2,687,856 |
| Interest on securities | 3,146,720 | 2,755,079 | 391,641 |
| Miscellaneous | 3,263 | 1,973 | 1,290 |
| Total income | 10,452,139 | 7,371,352 | 3,080,787 |
| **Expenses:** | | | |
| Operating: | | | |
| Compensation, travel, and other expenses | 1,121,232 | 990,569 | 130,663 |
| Assessment by HLBB | 372,000* | 530,000 | —158,000 |
| Furniture and equipment purchased | 9,224 | 15,867 | —6,643 |
| | 1,502,456 | 1,536,436 | —33,980 |
| Financing: | | | |
| Interest on consolidated obligations | 3,459,164 | 1,656,975 | 1,802,189 |
| Consolidated obligations expense: | | | |
| Concessions (discounts) | 218,590 | 102,181 | 116,409 |
| Office of fiscal agent | 47,547 | 34,497 | 13,050 |
| Interest on members' deposits | 571,948 | 389,380 | 182,568 |
| Interest on U. S. Treasury deposits | 7,622 | ----------- | 7,622 |
| | 4,304,871 | 2,183,033 | 2,121,838 |
| Total expenses | 5,807,327 | 3,719,469 | 2,087,858 |
| Net operating income | 4,644,812 | 3,651,883 | 992,929 |
| Other income: | | | |
| Profit on sale of securities (net) | 334,420 | 358,703 | —24,283 |
| Miscellaneous | 2,629 | 1,068 | 1,561 |
| Total other income | 337,049 | 359,771 | —22,722 |
| Net income for the period | $4,981,861 | $4,011,654 | $970,207 |

*After refund of $11,000 applicable to prior year.

In exhibit 4, page 26, we present a statement of resources provided and applied during the year under review for each of the 11 banks. A summary of the consolidated changes follows:

| | | |
|---|---|---|
| **Resources provided by:** | | |
| Net income for the fiscal year | $4,981,861 | |
| Charges not represented by expenditure of funds: | | |
| Amortization of premium or discount on securities (net). | 12,368 | |
| | 4,994,229 | |
| Less dividends (U. S. Government, $1,627,877) | 3,080,966 | $1,913,263 |
| Net realization from sale of obligations (note 1): | | |
| Sales | 343,200,000 | |
| Redemptions | 176,700,000 | 166,500,000 |
| Sale of capital stock (net): | | |
| To members (less retirements, $859,600) | 17,573,600 | |
| Less retirement of Government's investment | 2,881,000 | 14,692,600 |
| Net increase in deposits by members | | 13,174,765 |
| Net changes in other assets and liabilities | | 1,326,536 |
| | | $197,607,164 |
| **Resources applied to:** | | |
| Net increase in advances to members: | | |
| New advances | 402,714,134 | |
| Less repayment of advances | 216,555,377 | $186,158,757 |
| Net increase in Government securities owned: | | |
| Acquisitions | 338,059,059 | |
| Less sale or redemption of securities (exclusive of profit from sale, $334,420, which is included in income above) | 331,611,581 | 6,447,478 |
| Increase in cash | | 5,000,929 |
| | | $197,607,164 |

[1]Includes $84,500,000 for refunding.

CASH

Cash amounted to $25,700,000 at June 30, 1948, of which $10,300,000 was restricted by statutory reserve requirements. (See pp. 12 and 16.)

GOVERNMENT SECURITIES OWNED

The securities, at par values, held by the banks were:

| | Par values at June 30 | | Increase (—decrease) |
|---|---|---|---|
| | 1948 | 1947 | |
| Treasury bonds: | | | |
| 2% | $14,259,000 | $37,099,500 | —$22,840,500 |
| 2¼% | 59,275,000 | 55,445,000 | 3,830,000 |
| 2½% | 28,023,500 | 29,023,500 | —1,000,000 |
| 2¾% | 843,000 | 913,000 | —70,000 |
| | 102,400,500 | 122,481,000 | —20,080,500 |
| Savings bonds, 2½% | 7,317,500 | 6,517,500 | 800,000 |
| Treasury notes, 1½% | | 6,500,000 | —6,500,000 |
| Treasury notes, special series, 1½%, Federal home loan banks | 37,400,000 | | 37,400,000 |
| Certificates of indebtedness, ⅞% | | 9,365,000 | —9,365,000 |
| Treasury bills, discount | 15,000,000 | 10,600,000 | 4,400,000 |
| | $162,118,000 | $155,463,500 | $6,654,500 |

The special series Treasury notes are a nonmarketable issue, redeemable upon request of the HLBB.

The distribution of maturities at June 30, 1948, and the changes during the fiscal year 1948 were:

| | June 30, 1948 | Increase (—decrease) during the year | |
|---|---|---|---|
| | | Amount | Percent |
| Less than 1 year | $15,000,000 | —$5,065,000 | —25 |
| 1 to 5 years | 42,716,500 | 32,017,500 | 299 |
| 5 to 10 years | 25,010,000 | —22,848,000 | —48 |
| Over 10 years | 79,391,500 | 2,550,000 | 3 |
| | $162,118,000 | $6,654,500 | |

There was a marked divergence in the relationship of aggregate market values to amortized cost at the close of the last two fiscal years:

| | June 30 | |
|---|---|---|
| | 1948 | 1947 |
| Book value (amortized cost) | $164,281,212 | $157,840,102 |
| Market value | 163,938,795 | 160,360,904 |
| Market value excess (—deficiency) | —$342,417 | $2,520,802 |

The principal factors in the changed relationship of aggregate market values to amortized cost of securities owned were the substantial reduction in Treasury bonds held and the restraining influence of the Government's open-market support of Treasury obligations.

Securities acquired during the year totaled $338,059,059, after discounts of $964,941. Securities sold or redeemed had an amortized cost of $331,611,581. The net profit on securities sold was $334,420.

Of the securities held at June 30, 1948, approximately $16,000,000 was necessary to meet the "legal" and contingent reserve requirements. An additional $26,200,000 was needed to comply with statutory requirements as to the investment of members' capital subscriptions and their current deposits. Thus approximately $119,900,000 was left as an unrestricted secondary reserve.

During the fiscal year 1948 the banks earned $3,147,000 on their securities investments; in 1947 the earnings were $2,755,000. The yield on the average investment was 1.74 percent in 1948 and 1.69 percent in 1947. Despite the emphasis on liquidity reflected in the tabulation on page 9, rising interest rates on Government securities resulted in a larger proportionate return on the increased investments;

## ADVANCES

Advances are evidenced by notes of member borrowers, and if their term exceeds one year collateral must be posted. (No advances have been made to nonmember institutions for several years.) 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, 1948, the advances outstanding were $475,248,000, an increase of $186,159,000 (64 percent) over those at the preceding year-end. The advances made during 1948, $402,714,000, were $87,836,000 greater than those at the prior peak reached in 1946. The banks from inception have loaned $2,500,863,000, of which 41 percent was advanced during the last three fiscal years. 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, 720, 000 | 79, 112, 000 |
| 1936 | 78, 195, 000 | 38, 929, 000 | 118, 378, 000 |
| 1937 | 114, 267, 000 | 65, 849, 000 | 166, 816, 000 |
| 1938 | 105, 432, 000 | 76, 023, 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 |
| 1948 | 402, 714, 000 | 216, 555, 000 | 475, 248, 000 |
| | $2, 500, 863, 000 | $2, 025, 615, 000 | |

For the third consecutive year, the number of borrowing associations increased substantially; in each of the preceding six years the number had declined. At June 30, 1948, 51 percent of the members were borrowers; this represents a substantial increase from the low point of 19 percent reached in 1945. Additional details are:

| *June 30* | *Total membership* | *Borrowing members* | |
|---|---|---|---|
| | | *Number* | *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 |
| 1948 | 3, 733 | 1, 911 | 51 |

Advances outstanding on June 30, 1948, were greater in each bank than at the close of the preceding fiscal year. The year-end balances and the amount and percentage of increase during the fiscal year 1948 are shown below, by banks:

| *Federal home loan bank* | *Balance at June 30, 1948* | *Increase* | |
|---|---|---|---|
| | | *Amount* | *Percent* |
| Boston | $18,639,000 | $8,417,000 | 82 |
| New York | 32,363,000 | 13,498,000 | 72 |
| Pittsburgh | 41,242,000 | 10,338,000 | 34 |
| Winston-Salem | 85,868,000 | 38,965,000 | 83 |
| Cincinnati | 28,787,000 | 10,043,000 | 54 |
| Indianapolis | 33,232,000 | 8,959,000 | 37 |
| Chicago | 62,157,000 | 20,947,000 | 51 |
| Des Moines | 30,438,000 | 6,818,000 | 29 |
| Little Rock | 26,791,000 | 9,612,000 | 56 |
| Topeka | 22,203,000 | 6,978,000 | 46 |
| San Francisco | 93,528,000 | 51,584,000 | 123 |
| | $475,248,000 | $186,159,000 | 64 |

Long-term advances, with maturities ranging generally from 3 to 10 years, continued to increase during 1948. The proportion of long-term paper to total advances outstanding at the close of each of the last three fiscal years was: 1946, 20 percent; 1947, 50 percent; and 1948, 52 percent.

The increase in mortgage lending activities of members is reflected in the rise in the proportion of pledged mortgages to the total collateral: 1945, 42 percent; 1946, 52 percent; 1947, 78 percent; and 1948, 83 percent. The classes of loans and the types of underlying collateral security at June 30, 1948 and 1947, were:

| | *June 30, 1948* | | *June 30, 1947* | | *Increase (—decrease)* | |
|---|---|---|---|---|---|---|
| | *Number of borrowers* | *Amount* | *Number of borrowers* | *Amount* | *Number of borrowers* | *Amount* |
| Advances with pledge of collateral: | | | | | | |
| Long-term—under section 10 (a) of the act | 798 | $245,521,485 | 573 | $145,101,488 | 225 | $100,419,997 |
| Short-term—under section 10 (a) of the act | 748 | 123,033,477 | 613 | 88,518,445 | 135 | 34,515,032 |
| Short-term—under section 11 (g) (3) of the act | 2 | 1,555,000 | 13 | 2,660,000 | −11 | −1,105,000 |
| Total | 1,374* | 370,109,962 | 1,038* | 236,279,933 | 336 | 133,830,029 |
| Unsecured advances: | | | | | | |
| Short-term—under section 11 (g) (3) of the act | 6 | 510,000 | 6 | 360,000 | ........ | 150,000 |
| Short-term—under section 11 (g) (4) of the act | 761 | 104,627,694 | 556 | 52,448,966 | 205 | 52,178,728 |
| Total | 767 | 105,137,694 | 562 | 52,808,966 | 205 | 52,328,728 |
| Total advances outstanding | 1,911* | $475,247,656 | 1,455* | $289,088,899 | 456* | $186,158,757 |
| Collateral: | | | | | | |
| Unpaid balances of home mortgages | | $597,302,904 | | $363,428,132 | | $233,874,772 |
| U. S. securities direct or guaranteed (par value) | | 119,035,300 | | 101,167,200 | | 17,868,100 |
| Mortgages guaranteed by FHA or VA | | 2,995,849 | | 4,353,080 | | −1,357,231 |
| Total face value of collateral | | $719,334,053 | | $468,948,412 | | $250,385,641 |
| Total collateral value assigned by banks | | $523,139,882 | | $341,774,490 | | $181,365,392 |

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

Of the short-term advances, $229,700,000, held at June 30, 1948, approximately $155,800,000 was necessary to meet the statutory reserve requirements.

