81st Congress, 2d Session - - - - - House Document No. 578

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

LETTER

FROM THE

COMPTROLLER GENERAL OF THE UNITED STATES

TRANSMITTING

A REPORT ON THE AUDIT OF FEDERAL HOME LOAN BANKS AND THE HOME LOAN BANK BOARD FOR THE YEAR ENDED JUNE 30, 1949, PURSUANT TO THE GOVERNMENT CORPORATION CONTROL ACT (31 U. S. C. 857)

MAY 2, 1950.—Referred to the Committee on Expenditures in the Executive Departments and ordered to be printed

UNITED STATES
GOVERNMENT PRINTING OFFICE
60228 WASHINGTON : 1950

LETTER OF TRANSMITTAL

GENERAL ACCOUNTING OFFICE,
COMPTROLLER GENERAL OF THE UNITED STATES,
Washington 25, April 28, 1950.

The honorable the SPEAKER OF THE HOUSE OF REPRESENTATIVES.

DEAR MR. SPEAKER: There is presented herein report on the audit of FEDERAL HOME LOAN BANKS and the HOME LOAN BANK BOARD for the year ended June 30, 1949. This audit was made by the Corporation Audits Division of the General Accounting Office, pursuant to and in accordance with the requirements of the Government Corporation Control Act (31 U. S. C. 857).

Respectfully submitted.

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

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REPORT ON AUDIT OF FEDERAL HOME LOAN BANKS AND HOME LOAN BANK BOARD FOR FISCAL YEAR ENDED JUNE 30, 1949

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 year ended June 30, 1949.

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

The Home Loan Bank Board received no appropriated funds, 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, which are paid by these associations, all of these expenses were allocated to and paid by Home Owners' Loan Corporation, Federal Savings and Loan Insurance Corporation, and the eleven Federal home loan banks, including Federal Home Loan Bank of Indianapolis which has retired the capital stock owned by the Government.[1] Under the circumstances, and although 