Only one borrower (Long Beach Federal Savings and Loan Association—see p. 36) was reported to be delinquent. This borrower was indebted to the San Francisco bank on long-term notes totaling $6,300,000, plus interest at the rate of 2 percent from December 31, 1947. One of the notes, in the amount of $2,300,000, matured on June 28, 1948; the others bore maturity dates in November 1948. Payment of principal and interest is being held in abeyance pending outcome of a suit brought by the borrower against the bank.

Interest earned on advances was $7,302,000 in 1948, an increase of $2,688,000 (58.3 percent) over the 1947 earnings. This increase was attributable mainly to an increase of $128,248,000 in the average monthly outstanding advances. The overall average interest rate earned on advances in 1948 was 1.96 percent; in 1947 it was 1.89 percent; and in 1946, 1.73 percent.

### MEMBERS' DEPOSITS

Deposits are accepted from members under terms and conditions prescribed by the HLBB. The banks are permitted to reserve the right to require at least 30 days notice of intent to withdraw time deposits. Interest was paid on time deposits at varying rates, the maximum rate approved by the HLBB 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 | $8,206,000 | $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 | 21,360,000 | —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 |
| 1948 | 73,033,000 | 25,775,000 | 98,808,000 | 13,256,000 |

The regulations of the HLBB, in accordance with authority granted 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 was 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, 1948, each bank held investments of the prescribed types substantially in excess of the requirements for the total of its members' deposits.

Interest paid on members' deposits by the 11 banks aggregated $572,000 during the fiscal year 1948, an increase of $183,000 over that paid in the preceding period.

### INTERBANK DEPOSITS

An important attribute of a credit reservoir such as the Federal home loan banks is the ability to supply temporarily the needs of any bank from the reserve funds of other banks in the system. For this purpose the statute authorizes the use of interbank deposits. These deposits are made from funds in excess of current needs of the depositing bank and from the proceeds, not immediately needed, of consolidated obligations. Interest paid on such deposits ranged from 1.64 percent to 1.78 percent, the rate being fixed at the cost of consolidated obligations plus one-fourth of 1 percent. Interest paid on interbank deposits totaled $188,364 in 1948.

### CONSOLIDATED OBLIGATIONS

Consolidated obligations are the joint and several liability of the Federal home loan banks; they are not guaranteed by the Government as to either principal or interest. Obligations outstanding during the reporting period were of two types—consolidated bonds and consolidated notes. Consolidated bonds, under HLBB regulations, have maturities in excess of one year; consolidated notes, which in reality are bonds, mature in one year or less. No debentures were outstanding during the period.

Pursuant to the requirements of the Government Corporation Control Act, all bonds, notes, debentures, and similar obligations in excess of $100,000, 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 HLBB may prescribe. (See recommendation 1 on page 4.) The HLBB 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 borrowing limitation in the regulations is much more generous than the statutory lending provision, section 10 (c), which states 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, 1948, these amounts were $119,791,200 and $113,173,400, respectively.) The maximum amount of bonds permitted to be outstanding was $2,936,846,000 at the close of the fiscal year 1948; the notes outstanding totaled $306,500,000.

The regulations 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, 1948, the total of the assets so held was $557,863,050; the bonds outstanding at that date aggregated $306,500,000. 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, 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 $343,200,000 and repaid $176,700,000, thus increasing their liability for consolidated obligations by $166,500,000. The details of the transactions in consolidated obligations are shown below.

| | *Face value of consolidated obligations* | | | |
|---|---|---|---|---|
| | *Outstanding June 30, 1947* | *Issued* | *Redeemed* | *Outstanding June 30, 1948* |
| Bonds: | | | | |
| Series A-1948, 1-1/4% dated October 15, 1946, due April 15, 1948 | $140,000,000 | ............ | $140,000,000 [1] | ............ |
| Notes: | | | | |
| Series A-1948, 1-1/4% dated September 15, 1947, due September 15, 1948 | ............ | $85,000,000 | ............ | $85,000,000 |
| Series B-1948, 1-3/8% dated December 1, 1947, due February 16, 1948 | ............ | 36,700,000 | 36,700,000 | ............ |
| Series A-1949, 1-3/4% dated January 20, 1948, due January 20, 1949 | ............ | 97,000,000 | ............ | 97,000,000 |
| Series B-1949, 1-5/8% dated April 15, 1948, due April 15, 1949 | ............ | 84,500,000[1] | ............ | 84,500,000 |
| Series C-1948, 1.45% dated June 10, 1948, due July 22, 1948 | ............ | 40,000,000 | ............ | 40,000,000 |
| | $140,000,000 | $343,200,000 | $176,700,000 | $306,500,000 |

[1] Retired, $55,500,000; refunded, $84,500,000.

Public borrowings and transactions in Government securities in excess of $100,000 by the banks must be approved by the Secretary of the Treasury (section 303 (a) and (b), Government Corporation Control Act, 31 U. S. C. 868 (a) (b)). The banks are not authorized to borrow from the Treasury. However, "When designated for that purpose by the Secretary of the Treasury, each Federal Home Loan Bank shall be a depositary of public money * * * under such regulations as may be prescribed by said Secretary" (section 14, Federal Home Loan Bank Act, 12 U. S. C. 1434).

On December 30, 1947, the Secretary of the Treasury wrote to the HLBB, in part:

> I understand that a proposal to raise additional funds through the sale in the market of an issue of Federal Home Loan Bank bonds has been delayed because of developments during the last week in the financial markets, and that as a result of these developments, the Federal Home Loan Banks are expected to be urgently in need of funds to meet calls of their members for advances.
>
> In view of this situation, the Treasury will temporarily furnish up to an aggregate of $25,000,000 to assist in meeting the requirements of the Federal Home Loan Banks until market conditions will permit the sale of Treasury bonds held by the Banks, or until funds are obtained through the issuance of Federal Home Loan Bank bonds.
>
> This assistance will be supplied by making deposits in Federal Home Loan Banks pursuant to section 14 of the Federal Home Loan Bank Act, as amended, subject to the payment of interest by the Banks on such deposits at the rate of 1⅞% per annum, payable on June 30 and December 31, or at such earlier times as the balances in such accounts are repaid, on the basis of the average daily balances therein. This rate is based upon the average rate of interest of 1.906% on outstanding marketable obligations of the United States as of November 30, 1947, and is the multiple of ⅛ of 1 per centum next lower than such average.
>
> Accordingly, each of the Federal Home Loan Banks is hereby designated a depositary of public money, except receipts from customs, pursuant to the provisions of section 14 of the Federal Home Loan Bank Act, as amended. Deposits will be made in such banks in such amounts and at such times as

may be requested by you, up to an aggregate amount of $25,000,000 for all banks combined.

It is understood that the Home Loan Bank Board will take such action as will assure that each bank having a Treasury deposit will at all times have sufficient unpledged government securities in a par value at least equal to the amount of the Treasury deposit with such bank.

On December 30 and 31, 1947, the Treasury deposited in five banks a total of $10,500,000. Other funds sufficient to meet the banks' needs became available and so the Treasury deposits were not used. Consequently by January 9, 1948, $5,000,000 of these deposits had been returned to the Treasury and on January 20, 1948, the remaining $5,500,000 was repaid from the proceeds of an issue of $97,000,000 of consolidated Federal home loan bank notes.

In effect the banks, through a lawful act of the Treasury, received funds which they are not authorized to obtain through loans by the Treasury. The banks had no alternative but to accept the plan of the Treasury. We believe that the intent of the Congress should be clarified by amendment of the basic legislation to provide that the banks through the HLBB shall have the authority to borrow from the Treasury through a revolving fund up to a statutory limitation determined by the Congress. (See recommendation 1 on page 6.)

The cost (interest paid, discount on bonds sold, and expenses of the office of the fiscal agent) of borrowed money was $3,725,000 in 1948 as contrasted with $1,794,000 in 1947. Of the $1,931,000 (107.6 percent) increase, approximately $1,600,000 resulted from a rise of $114,940,000 (88 percent) in the average outstanding obligations, and $300,000 reflected the increase in average interest rates from 1.37 percent in 1947 to 1.52 percent in 1948.

## CAPITAL STOCK, SURPLUS, AND RESERVES

The Government's investment in the capital stock of the banks was transferred from Reconstruction Finance Corporation to the Secretary of the Treasury on July 1, 1947 (15 U. S. C. 606 note). At June 30, 1948, the Government owned $119,791,200 (approximately 51 percent) of the banks' capital stock, a decrease of $2,881,000 during the year. The reduction reflected additional requirements of $636,000 and $721,300 by the Indianapolis and Cincinnati banks, respectively, and initial retirements of $1,427,500 by the Winston-Salem bank and $96,200 by the Des Moines bank. These payments were made in accordance with a statutory requirement 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 amounts subsequently paid in by members for capital stock (section 6 (g), Federal Home Loan Bank Act, 12 U. S. C. 1426 (g)).

The members' investment in the capital stock rose to $113,173,400 at the year-end as the result of the following changes during the year:

| | |
|---|---|
| Capital paid in | $18,433,200 |
| Capital repaid (section 6 (c) of the act) | 859,600 |
| Increase in members' participation | $17,573,600 |

The banks have complied with section 11 (g) of the Federal Home Loan Bank Act which requires that an amount equal to the total of the members' capital stock plus member deposits will be invested in

Government securities, deposits in banks, and advances with maturities of not more than one year made in accordance with regulations of the HLBB.

Surplus increased $1,827,092 during the fiscal year and amounted to $25,154,481 at the year-end. According to established practice of the banks, surplus has been divided into legal reserves, contingency reserves, and undivided profits. The increase in surplus was attributable to:

| | | |
|---|---|---|
| Net income for the year ended June 30, 1948 | | $4,981,861 |
| Less: | | |
| Dividends paid | $3,080,966 | |
| Contribution to pension fund for prior service payments | 73,803 | 3,154,769 |
| Increase in surplus | | $1,827,092 |
| Distributed to: | | |
| Legal reserve | | $1,021,372 |
| Contingency reserve | | 38,388 |
| Undivided profits | | 767,332 |
| Total, as above | | $1,827,092 |

Each bank is required to carry to a "legal" reserve account semiannually 20 percent of its net earnings until the reserve is equal to its paid-in capital. The amount of this reserve must be invested in Government 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 (section 16, Federal Home Loan Bank Act, 12 U. S. C. 1436). This requirement was met by all the banks, and the Pittsburgh bank transferred an additional $25,000 from its undivided profits. Although the Des Moines bank earned more than the current dividend declarations, its undivided profits decreased $59,000 after dividends. This resulted from the bank's decision, upon joining the Retirement Fund of the Federal Home Loan Bank System, to absorb in the fiscal year 1948 the entire amount ($77,000) of its contribution to the fund for prior service of its employees.

Seven of the banks have voluntarily established reserves for contingencies. These reserves represent neither provisions for known contingencies nor statutory restrictions and, therefore, should be considered as a part of the undivided profits of the respective banks. The HLBB requires that the amount of the contingencies 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 $3,080,966 during the year under review; the total for 1947 was $2,581,359. The share received by the Government was $1,627,877 in 1948 and $1,505,992 in 1947. The member associations received dividends amounting to $1,453,089 in 1948 and $1,075,367 in 1947. The increase reflected, principally, a rise of one-half of 1 percent in the dividend rates paid by the Indianapolis and Winston-Salem banks, a rise of one-fourth of 1 percent by the Cincinnati bank, and an increase in capital investment by members. The dividends represented a return of approximately 1.34 percent on the Government's average investment in 1948 and 1.22 percent in 1947. The average rate of interest paid by the Treasury on marketable issues of the public debt was 1.94 percent in 1948, and 1.83 percent in 1947. Thus in 1948 the Government's investment cost $726,000 more than it yielded; in 1947, $748,000.

We believe that the banks, individually and as a system, are overcapitalized. As of February 28, 1949, the Government owned $102,492,700 of capital stock in the banks, and at the same date the banks owned $366,875,409 of Government securities. The banks are authorized to borrow from the public under regulations prescribed by the HLBB; no statutory limitation is set on the amount of this financing other than the requirement for approval by the Secretary of the Treasury. (See recommendation 1 on page 4.)

### OPERATIONS

The continued expansion of the members' home financing activities is reflected in the composition and disposition of the banks' operating income. In 1948, 70 cents of each dollar of operating income was earned on advances and 30 cents on Government obligations; in 1947 the ratios were 63 cents and 37 cents. With total operating expenses only slightly less than in 1947, expanded volume reduced the operating expense requirements to 14 cents per income dollar from the 21 cents needed in the preceding year. The direct expense of open market financing required 36 cents of the income dollar in 1948, 12 cents more than in 1947. As a result of these conflicting influences (interest on deposits took 6 cents in 1948 and 5 cents in 1947), the residue of the operating income dollar available for reserves and dividends was 44 cents in 1948, a decline of 6 cents from the amount available in 1947. There is no indication of any reduction in the cost of open market financing in the near future.

Virtually the entire decline, $33,980, in operating expenses is attributable to a reduction of $158,000 in the assessment by the Home Loan Bank Board; the banks' own expenses increased $124,020.

### COMPLIANCE

During our survey and review (the scope of which is set forth below) we observed no program, expenditure, or other financial transaction which, in our opinion, based, in significant matters, upon decisions of the Comptroller General and advices from the Office of the General Counsel, was carried on or made without authority of law.

### SCOPE OF AUDIT AND OPINION

As a basis for our 1947 and 1948 audit reports, 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[1] in order that we might also observe the adherence to prescribed procedures and the quality of the work of the examiners. In addition, we reviewed the scope, working papers, and reports of the semiannual examinations of the banks made during the fiscal year 1948. We checked the June 30, 1948, financial statements to the respective banks' records on a selective basis and made other tests which we deemed appropriate.

As a result of our review of the comprehensive semiannual examinations made by the staff of the HLBB and the survey made by our

[1] In April 1948 the HLBB created an Office of the Auditor to make these and other audits for the Board.

representatives, we concluded that an additional examination of financial transactions would have resulted in an unjustifiable duplication of effort.

In accepting the accompanying audit certificate of the comptroller and the auditor of the HLBB, 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 (31 U. S. C. 866 (a)).

In our opinion, reliance may be placed upon the certification of the comptroller and the auditor of the Home Loan Bank Board that the accompanying financial statements present fairly the financial position of the Federal home loan banks at June 30, 1948, and the results of operations for the year ended 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.*

HOUSING AND HOME FINANCE AGENCY
HOME LOAN BANK BOARD
101 Indiana Avenue NW.
Washington 25, D. C.

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, 1948, 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 Comptroller of the Home Loan Bank Board.

This report is comprised of the following statements:

Exhibit "1"—Balance Sheet, June 30, 1948
" "2"—Income Statement, Year Ended June 30, 1948
Schedule "1"—Compensation, Travel, and Other Expenses, Year Ended June 30, 1948
Exhibit "3"—Analysis of Surplus, Year Ended June 30, 1948
" "4"—Sources and Application of Funds, Year Ended June 30, 1948

In our 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, 1948, 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.

R. R. BURKLIN,
*Comptroller, Home Loan Bank Board.*
E. S. FRAZIER,
*Auditor, Home Loan Bank Board.*

# FINANCIAL STATEMENTS



97041—49——4

# FEDERAL HOME LOAN BANKS

## CONSOLIDATED BALANCE SHEET, BY BANKS

## JUNE 30, 1948

| ASSETS | Consolidated (after interbank eliminations) | 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 | $ 25,689,579 | $ 1,430,769 | $ 954,482 | $ 2,422,670 | $ 2,239,472 | $ 3,055,293 | $ 2,340,884 | $ 4,463,273 | $ 582,073 | $ 1,327,948 | $ 1,286,088 | $ 5,586,627 |
| On deposit with other Federal home loan banks | - | 3,500,000 | 12,500,000 | 2,000,000 | - | 6,500,000 | 1,000,000 | - | 3,000,000 | - | - | - |
| | 25,689,579 | 4,930,769 | 13,454,482 | 4,422,670 | 2,239,472 | 9,555,293 | 3,340,884 | 4,463,273 | 3,582,073 | 1,327,948 | 1,286,088 | 5,586,627 |
| GOVERNMENT SECURITIES AT AMORTIZED COST (A) | 164,281,213 | 22,809,109 | 30,855,088 | 7,437,253 | 3,292,830 | 29,123,598 | 18,001,228 | 9,690,730 | 11,704,269 | 7,805,890 | 8,473,451 | 15,087,767 |
| ADVANCES: | | | | | | | | | | | | |
| With pledge of collateral (B) | 370,109,962 | 10,489,113 | 28,502,052 | 33,715,632 | 43,340,350 | 20,320,178 | 23,787,271 | 49,892,636 | 22,480,352 | 26,791,361 | 19,183,121 | 91,607,896 |
| Unsecured | 105,137,694 | 8,149,502 | 3,861,250 | 7,525,800 | 42,528,000 | 8,467,000 | 9,444,450 | 12,263,995 | 7,957,697 | - | 3,020,000 | 1,920,000 |
| | 475,247,656 | 18,638,615 | 32,363,302 | 41,241,432 | 85,868,350 | 28,787,178 | 33,231,721 | 62,156,631 | 30,438,049 | 26,791,361 | 22,203,121 | 93,527,896 |
| OTHER ASSETS: | | | | | | | | | | | | |
| Accrued interest | 1,334,854 | 111,903 | 243,785 | 124,451 | 193,304 | 141,206 | 114,581 | 57,434 | 58,649 | 90,785 | 49,556 | 183,601 |
| Miscellaneous receivables, deferred charges, and other assets (C) | 196,136 | 7,169 | 13,958 | 15,063 | 15,919 | 55,961 | 16,278 | 17,049 | 11,634 | 8,633 | 8,388 | 26,084 |
| | 1,530,990 | 119,072 | 257,743 | 139,514 | 209,223 | 197,167 | 130,859 | 74,483 | 70,283 | 99,418 | 57,944 | 209,685 |
| | $666,749,438 | $46,497,565 | $76,930,615 | $53,240,869 | $91,609,875 | $67,663,236 | $54,704,692 | $76,385,117 | $45,794,674 | $36,024,617 | $32,020,604 | $114,411,975 |
| (A) Face value of securities | $162,118,000 | $22,560,000 | $30,512,500 | $ 7,350,000 | $ 3,260,000 | $28,814,000 | $17,690,500 | $ 9,550,000 | $11,545,000 | $ 7,740,000 | $ 8,325,000 | $ 14,771,000 |
| Market value of securities | 163,938,794 | 22,792,203 | 30,758,643 | 7,360,937 | 3,310,128 | 29,135,698 | 17,973,428 | 9,652,656 | 11,663,213 | 7,887,019 | 8,459,117 | 14,945,752 |
| (B) Collateral pledged for advances: | | | | | | | | | | | | |
| Unpaid balance of home mortgages | 597,302,904 | 9,447,077 | 50,645,089 | 58,131,707 | 83,949,530 | 30,809,429 | 32,595,684 | 69,282,064 | 32,017,674 | 40,017,392 | 28,493,327 | 161,913,931 |
| Face amount of Government obligations | 119,035,300 | 6,054,000 | 17,384,000 | 8,378,000 | 805,000 | 8,576,000 | 9,609,200 | 19,298,500 | 10,714,500 | 6,808,000 | 2,495,000 | 28,913,100 |
| Other collateral permitted by rules and regulations | 2,995,849 | - | - | - | - | - | - | - | - | - | - | 2,995,849 |
| (C) Original cost of furniture and equipment (included above at a valuation of $1 for each bank) | 176,209 | 10,489 | 25,912 | 14,908 | 9,369 | 15,301 | 12,595 | 11,482 | 10,386 | 19,244 | 10,643 | 35,880 |

The notes on page 23 are an integral part of this statement.

97041 O - 49

# FEDERAL HOME LOAN BANKS

## CONSOLIDATED BALANCE SHEET, BY BANKS (continued)

### JUNE 30, 1948

| LIABILITIES | Consolidated (after interbank eliminations) | Boston | New York | Pittsburgh | Winston-Salem | Cincinnati | Indianapolis | Chicago | Des Moines | Little Rock | Topeka | San Francisco |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| DEPOSITS: | | | | | | | | | | | | |
| Members--time | $ 73,033,127 | $ 7,064,951 | $14,444,038 | $ 4,157,600 | $ 5,231,785 | $11,175,493 | $ 9,042,352 | $ 9,315,792 | $ 5,000,717 | $ 628,700 | $ 1,011,657 | $ 5,960,042 |
| Members--demand | 25,865,851 | 1,142,723 | 10,106,910 | 478,766 | 1,271,200 | 7,530,776 | 2,433,595 | 70,945 | 1,900 | 14,500 | 435,041 | 2,379,495 |
| Receivership funds--Federal Savings & Loan Insurance Corporation | 161,314 | - | - | - | - | - | - | - | 63,673 | - | 97,641 | - |
| Other Federal home loan banks | - | 2,500,000 | - | - | 10,750,000 | - | - | 3,750,000 | - | 1,000,000 | - | 10,500,000 |
| | 99,060,292 | 10,707,674 | 24,550,948 | 4,636,366 | 17,252,985 | 18,706,269 | 11,475,947 | 13,136,737 | 5,066,290 | 1,643,200 | 1,544,339 | 18,839,537 |
| CONSOLIDATED BONDS | 306,500,000 | 12,000,000 | 19,000,000 | 26,000,000 | 50,250,000 | 17,500,000 | 26,000,000 | 33,750,000 | 23,500,000 | 19,500,000 | 16,500,000 | 62,500,000 |
| OTHER LIABILITIES: | | | | | | | | | | | | |
| Dividends payable: | | | | | | | | | | | | |
| U.S. Treasury | 528,892 | 62,338 | - | - | - | 97,507 | 47,833 | 106,305 | 54,740 | 43,862 | 36,668 | 79,639 |
| Members | 545,668 | 45,873 | - | - | - | 144,060 | 103,442 | 88,638 | 58,625 | 20,479 | 23,903 | 60,648 |
| Total dividends payable | 1,074,560 | 108,211 | - | - | - | 241,567 | 151,275 | 194,943 | 113,365 | 64,341 | 60,571 | 140,287 |
| Accrued interest on deposits and consolidated bonds | 1,983,763 | 129,332 | 147,778 | 182,806 | 416,743 | 106,324 | 163,364 | 179,640 | 89,455 | 119,699 | 101,147 | 381,876 |
| Accounts payable | 11,742 | - | 2,994 | - | - | 6,641 | 388 | - | 431 | 508 | 420 | 300 |
| | 3,070,065 | 237,543 | 150,772 | 182,806 | 416,743 | 354,532 | 315,027 | 374,583 | 203,251 | 184,608 | 162,138 | 522,463 |
| CAPITAL STOCK AND SURPLUS: | | | | | | | | | | | | |
| Capital stock owned by members | 113,173,400 | 9,406,200 | 11,062,700 | 9,032,000 | 13,039,700 | 17,005,700 | 10,489,400 | 12,330,700 | 8,028,600 | 4,424,200 | 5,000,800 | 13,353,400 |
| Capital stock owned by U.S. Government, held by U.S. Treasury | 119,791,200 | 12,467,500 | 18,963,200 | 11,146,300 | 7,780,700 | 11,143,700 | 4,783,300 | 14,173,900 | 7,298,700 | 8,772,400 | 7,333,600 | 15,927,900 |
| Total capital stock | 232,964,600 | 21,873,700 | 30,025,900 | 20,178,300 | 20,820,400 | 28,149,400 | 15,272,700 | 26,504,600 | 15,327,300 | 13,196,600 | 12,334,400 | 29,281,300 |
| Legal reserve | 11,772,602 | 856,113 | 1,479,284 | 1,120,287 | 1,057,045 | 1,604,485 | 839,273 | 1,459,321 | 812,781 | 683,078 | 563,343 | 1,297,592 |
| Reserve for contingencies | 4,268,061 | - | 622,171 | - | 400,000 | 500,000 | - | - | 800,000 | 65,890 | 500,000 | 1,400,000 |
| Undivided profits | 9,093,818 | 822,535 | 1,101,540 | 1,123,110 | 1,412,702 | 848,550 | 801,745 | 1,159,876 | 85,052 | 751,241 | 416,384 | 571,083 |
| | 258,119,081 | 23,552,348 | 33,228,895 | 22,421,697 | 23,690,147 | 31,102,435 | 16,913,718 | 29,123,797 | 17,025,133 | 14,696,809 | 13,814,127 | 32,549,975 |
| | $666,749,438 | $46,497,565 | $76,930,615 | $53,240,869 | $91,609,875 | $67,663,236 | $54,704,692 | $76,385,117 | $45,794,674 | $36,024,617 | $32,020,604 | $114,411,975 |

The notes on page 23 are an integral part of this statement.

## NOTES TO CONSOLIDATED BALANCE SHEET

1. Borrowing authority is provided by section 11 of the Federal Home Loan Bank Act, 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 amount of consolidated bonds permitted to be outstanding at June 30, 1948, was $2,936,846,000. The obligations issued under this power are not guaranteed by the Government as to either principal or interest.

Under the Government Corporation Control Act 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 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 amounts subsequently paid in by members for capital stock. This equality has been attained in the Winston-Salem, Cincinnati, Des Moines, 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 a claim has been made on behalf of the Long Beach Federal Savings and Loan Association seeking substantial damages arising out of the consolidation of the Los Angeles and Portland banks into the Federal Home Loan Bank of San Francisco and the appointment of a conservator for the Long Beach Federal Savings and Loan Association. 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 STATEMENT OF INCOME, BY BANKS

## FOR THE FISCAL YEAR ENDED JUNE 30, 1948

| | Consolidated (after interbank eliminations) | Boston | New York | Pittsburgh | Winston-Salem | Cincinnati | Indianapolis | Chicago | Des Moines | Little Rock | Topeka | San Francisco |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EARNED OPERATING INCOME:** | | | | | | | | | | | | |
| Interest on advances | $ 7,302,156 | $294,796 | $ 531,419 | $756,101 | $1,286,959 | $ 467,809 | $557,017 | $1,023,910 | $486,249 | $405,819 | $382,590 | $1,109,487 |
| Interest on securities | 3,146,720 | 353,682 | 456,727 | 194,964 | 107,230 | 591,582 | 329,864 | 202,138 | 210,870 | 196,413 | 177,506 | 325,744 |
| Interest on deposits with other Federal home loan banks | - | 16,986 | 100,657 | 7,659 | - | 21,311 | 15,394 | 8,876 | 13,754 | - | 3,727 | - |
| Miscellaneous | 3,263 | - | 1,004 | - | 848 | 469 | - | 770 | - | 168 | - | 4 |
| Total income | 10,452,139 | 665,464 | 1,089,807 | 958,724 | 1,395,037 | 1,081,171 | 902,275 | 1,235,694 | 710,873 | 602,400 | 563,823 | 1,435,235 |
| **EXPENSES:** | | | | | | | | | | | | |
| Operating: | | | | | | | | | | | | |
| Compensation, travel, and other expenses (schedule 1) | 1,121,232 | 87,259 | 136,978 | 127,095 | 91,433 | 114,253 | 63,632 | 105,615 | 67,372 | 81,851 | 65,000 | 180,744 |
| Assessment by Home Loan Bank Board | 383,000 | 25,376 | 38,854 | 36,220 | 40,843 | 41,628 | 34,378 | 44,492 | 30,756 | 24,797 | 22,898 | 42,758 |
| Furniture and equipment purchased | 9,224 | 1,033 | 876 | 542 | 880 | 375 | 1,272 | 322 | - | 2,655 | 251 | 1,018 |
| | 1,513,456 | 113,668 | 176,708 | 163,857 | 133,156 | 156,256 | 99,282 | 150,429 | 98,128 | 109,303 | 88,149 | 224,520 |
| Cost of funds: | | | | | | | | | | | | |
| Interest on consolidated obligations | 3,459,164 | 192,569 | 164,507 | 352,257 | 555,204 | 241,003 | 320,790 | 413,212 | 253,929 | 230,042 | 201,183 | 534,468 |
| Consolidated obligations expense--concessions (discount) | 218,590 | 11,782 | 8,096 | 23,702 | 37,375 | 15,059 | 21,805 | 25,075 | 14,902 | 14,367 | 13,432 | 32,995 |
| Consolidated obligations expense--office of fiscal agent | 47,547 | 4,270 | 4,343 | 4,265 | 4,319 | 4,432 | 4,387 | 4,043 | 4,359 | 4,271 | 4,266 | 4,592 |
| Interest on members' deposits | 571,948 | 35,883 | 143,324 | 25,813 | 46,001 | 88,960 | 75,698 | 34,450 | 35,009 | 6,833 | 9,770 | 70,207 |
| Interest on U.S. Treasury deposit | 7,622 | 2,061 | 721 | - | 1,546 | - | - | 2,060 | - | - | - | 1,234 |
| Interest on other Federal home loan banks' deposits | - | 10,967 | 4,853 | 10,295 | 90,337 | - | - | 14,502 | - | 5,627 | 3,592 | 48,191 |
| Total cost of funds | 4,304,871 | 257,532 | 325,844 | 416,332 | 734,782 | 349,454 | 422,680 | 493,342 | 308,199 | 261,140 | 232,243 | 691,687 |
| Total expenses | 5,818,327 | 371,200 | 502,552 | 580,189 | 867,938 | 505,710 | 521,962 | 643,771 | 406,327 | 370,443 | 320,392 | 916,207 |
| Net operating income | 4,633,812 | 294,264 | 587,255 | 378,535 | 527,099 | 575,461 | 380,313 | 591,923 | 304,546 | 231,957 | 243,431 | 519,028 |
| **OTHER INCOME:** | | | | | | | | | | | | |
| Profit on sales of securities (net) | 334,420 | 29,200 | 58,638 | 50,667 | 37,083 | 87,671 | 29,180 | -4,854 | -2,435 | -778 | 19,173 | 30,875 |
| Refund, prior year's assessment (Home Loan Bank Board) | 11,000 | 724 | 1,137 | 1,047 | 1,084 | 1,236 | 997 | 1,296 | 921 | 716 | 645 | 1,197 |
| Miscellaneous | 2,629 | - | 85 | 1,040 | - | 20 | 3 | - | 24 | 52 | 1,000 | 405 |
| Total other income | 348,049 | 29,924 | 59,860 | 52,754 | 38,167 | 88,927 | 30,180 | -3,558 | -1,490 | -10 | 20,818 | 32,477 |
| NET INCOME, YEAR ENDED JUNE 30, 1948 (exhibit 3) | $ 4,981,861 | $324,188 | $ 647,115 | $431,289 | $ 565,266 | $ 664,388 | $410,493 | $ 588,365 | $303,056 | $231,947 | $264,249 | $ 551,505 |

# FEDERAL HOME LOAN BANKS

## CONSOLIDATED STATEMENT OF SURPLUS, BY BANKS

## FOR THE FISCAL YEAR ENDED JUNE 30, 1948

| | Consolidated | Boston | New York | Pittsburgh | Winston-Salem | Cincinnati | Indianapolis | Chicago | Des Moines | Little Rock | Topeka | San Francisco |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| UNDIVIDED PROFITS: | | | | | | | | | | | | |
| Balance, June 30, 1947 | $ 8,326,486 | $ 775,269 | $ 920,025 | $1,083,539 | $1,250,066 | $ 797,500 | $ 774,596 | $1,070,171 | $144,465 | $715,920 | $324,645 | $ 470,290 |
| Add net income, year ended June 30, 1948 (exhibit 2) | 4,981,861 | 324,188 | 647,115 | 431,289 | 565,266 | 664,388 | 410,493 | 588,365 | 303,056 | 231,947 | 264,249 | 551,505 |
| | 13,308,347 | 1,099,457 | 1,567,140 | 1,514,828 | 1,815,332 | 1,461,888 | 1,185,089 | 1,658,536 | 447,521 | 947,867 | 588,894 | 1,021,795 |
| Deduct: | | | | | | | | | | | | |
| Dividends paid: | | | | | | | | | | | | |
| Government-owned stock | 1,627,877 | 124,675 | 189,632 | 167,195 | 138,123 | 201,326 | 102,026 | 212,608 | 110,202 | 109,655 | 73,336 | 199,099 |
| Member-owned stock | 1,453,089 | 87,496 | 100,387 | 113,352 | 153,896 | 279,212 | 199,307 | 168,466 | 114,540 | 48,528 | 46,419 | 141,486 |
| | 3,080,966 | 212,171 | 290,019 | 280,547 | 292,019 | 480,538 | 301,333 | 381,074 | 224,742 | 158,183 | 119,755 | 340,585 |
| Retirement fund--prior service contributions or refunds (net) | 73,803 | -87 | -89 | -87 | -2,442 | -78 | -87 | -87 | 77,116 | -87 | -95 | -174 |
| Transfer to or from reserve for contingencies (net) | 38,388 | - | 46,247 | - | - | - | - | - | - | -7,859 | - | - |
| Transfer to legal reserve | 1,021,372 | 64,838 | 129,423 | 111,258 | 113,053 | 132,878 | 82,098 | 117,673 | 60,611 | 46,389 | 52,850 | 110,301 |
| | 4,214,529 | 276,922 | 465,600 | 391,718 | 402,630 | 613,338 | 383,344 | 498,660 | 362,469 | 196,626 | 172,510 | 450,712 |
| Balance, June 30, 1948 (exhibit 1) | $ 9,093,818 | $ 822,535 | $1,101,540 | $1,123,110 | $1,412,702 | $ 848,550 | $ 801,745 | $1,159,876 | $ 85,052 | $751,241 | $416,384 | $ 571,083 |
| LEGAL RESERVE: | | | | | | | | | | | | |
| Balance, June 30, 1947 | $10,751,230 | $ 791,275 | $1,349,861 | $1,009,029 | $ 943,992 | $1,471,607 | $ 757,175 | $1,341,648 | $752,170 | $636,689 | $510,493 | $1,187,291 |
| Add transfer from undivided profits | 1,021,372 | 64,838 | 129,423 | 111,258 | 113,053 | 132,878 | 82,098 | 117,673 | 60,611 | 46,389 | 52,850 | 110,301 |
| Balance, June 30, 1948 (exhibit 1) | $11,772,602 | $ 856,113 | $1,479,284 | $1,120,287 | $1,057,045 | $1,604,485 | $ 839,273 | $1,459,321 | $812,781 | $683,078 | $563,343 | $1,297,592 |
| RESERVE FOR CONTINGENCIES: | | | | | | | | | | | | |
| Balance, June 30, 1947 | $ 4,249,673 | | $ 575,924 | | $ 400,000 | $ 500,000 | | | $800,000 | $ 73,749 | $500,000 | $1,400,000 |
| Transfer to or from undivided profits (net) | 38,388 | | 46,247 | | - | - | | | - | -7,859 | - | - |
| Balance, June 30, 1948 (exhibit 1) | $ 4,288,061 | | $ 622,171 | | $ 400,000 | $ 500,000 | | | $800,000 | $ 65,890 | $500,000 | $1,400,000 |

# FEDERAL HOME LOAN BANKS

## CONSOLIDATED STATEMENT OF SOURCES AND APPLICATIONS OF FUNDS, BY BANKS

## FOR THE FISCAL YEAR ENDED JUNE 30, 1948

| | Consolidated (after interbank eliminations) | 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, 1948 (exhibit 2) | $ 4,981,861 | $ 324,188 | $ 647,115 | $ 431,289 | $ 565,266 | $ 664,388 | $ 410,493 | $ 588,365 | $ 303,056 | $ 231,947 | $ 264,249 | $ 551,505 |
| Add amortization of premium or discount on securities (net) | 12,368 | 6,632 | -25,021 | -5,721 | -28,188 | 29,058 | 16,089 | 9,350 | 9,380 | -11,457 | 7,706 | 4,540 |
| | 4,994,229 | 330,820 | 622,094 | 425,568 | 537,078 | 693,446 | 426,582 | 597,715 | 312,436 | 220,490 | 271,955 | 556,045 |
| Repayment of loans by members | 216,555,377 | 9,247,438 | 25,638,259 | 16,152,022 | 34,305,418 | 19,323,856 | 10,530,726 | 22,737,130 | 16,717,194 | 9,671,353 | 7,982,451 | 44,249,530 |
| Government obligations redeemed or sold--cost (note 1) | 331,611,581 | 23,602,299 | 82,053,830 | 21,393,213 | 22,001,593 | 40,380,778 | 29,430,943 | 16,149,072 | 21,923,465 | 13,490,407 | 8,201,826 | 52,984,155 |
| Sale of consolidated bonds and notes | 343,200,000 | 12,000,000 | 27,000,000 | 26,000,000 | 54,250,000 | 21,500,000 | 26,000,000 | 39,750,000 | 27,500,000 | 22,200,000 | 16,500,000 | 70,500,000 |
| Capital paid in by members | 18,433,200 | 1,481,800 | 1,987,900 | 1,467,600 | 2,706,800 | 1,693,300 | 1,260,800 | 2,101,600 | 678,500 | 800,300 | 876,200 | 3,378,400 |
| Increase in deposit liabilities | 13,174,765 | 6,807,216 | -2,838,770 | 3,276,741 | 253,010 | 1,975,807 | 2,745,670 | 1,419,875 | -144,421 | -271,000 | -603,397 | 554,034 |
| Increase in deposits from other Federal home loan banks | - | 2,500,000 | - | - | - | - | - | 3,750,000 | - | - | - | 1,500,000 |
| Decrease in deposits with other Federal home loan banks | - | 1,000,000 | - | - | - | - | - | 3,000,000 | - | - | - | - |
| Net increase in sundry liabilities less net increase in sundry assets | 1,400,339 | 89,374 | 31,729 | 117,258 | 299,787 | 136,920 | 122,465 | 149,733 | 64,473 | 76,798 | 81,725 | 230,077 |
| | $929,369,491 | $57,058,947 | $134,495,042 | $68,832,402 | $114,353,686 | $85,704,107 | $70,517,186 | $89,655,125 | $67,051,647 | $46,188,348 | $33,310,760 | $173,952,241 |
| APPLICATIONS OF FUNDS: | | | | | | | | | | | | |
| Loans to member institutions | $402,714,134 | $17,664,615 | $ 39,135,820 | $26,490,300 | $ 73,270,131 | $29,366,875 | $19,489,537 | $43,684,096 | $23,534,886 | $19,283,860 | $14,960,815 | $ 95,853,199 |
| Purchase of Government obligations | 338,059,059 | 29,448,713 | 85,952,292 | 21,375,443 | 21,050,979 | 36,648,590 | 32,259,398 | 13,503,113 | 20,983,789 | 13,571,091 | 8,127,332 | 55,138,319 |
| Redemption of consolidated bonds and notes | 176,700,000 | 9,000,000 | 8,000,000 | 17,000,000 | 19,000,000 | 16,000,000 | 16,000,000 | 28,500,000 | 19,000,000 | 12,700,000 | 9,500,000 | 22,000,000 |
| Repayment of paid-in capital: | | | | | | | | | | | | |
| To U.S. Treasury | 2,821,000 | - | - | - | 1,427,500 | 721,300 | 636,000 | - | 96,200 | - | - | - |
| To members | 859,600 | - | 154,700 | 11,400 | 24,400 | 58,700 | - | 117,500 | - | 37,000 | 307,600 | 148,300 |
| Decrease in deposits from other Federal home loan banks | - | - | - | 1,500,000 | 250,000 | - | - | - | - | 500,000 | 500,000 | - |
| Increase in deposits with other Federal home loan banks | - | - | 1,000,000 | 2,000,000 | - | 2,000,000 | 1,000,000 | - | 3,000,000 | - | - | - |
| Dividends paid | 3,080,966 | 212,171 | 290,019 | 280,547 | 292,019 | 480,538 | 301,333 | 381,074 | 224,742 | 158,133 | 119,755 | 340,585 |
| Contributions to retirement fund (prior service) | 73,803 | -37 | -89 | -87 | -2,442 | -78 | -87 | -87 | 77,116 | -87 | -95 | -174 |
| Increase in cash | 5,000,929 | 733,535 | -37,700 | 174,799 | -958,901 | 428,182 | 831,005 | 3,469,429 | 134,914 | -61,599 | -204,647 | 492,012 |
| | $929,369,491 | $57,058,947 | $134,495,042 | $68,832,402 | $114,353,686 | $85,704,107 | $70,517,186 | $89,655,125 | $67,051,647 | $46,188,348 | $33,310,760 | $173,952,241 |

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

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# FEDERAL HOME LOAN BANKS

## CONSOLIDATED STATEMENT OF COMPENSATION, TRAVEL, AND OTHER EXPENSES, BY BANKS
## FOR THE FISCAL YEAR ENDED JUNE 30, 1948

| | Consolidated | Boston | New York | Pittsburgh | Winston-Salem | Cincinnati | Indianapolis | Chicago | Des Moines | Little Rock | Topeka | San Francisco |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| COMPENSATION: | | | | | | | | | | | | |
| Officers' salaries | $ 366,772 | $32,883 | $ 47,750 | $ 30,500 | $26,942 | $ 40,250 | $29,700 | $ 36,400 | $32,950 | $26,827 | $22,750 | $ 39,820 |
| Other salaries | 280,941 | 11,962 | 38,693 | 44,680 | 27,436 | 30,396 | 9,507 | 24,824 | 8,550 | 21,055 | 17,062 | 46,776 |
| Directors' fees | 41,105 | 3,615 | 6,200 | 5,000 | 3,395 | 3,975 | 2,150 | 3,050 | 2,010 | 2,850 | 3;260 | 5,600 |
| Counsel's compensation | 52,685 | 3,900 | 4,750 | 6,000 | 2,700 | 4,000 | 3,000 | 5,000 | 1,500 | - | 3,500 | 18,335 |
| | 741,503 | 52,360 | 97,393 | 86,180 | 60,473 | 78,621 | 44,357 | 69,274 | 45,010 | 50,732 | 46,572 | 110,531 |
| TRAVEL EXPENSE: | | | | | | | | | | | | |
| Directors | 42,784 | 2,342 | 3,063 | 4,921 | 3,181 | 3,993 | 1,968 | 2,380 | 2,449 | 4,244 | 3,526 | 10,717 |
| Officers | 24,750 | 2,379 | 2,480 | 2,787 | 3,044 | 2,649 | 1,647 | 2,088 | 2,007 | 1,068 | 1,018 | 3,583 |
| Counsel and others | 8,717 | 243 | 198 | 1,313 | 2,462 | - | 21 | 224 | 81 | 695 | 193 | 3,287 |
| Maintenance and operation cost of automobile | 4,337 | 324 | - | 290 | - | 810 | - | - | - | 1,026 | 13 | 1,874 |
| | 80,588 | 5,288 | 5,741 | 9,311 | 8,687 | 7,452 | 3,636 | 4,692 | 4,537 | 7,033 | 4,750 | 19,461 |
| OTHER EXPENSES: | | | | | | | | | | | | |
| Rent of banking quarters less amount charged Home Loan Bank Board for district examiners | 83,380 | 3,105 | 7,700 | 11,323 | 4,931 | 8,400 | 5,760 | 11,700 | 5,382 | 3,359 | 4,515 | 17,205 |
| Retirement fund contributions | 47,164 | 3,351 | 6,594 | 6,321 | 3,963 | 4,816 | 2,965 | 4,519 | 1,793 | 3,327 | 3,319 | 6,196 |
| Stationery, printing, and other office supplies | 22,083 | 1,618 | 4,251 | 1,813 | 1,890 | 2,205 | 1,129 | 2,507 | 1,105 | 1,289 | 572 | 3,704 |
| Telephone and telegraph | 26,093 | 1,599 | 1,925 | 2,816 | 1,771 | 2,233 | 1,656 | 1,990 | 1,164 | 2,398 | 1,041 | 7,500 |
| Postage and expressage | 19,605 | 851 | 2,088 | 1,906 | 2,231 | 1,909 | 1,068 | 2,461 | 1,237 | 1,061 | 774 | 4,019 |
| Insurance and surety bond premiums | 15,233 | 1,123 | 2,327 | 1,717 | 817 | 1,552 | 783 | 1,468 | 967 | 1,249 | 911 | 2,319 |
| Stockholders' annual meeting | 15,977 | 3,268 | 3,275 | 1,639 | 969 | 1,511 | 35 | 1,198 | 2,434 | 212 | 754 | 682 |
| Maintenance of banking quarters and equipment | 20,708 | 1,361 | 2,000 | 465 | 694 | 2,156 | 754 | 2,032 | 543 | 9,672 | 184 | 847 |
| Public relations | 11,852 | 2,068 | 1,176 | 1,100 | 1,412 | 1,107 | 432 | 584 | 1,990 | 373 | 89 | 1,521 |
| Dues and subscriptions | 10,273 | 1,151 | 861 | 1,409 | 931 | 1,036 | 614 | 1,323 | 678 | 272 | 277 | 1,721 |
| Reports and other publications | 7,193 | 647 | 965 | 1,025 | - | 428 | 303 | 1,039 | 46 | 356 | 324 | 2,060 |
| Services of Home Loan Bank Board Examining Division | 5,791 | 1,617 | - | - | 2,540 | 47 | 106 | - | - | - | 855 | 626 |
| Safekeeping and protection services | 2,717 | 25 | 220 | - | - | 7 | 29 | - | 390 | 90 | 15 | 1,941 |
| Miscellaneous | 11,072 | 7,827 | 462 | 70 | 124 | 773 | 5 | 828 | 96 | 428 | 48 | 411 |
| | 299,141 | 29,611 | 33,844 | 31,604 | 22,273 | 28,180 | 15,639 | 31,649 | 17,825 | 24,086 | 13,678 | 50,752 |
| TOTAL (exhibit 2) | $1,121,232 | $87,259 | $136,978 | $127,095 | $91,433 | $114,253 | $63,632 | $105,615 | $67,372 | $81,851 | $65,000 | $180,744 |

# PART II—HOME LOAN BANK BOARD

## Summary

### CREATION AND PURPOSE

Reorganization Plan No. 3 of 1947 (5 U. S. C. 133y–16 note), effective July 27, 1947, created a permanent Housing and Home Finance Agency, headed by an Administrator who has the responsibility for general supervision and coordination of its constituents, Federal Housing Administration, Public Housing Administration, and the Home Loan Bank Board. The Home Loan Bank Board is composed of three members who were given the functions (exercised in the fiscal year 1947 by the Federal Home Loan Bank Administration) of the Federal Home Loan Bank Board, the board of directors of Home Owners' Loan Corporation, and the board of trustees of Federal Savings and Loan Insurance Corporation.

### ORGANIZATION

The only important change in the organization within the Board's staff was the creation of the Office of the Auditor, HLBB, to conduct internal audits of the Board, HOLC, and FS&LIC and the examinations of the 11 Federal home loan banks. The origin, purpose, organization, management, and sources of funds of the HLBB are summarized in appendix B, and an organization chart as of June 30, 1948, is presented on page 55.

### EXPENSES AND EXCESSIVE ASSESSMENTS

The expenses of the HLBB for the fiscal year 1948 totaled $1,731,-020, approximately $307,000 less than for the previous fiscal year.

The administrative expenses were limited by the Congress to $1,400,000; such expenses, totaling $1,392,636 for the year, were $7,364 less than the authorization.

Excessive assessments, $273,135 at June 30, 1948, against the home loan banks have 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 amount has been unjustifiably accumulated. (See recommendation 3, p. 32.)

## Savings and Loan Association Examinations

The act of July 3, 1948 (62 Stat. 1239), directed the HLBB to classify the cost of examining savings and loan associations as non-administrative expense. This amendment enabled the Board to increase its examining staff and so reduce the number of examinations in arrears from 746 at June 30, 1948, to 528 at February 28, 1949.

Although the excess of expenses of the Examining Division over the fees received has shown a constant increase since 1946 (see p. 35), it appears that operations during 1949 may show a small profit owing to a revision in fees effective in that year.

GENERAL

The system of internal control is generally satisfactory; the accounting records were improved during the fiscal year, and, in line with our recommendations, other changes in the accounting system have been made in the fiscal year 1949.

## Recommendations

### NEW RECOMMENDATIONS TO THE CONGRESS

*1. Control of personnel*

The chairman of the HLBB is authorized to "appoint and direct the personnel necessary for the performance of the functions of the Board or of the Chairman or of any agency under the Board * * *" (Reorganization Plan No. 3 of 1947, section 2 (b) (2), effective July 27, 1947, 5 U. S. C. 133y–16 note). The present chairman has not used this power. However, sound administrative practice requires that all powers necessary for the discharge of a board's responsibilities reside in the Board itself. Further, control of personnel may be used to control operations by appointing or failing to appoint the employees necessary to perform any function. We recommend, therefore, that the Congress transfer this power from the chairman of the HLBB to the Board itself.

*2. Payment of rent*

In accordance with generally accepted accounting principles and sound business practice, all costs in connection with the operations of an organization should be included in its accounts and financial statements. At present the HLBB, as a Government agency, does not pay rent to the Public Buildings Administration for the quarters it occupies. However, all operations of the Board are of a corporate nature, and its expenses (other than savings and loan examination costs) are paid by wholly or partly owned Government corporations. We recommend that the HLBB be required to pay rent in the same manner as if it were a corporation. (See recommendation 5, p. 31.)

### PREVIOUS RECOMMENDATIONS TO THE CONGRESS

We offer for further consideration by the Congress the following recommendations the substance of which was included in our audit report for the fiscal year 1947.

*3. Reorganization of Home Loan Bank Board*

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 1945–1946 audit report (H. Doc. 706, 80th Cong.).

4. *Separation of regulatory and insurance functions*

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 pages 13 and 16 of our 1945–1946 audit report on Federal Savings and Loan Insurance Corporation, H. Doc. 660, 80th Cong.).

Therefore, we recommend the separation of Federal Savings and Loan Insurance Corporation from the Home Loan Bank Board. 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.

5. *Amend Government Corporation Control Act to include HLBB*

The financial transactions of the Home Loan Bank Board 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) rather than under the Budget and Accounting Act of 1921(31 U. S. C. 41–58, 71), 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, we recommend that title I of the Government Corporation Control Act be amended to include the Home Loan Bank Board.[1]

6. *Payments to employees' retirement and compensation funds*

We recommend that the HLBB be required to pay that part of the Government's cost of the civil service retirement and disability fund and the Federal employees' compensation fund applicable to its employees, as well as its proportionate share of the cost of administering these funds. This recommendation is made in accordance with our belief that each Government corporation should bear its full operating costs.

## NEW RECOMMENDATIONS TO THE MANAGEMENT

1. *Recordation of liability for employees' annual leave*

We recommend that the liability for employees' annual leave in the amount estimated to be payable be recorded on the books of the HLBB and included in its financial statements.

[1] Legislation proposed by the HLBB has been transmitted to the Bureau of the Budget.

## PREVIOUS RECOMMENDATIONS TO THE MANAGEMENT

Pending the possible enactment of legislation for the separation of FS&LIC from the HLBB (see recommendation 4 on p. 31), the following recommendations are renewed in light of the conditions that existed at the date of preparation of this report (June 1949).

### 2. *Examinations and enforcement of insurance regulations*

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. 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.

A suggested plan, including operating responsibilities and procedures, for carrying out this recommendation was presented in our 1947 report (H. Doc. 209, 81st Cong.).

### 3. *Refund of excessive assessments*

We recommend that (1) the excessive assessments be returned to the home loan 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.

### 4. *Comptroller to coordinate and submit budgets*

The simplification of budgetary procedures (see recommendation 1, p. 33) eliminated virtually all of the detail work in the budget office. We recommend that the remaining functions of coordination and submission of the several budgets be transferred to the comptroller of the HLBB.

### 5. *Consolidation of comptrollers' offices*

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 (27 including supervisory personnel). The adoption of simplified budgetary procedures noted above has reduced the work of the comptroller's office of both the HLBB and FS&LIC with respect to the preparation and operation of annual budgets, and the improved accounting system of the HLBB (see recommendation 2, p. 33) should further curtail the work of its comptroller's office. In addition the transfer of the computation of insurance premiums from the comptroller's office of FS&LIC to the insured associations (proposed in our 1947 and 1948 audit reports on that Corporation) would eliminate a substantial part of the work now performed by that office. The adoption of this proposal would, in our opinion, make both practicable and desirable the consolidation of these offices under a 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.

6. *Auditor to attend board meetings*

The auditor should attend meetings of the HLBB if the Board is to realize the greatest benefit from his services as an advisor. By this means also the auditor would be currently informed as to the objectives of the Board.

### RECOMMENDATIONS ADOPTED BY THE MANAGEMENT

Of the recommendations included in our audit report for the fiscal year 1947, the management has adopted the following:

1. *Revision of budgetary procedures*

The budgetary procedures should be simplified and the operating executives should be responsible for the determination of budgetary estimates and compliance with approved budgets.

2. *Revision of accounting system*

The accounting system of the HLBB should be maintained on a corporate basis to provide current data more simply and accurately at a lower cost.

3. *Auditor to make continuing management surveys*

The duties of the auditor of the HLBB should include examination of the organizational structure and operating procedures of all the constituents and offices under the Board's control as a basis for evaluation of performance and improvement of organization and procedures.

### COMMENTS ON FINANCIAL POSITION AND OPERATIONS

The following summary shows the financial position of the HLBB at June 30, 1948 and 1947, and the changes resulting from operations during the fiscal year 1948:

| | June 30 | | Increase |
|---|---|---|---|
| *Assets* | *1948* | *1947* | *(– decrease)* |
| Cash | $173,884 | $341,656 | –$167,772 |
| Accounts receivable: | | | |
| Insured institutions for examining fees | 120,660 | 139,395 | –18,735 |
| Long Beach Federal Savings and Loan Association | 89,766 | 90,974 | –1,208 |
| Other | 674 | 25,142 | –24,468 |
| Other assets | 421 | ........ | 421 |
| Deferred expenses | ........ | 159 | –159 |
| | $385,405 | $597,326 | –$211,921 |
| *Liabilities* | | | |
| Accounts payable and accrued liabilities | $112,270 | $208,409 | –$96,139 |
| Deferred income | ........ | 1,678 | –1,678 |
| Excessive assessments against home loan banks, less Examining Division deficits | 273,135 | 387,239 | –114,104 |
| | $385,405 | $597,326 | –$211,921 |

The estimated liability for employees' accumulated annual leave, $305,644 and $311,789 at June 30, 1948 and 1947, respectively, is not included in the above statement In our opinion, the liability should be recorded in the Board's accounting records and shown in its financial statements in the amount estimated to be payable (See recommendation 1, p. 31.) If these amounts had been recorded and allocated in 1947 and 1948, the effect on the financial statements would be:

| | Total | HOLC | FS&LIC | HLBB |
|---|---|---|---|---|
| Liability at June 30: | | | | |
| 1947 | $311,789 | $31,581 | $41,921 | $238,287 |
| 1948 | 305,644 | 22,254 | 14,690 | 268,700 |
| Decrease (—increase) in 1948 expenses | —$6,145 | —$9,327 | —$27,231 | $30,413 |

A comparison of expenses and their allocation to the organizations supervised by the Board for the last two fiscal years follows.

| | Year ended June 30 1948 | Year ended June 30 1947 | Increase (—decrease) |
|---|---|---|---|
| Operating expenses: | | | |
| Salaries: | | | |
| Office of the Home Loan Bank Board Chairman | $27,804 | $26,835 | $1,029 |
| Office of Home Loan Bank Board, members | 20,617 | | 20,617 |
| Assistant to the Home Loan Bank Board | 21,085 | 29,619 | —8,534 |
| Assistant to the Board Chairman | 18,362 | 21,294 | —5,932 |
| Budget Section | 17,739 | 17,490 | 249 |
| Legal Division | 94,654 | 103,270 | —8,616 |
| Personnel Division | 42,393 | 70,432 | —28,039 |
| Office of the Secretary | 87,606 | 122,609 | —35,003 |
| Docket Section | 12,082 | | 12,082 |
| Information Section | 10,621 | | 10,621 |
| Office of the Governor | 46,438 | 56,695 | —10,257 |
| Chief Supervisor | 112,844 | 100,942 | 11,902 |
| Comptroller | 118,106 | 117,550 | 556 |
| Review and Analysis Division | 20,032 | 14,432 | 5,600 |
| Examining Division | 763,244 | 864,460 | —101,216 |
| Nonadministrative—Long Beach conservatorship | 41,957 | 59,027 | —17,070 |
| Total salaries | 1,455,644 | 1,607,655 | —152,011 |
| Miscellaneous: | | | |
| Travel: | | | |
| Examiners and others | 172,702 | 180,540 | —7,838 |
| Savings and Loan Advisory Council | 4,085 | 3,935 | 150 |
| Transportation of things | 1,282 | 1,322 | —40 |
| Communications | 24,287 | 25,971 | —1,684 |
| Rents and utilities | 36,398 | 82,591 | —46,193 |
| Printing and binding | 5,970 | 1,647 | 4,323 |
| Other contractual services | 23,455 | 25,571 | —2,116 |
| Supplies and materials | 5,559 | 11,138 | —5,579 |
| Newspapers and periodicals | 200 | 62 | 138 |
| Equipment | 363 | 15,246 | —14,883 |
| Miscellaneous expense, prior years (—reductions) | | —468 | 468 |
| Total miscellaneous expenses | 274,301 | 347,555 | —73,254 |
| Other expenses: | | | |
| FS&LIC (Operating Analysis Division) | | 67,563 | —67,563 |
| Office of Administrator (H&HFA in 1948, NHA in 1947) | 1,075 | 15,231 | —14,156 |
| Total other expenses | 1,075 | 82,794 | —81,719 |
| Total operating expenses | $1,731,020 | $2,038,004 | —$306,984 |
| Allocated to: | | | |
| Federal home loan banks | $372,000 | $530,000 | —$158,000 |
| Insured institutions for examination fees | 897,172 | 1,065,500 | —168,328 |
| FS&LIC | 168,430 | 178,085 | —9,655 |
| HOLC | 115,533 | 144,332 | —28,799 |
| Long Beach conservatorship | 62,540 | 83,170 | —20,630 |
| Miscellaneous income | 1,241 | 455 | 786 |
| Unallocated expenses | 114,104 | 36,462 | 77,642 |
| Total, as above | $1,731,020 | $2,038,004 | —$306,984 |

## EXAMINATION FEES

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

According to section 8 of the Federal Home Loan Bank Act "In any State where state examination of members or non-member 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 examination as in the judgment of the Corporation may from time to time be necessary for its protection and the protection of the 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, of the HLBB.

It is our opinion that the responsibility for the examination 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 insured association in order that he may adequately discharge his duty of safeguarding the insurance fund. (See recommendation 2, p. 32.) 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 (HLBB) having authority to promote and charter Federal associations, which are required by law to be insured, also to supervise insurance underwriting. (See recommendation 4, p. 31.)

The examination fees of $120,660 at June 30, 1948, 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* |
|---|---|---|---|
| 1946 | $977,924 | $958,707 | $19,217 |
| 1947 | 1,115,225 | 1,065,500 | 49,725 |
| 1948 | 1,001,228 | 897,172 | 104,056 |
| | $3,094,377 | $2,921,379 | $172,998 |

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. The Examining Division believes that the new rate will produce a small profit in the fiscal year 1949.

## LONG BEACH FEDERAL SAVINGS AND LOAN ASSOCIATION—CONSERVATORSHIP COSTS

The balance sheet at June 30, 1948, shows the unpaid balance, $89,766, of expenses incurred in the conduct of the association's affairs while the association was in possession of a conservator appointed by the Commissioner of the Federal Home Loan Bank Administration on May 20, 1946. The total expenses incurred by the conservatorship were $158,328. 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. In the opinion of the general counsel of the HLBB, the action and claim have no validity and the suit is being defended.

In line with the provision of the basic legislation that the Federal home loan banks will defray the expenses of the HLBB, we believe that the amount due from the Long Beach Federal Savings and Loan Association should be transferred to the Federal Home Loan Bank of San Francisco.

## EXCESSIVE ASSESSMENTS

Excessive assessments against the home loan banks have 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 recommendation 3, p. 32.) 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 Home Loan Bank Board. The general counsel of the Home Loan Bank Board 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, these funds have been unjustifiably accumulated, and the Examining Division deficits are a proper charge against FS&LIC.

As we pointed out in our 1947 audit report, the ownership of the funds is not readily determinable from the accounting records. At our request the Board's auditor and its comptroller have begun an analysis of the account and, 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 funds, we suggest that the 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.

The excessive assessments, $273,135, shown in the accompanying balance sheet are $212 greater than the amount shown on the Board's books. This difference represents the net result of our adjustments which were recorded by the HLBB in the fiscal year 1949.

OPERATING EXPENSES

Expenses of the HLBB were $1,731,020 for the fiscal year 1948, approximately $307,000 less than for the preceding fiscal year. Rents and utilities declined $46,193 as a result of the transfer to the United States of the office building formerly owned by HOLC—as a Government agency, HLBB is not required to pay rent for space in federally owned property. (See recommendation 2, p. 30.) The Office of the Administrator, H&HFA (NHA in 1947), decreased its assessment against HLBB by $14,156 in compliance with a statutory provision (The Government Corporations Appropriation Act, 1948, 61 Stat. 574) that its constituents would pay only the cost of terminal leave of its personnel; however, it is interesting to note that the cost of an Office of Information, formerly included in the assessment, was assumed as a direct expense ($10,621) by the HLBB in 1948. There was a reduction of $35,003 in salaries of the Office of the Secretary, but in 1947 that office had among its functions those of the Docket Section which in 1948 was shown separately at a cost of $12,082. Similarly, approximately $9,600 of the $17,070 decline in nonadministrative costs of the Long Beach conservatorship was included in the $11,902 increase in salaries of the Office of Chief Supervisor. Two decreases worthy of note were Examining Division, $101,216, and FS&LIC (Operating Analysis Division), $67,563. Reductions were made in the examining staff as a means of conforming with the congressional limitation on total administrative expenses. The budget submitted to the Congress showed that expenses of the Operating Analysis Division would be divided equally between the HLBB and FS&LIC, but, as a further means of complying with the total administrative expense limitation, FS&LIC was required to absorb the entire cost.

The Legal Department salaries ($94,655 in 1948) were borne by the corporate constituents, which also had other expenses for legal services:

| | *HOLC* | *FS&LIC* | *Federal home loan banks* |
|---|---|---|---|
| Assessments by HLBB (total $94,655) | $14,363 | $20,694 | $59,598 |
| Legal Department—New York | 112,165 | | |
| Salaries paid directly by FS&LIC for HLBB Legal Department | | 32,921 | |
| Counsel's compensation | | | 52,685 |
| | $126,528 | $53,615 | $112,283 |

Thus the total cost of legal services for the HLBB and its constituents was $292,426 in 1948, a decrease of $99,594 from the preceding fiscal year. The lower cost resulted from:

| | | |
|---|---|---|
| Reduction of: | | |
| HOLC staff in New York | $107,262 | |
| HLBB staff | 8,615 | $115,877 |
| Less increases in: | | |
| Counsels' compensation—Federal home loan banks | 14,560 | |
| Salaries paid by FS&LIC for HLBB staff | 1,723 | 16,283 |
| Net decrease | | $99,594 |

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

| | | |
|---|---|---|
| Authorization | | $1,400,000 |
| Total expenses (exhibit 2) | | 1,731,020 |
| Less: | | |
| Charges against HOLC and FS&LIC | $283,063 | |
| Long Beach conservatorship | 62,540 | |
| Prior years' expenses applied in current year not deducted above | 8,119* | 338,384 |
| Total administrative expenses | | 1,392,636 |
| Excess of authorizations over expenses | | $7,364 |

*Deduction.

For the three years 1946, 1947, and 1948, we reviewed the expenses, their justification, and the bases upon which they were allocated to the various subordinate organizations. In our opinion, the Board (in 1946 and 1947, FHLBA) 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 needs of the constituents. 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 1946, 1947, and 1948. Some of these deficiencies have been corrected by the Home Loan Bank Board, but much remains to be done.

The HLBB in December 1948 simplified its budgetary procedures and charged the operating managements with responsibility for determination of budgetary estimates and compliance with approved budgets. We reiterate our belief that the remaining functions of coordination and submission of the several budgets should be transferred to the comptroller of the HLBB. (See recommendation 4, p. 32.)

## SUPERVISION OF ASSOCIATIONS

Officers of the home loan banks, as agents for FS&LIC and the HLBB, review the reports of examinations of associations and take such supervisory action as they deem necessary. The bank officers are elected by the home loan bank directors, most of whom are officials of institutions subject to examination and to supervisory criticism and action. This situation interferes with the independence of the supervision and so constitutes a weakness in the administration of the law. An example of this condition is the Long Beach Federal Savings and Loan Association. (See p. 36.) A partial offset to this deficiency is the existence in the HLBB 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.

In our audit report for the fiscal year 1947 we stated that 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 the insured institutions or payment of insurance claims to shareholders. We reiterate that 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 to eliminate deficiencies.[1] (See recommendation 2, p. 32.)

### COSTS NOT INCLUDED IN FINANCIAL STATEMENTS

In accordance with our belief that each Government corporation should bear its full operating costs, we recommend that the HLBB show in its financial records and statements amounts incurred for annual leave of its employees. The cost should be billed to HOLC, FS&LIC, and the Federal home loan banks.

Operating expenses which are borne by the Government and not included in the financial statements because the Board is not required to pay such expenses include contributions to the civil service retirement and disability fund and the Federal employees' compensation fund for the Government's share of the costs applicable to the Board's employees, rent, and legal services rendered by Department of Justice.

## Exception

During our audit (the scope of which is set forth below) we observed no program, expenditure, or other financial transaction which, in our opinion, based, in significant matters, upon decisions of the Comptroller General and advices from the Office of the General Counsel, was carried on or made without authority of law. Comparatively inconsequential errors, arising in the routine conduct of the Home Loan Bank Board affairs, noted in our audit to be mainly of a clerical nature, have been or are in process of being corrected. However, we question the propriety of the accumulation 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 Board in its examinations of insured savings and loan associations made primarily for the benefit of Federal Savings and Loan Insurance Corporation.

## Scope of Audit and Opinion

We have examined the balance sheet of the Home Loan Bank Board as of June 30, 1948, and the related statements of expenses, their allocation, and excessive assessments for the year then ended. We have reviewed the system of internal control and the accounting procedures of the HLBB 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 in view of the work performed by the Board's internal auditing staff. Our examination was made in accordance with generally accepted auditing standards, and accordingly included all auditing procedures which we considered necessary in the circumstances.

[1] On January 25, 1949, the HLBB directed that responsibility for supervision of Federal associations and enforcement of insurance regulations in insured State-chartered associations be vested in its chief supervisor, with definite and continuous coordination and cooperation with the general manager of FS&LIC regarding any important deficiencies or violations whether disclosed by examinations or otherwise.

All disbursements were subject to audit by the General Accounting Office under the provisions of the Budget and Accounting Act of 1921. We were advised by the Audit Division of the General Accounting Office that the vouchers had been audited through February 1949 and that no material amount of exceptions was outstanding.

In our opinion, the accompanying balance sheet and the related statement of expenses, their allocation, and excessive assessments present fairly the financial position of the Home Loan Bank Board at June 30, 1948, 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

# HOME LOAN BANK BOARD

## BALANCE SHEET--JUNE 30, 1948

### ASSETS

| | |
|---|---|
| CASH | $173,884 |
| ACCOUNTS RECEIVABLE: | |
| Insured institutions for examining fees | 120,660 |
| Federal Savings and Loan Insurance Corporation | 674 |
| Long Beach Federal Savings and Loan Association | 89,766 |
| FIXED ASSETS: | |
| Furniture, fixtures, and equipment, at cost, $111,061, less 100 percent depreciation to date | - |
| OTHER ASSETS | 421 |
| | $385,405 |

### LIABILITIES

| | |
|---|---|
| ACCOUNTS PAYABLE AND ACCRUED LIABILITIES: | |
| Due Government agencies: | |
| Housing and Home Finance Agency and affiliates | $ 17,366 |
| Other | 46,311 |
| Miscellaneous | 48,593 |
| EXCESSIVE ASSESSMENTS made against home loan banks, less deficits incurred by the examining division (exhibit 2) | 273,135 |
| | $385,405 |

# HOME LOAN BANK BOARD

## STATEMENT OF EXPENSES, THEIR ALLOCATION, AND EXCESSIVE ASSESSMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 1948

| | |
|---|---|
| Operating expenses: | |
| Salaries | $1,455,644 |
| Travel | 176,787 |
| Transportation of things | 1,282 |
| Communications | 24,287 |
| Rents and utilities | 36,398 |
| Printing and binding | 5,970 |
| Other contractual services | 23,455 |
| Supplies and materials | 5,559 |
| Newspapers and periodicals | 200 |
| Equipment | 363 |
| Total operating expenses | 1,729,945 |
| Other expenses: | |
| Housing and Home Finance Agency | 1,075 |
| Total expenses | 1,731,020 |
| Less miscellaneous income | 1,241 |
| Net expense | 1,729,779 |
| Allocation of expense: | |
| Insured institutions for examination fees | 897,172 |
| Federal home loan banks | 372,000 |
| Federal Savings and Loan Insurance Corporation | 168,430 |
| Home Owners' Loan Corporation | 115,533 |
| Long Beach conservatorship | 62,540 |
| Total expenses allocated | 1,615,675 |
| Unallocated expenses for the year | 114,104 |
| Excessive assessments at June 30, 1947 | 387,239 |
| Excessive assessments at June 30, 1948 (exhibit 1) | $ 273,135 |

# HOME LOAN BANK BOARD

## STATEMENT OF EXCESSIVE ASSESSMENTS
## FOR THE FISCAL YEARS 1933 TO 1948, 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 banks | Assessments on banks | Excessive assessments: Annual addition | Excessive assessments: 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 |
| 1948 | 897,172 | 115,533 | 168,430 | - | 63,781 | 1,244,916 | 1,731,020 | 486,104 | 372,000 | -114,104 | 273,135 |
| Total | $10,885,243 | $2,057,205 | $1,724,111 | $110,089 | $397,740 | $15,174,388 | $19,654,981 | $4,480,593 | $4,753,728 | $273,135 | |

Notes:

1. The Federal savings and loan promotion fund was appropriated from the general funds of the United States 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 United States Treasury to organize and establish the Federal Home Loan Bank System. Of this amount, $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.

# HOME LOAN BANK BOARD

## STATEMENT OF EXPENSES AND THEIR ALLOCATION

## FOR THE FISCAL YEAR ENDED JUNE 30, 1948

| | Total expenses | Home Loan Bank Board: Examining Division | Home Loan Bank Board: Other activities | Federal Savings and Loan Insurance Corporation | Home Owners' Loan Corporation |
|---|---|---|---|---|---|
| OPERATING EXPENSES: | | | | | |
| Salaries: | | | | | |
| Office of the Chairman--HLBB (note 1) | $ 27,864 | $ 920 | $ 8,275 | $ 9,195 | $ 9,474 |
| Office of Board Member--Mr. Adams | 13,554 | - | 4,473 | 4,473 | 4,608 |
| Office of Board Member--Mr. LaRoque | 7,063 | - | 2,331 | 2,331 | 2,401 |
| Assistant to the Board | 21,085 | - | 9,340 | 7,781 | 3,964 |
| Assistant to the Chairman | 18,362 | - | 2,920 | 1,836 | 13,606 |
| Budget Section | 17,739 | 420 | 4,458 | 2,430 | 10,431 |
| Legal Division | 94,654 | - | 59,597 | 20,694 | 14,363 |
| Personnel Division | 42,393 | 5,833 | 7,733 | 3,815 | 25,012 |
| Office of the Secretary | 87,606 | 1,411 | 43,969 | 19,536 | 22,690 |
| Information Section | 10,621 | - | 5,311 | 2,655 | 2,655 |
| Docket Section | 12,082 | 326 | | | |
| Office of the Governor | 46,438 | 4,580 | 63,921 | 88,433[2] | - |
| Chief Supervisor | 112,844 | 14,104 | | | |
| Comptroller | 118,106 | 22,018 | 96,088 | - | - |
| Review and Analysis Section | 20,032 | - | 20,032 | - | - |
| Examining Division | 763,244 | 763,124 | - | 120 | - |
| Nonadministrative salaries--Long Beach conservatorship | 41,957 | - | 41,957 | - | - |
| Total salaries | 1,455,644 | 812,736 | 370,405 | 163,299 | 109,204 |
| Travel: | | | | | |
| HLBB--regular | 171,031 | 137,466 | 33,565 | - | - |
| HLBB--convention | 1,671 | - | 1,671 | - | - |
| Savings and Loan Advisory Council | 4,085 | - | 4,085 | - | - |
| Transportation of things | 1,282 | 830 | 450 | 1 | 1 |
| Communications | 24,287 | 8,822 | 10,857 | 1,958 | 2,650 |
| Rents and utilities | 36,398 | 32,202 | 4,196 | - | - |
| Printing and binding | 5,970 | - | 5,117 | 374 | 479 |
| Other contractual services | 23,455 | 4,938 | 14,270 | 1,853 | 2,394 |
| Supplies and materials | 5,559 | 3,814 | -114 | 1,096 | 763 |
| Newspapers and periodicals | 200 | - | 124 | 34 | 42 |
| Equipment | 363 | 420 | -57 | - | - |
| Other expenses: | | | | | |
| Housing and Home Finance Agency | 1,075 | - | 1,075 | - | - |
| Total expenses | 1,731,020 | 1,001,228 | 445,644 | 168,615 | 115,533 |
| ALLOCATION OF EXPENSES: | | | | | |
| Insured institutions for examination fees | 897,172 | 897,172 | - | - | - |
| Assessments against district banks | 372,000 | - | 372,000 | - | - |
| Charged to FS&LIC | 168,430 | - | - | 168,430 | - |
| Charged to HOLC | 115,533 | - | - | - | 115,533 |
| Nonadministrative--Long Beach conservatorship | 62,540 | - | 62,540 | - | - |
| Miscellaneous | 1,241 | - | 1,241 | - | - |
| Total expenses allocated | 1,616,916 | 897,172 | 435,781 | 168,430 | 115,533 |
| UNALLOCATED EXPENSES FOR THE PERIOD | $ 114,104 | $ 104,056 | $ 9,863 | $ 185 | $ - |

Notes:

1. Includes the former Office of the Commissioner, FHLBA, in the amount of $3,414 representing 1-1/2 months of operation. The expense of Office of the Chairman, HLBB, is shown for 10-1/2 months.

2. Chairman of HLBB, Order No. 30, issued January 16, 1948, limited the assessment on Federal Savings and Loan Insurance Corporation to this amount for services of the offices indicated.

# APPENDIX

# FEDERAL HOME LOAN BANKS

## ORIGIN AND PURPOSE

The Federal home loan banks were established by the former 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 Home Loan Bank Board, which exercises general regulatory and supervisory authority over the banks, and conducts examinations of them.

There were originally 12 district banks, each serving an area determined by the former 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, 1948, 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 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 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 in an amount of 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 participation, which is represented by shares held by the Secretary of the Treasury,[1] is subject to reduction in each bank

[1] Section 205 of the act of June 30, 1947 (15 U. S. C. 606 note), directed the transfer of these shares from RFC to the Secretary of the Treasury as of July 1, 1947.

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 amounts 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 HLBB, at any time pay off, in whole or in part, the stock held by the United States; and the Board 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 HLBB, and the other eight are elected by the member associations subject to approval by the Board. 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 HLBB shall fill any position for which a nomination is required. A director may not hold an active political office for which he receives compensation.

Although 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 Home Loan Bank Board.

Certain officers of the several banks have been appointed agents of the Home Loan Bank Board, 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.

## SOURCES OF FUNDS

The banks' funds are derived from three main sources: capital stock, bonds or other obligations sold to the public, and deposits.

Originally the capital stock was held principally by the Government, but participation by member institutions has increased until at January 31, 1949, the members owned all the stock in one bank and a majority in three banks.

Each bank is authorized to borrow from the public with approval of the Board, but this power has never been used. The HLBB is empowered to issue consolidated obligations which shall be the joint and several liability of all the banks. The consolidated obligations are of two general types: (1) debentures, of which the maximum amount that may be outstanding at any one time shall not exceed five times the total paid-in capital of all the banks as of the time of issuance and (2) bonds, which, subject to the retirement of all outstanding debentures, may be issued upon such terms and conditions as the board may prescribe. However, the borrowing power is limited by the requirement for approval by the Secretary of the Treasury (Government

Corporation Control Act, 31 U. S. C. 868 (a)). The banks are not authorized to borrow from the United States Treasury.

Each bank is authorized to accept deposits made by its members or by other Federal home loan banks. Members' deposits, accepted both on a time and a demand basis, have been a substantial but highly variable source of funds. The ability to supply temporarily the needs of any bank from reserve funds of other banks is an important attribute of a credit reserve system. These deposits may be made voluntarily or at the direction of the HLBB.

A fourth and relatively minor source of funds is the accumulated earnings of the banks—at June 30, 1948, they represented less than 4 percent of the available resources.

# HOME LOAN BANK BOARD

## ORIGIN AND PURPOSE

The Home Loan Bank Board was created by Reorganization Plan No. 3 of 1947, effective July 27, 1947 (5 U. S. C. 133y–16 note), to perform the functions of the former 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 establish and supervise district Federal home loan banks. Accordingly, the Board established 12 banks to provide a national credit reserve system for savings and home mortgage loan institutions.

Section 4(a) of the Home Owners' Loan Act of 1933 (12 U. S. C. 1463 (a)) directed the FHLBB to create Home Owners' Loan Corporation and, as its board of directors, to operate it. The preamble of the act states 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.

Under section 5 (a) of the Home Owners' Loan Act of 1933 (12 U. S. C. 1464 (a)), the FHLBB was given the responsibility for chartering Federal savings and loan associations.

Subsequently, section 402 of the National Housing Act of 1934 (12 U. S. C. 1725 (a)) created Federal Savings and Loan Insurance Corporation and made the FHLBB 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

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 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) to National Housing Agency. 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.

Reorganization Plan No. 3 of 1947, effective July 27, 1947 (5 U. S. C. 133y–16 note), provides for a permanent 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 Home Loan Bank Board created by the plan is composed of three full-time members appointed by the President of the United States on a bipartisan basis, by and with the advice and consent of the Senate. The members of the HLBB have the functions of the former Federal Home Loan Bank Board, the board of directors of HOLC, and the board of trustees of FS&LIC. (These three boards were abolished by the plan.)

The Administrative Department and the Federal Home Loan Bank System of the Federal Home Loan Bank Administration were merged on July 1, 1947, and operated under a single budget; on July 27, 1947, the FHLBA was succeeded by the Home Loan Bank Board.

The functions of the former Administrative Department were continued through an assistant to the chairman, an assistant to the Board, and these consolidated service units: Legal Department, Personnel Department, Budget Office, and Office of the Secretary. Under the direction of a general counsel, the Legal Department handles all legal matters for the HLBB and FS&LIC and is responsible for all legal matters of HOLC and the Federal home loan banks. The Personnel Department has all personnel functions for the HLBB and FS&LIC and is responsible for the operation of the Personnel Department of HOLC. The Budget Office had the usual budgetary functions for the HLBB and shared a primary management responsibility with respect to the budget management and reporting of each of the corporate constituents. The Office of the Secretary records and preserves the official resolutions of the Board. It also has the service functions of purchase and supply, communication facilities, and maintenance of files and other records.

At June 30, 1948, the comptroller of the HLBB, as Acting Governor of the Federal Home Loan Bank System, had the additional responsibility of supervising the 11 Federal home loan banks. Examination of insured institutions and enforcements of insurance regulations, both functions of FS&LIC, are carried on by the Board through its chief examiner and chief supervisor, respectively. Internal audits of the HLBB, HOLC, and FS&LIC, and the statutory semiannual audits of the 11 Federal home loan banks, are conducted by the Board's auditor.

## SOURCES OF FUNDS

The HLBB does not receive appropriated funds from the United States Treasury, but its administrative expenses are subject to annual approval by the Congress. 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 (HOLC, FS&LIC, and the 11 Federal home loan banks).

ORGANIZATION CHART
June 30, 1948

APPENDIX C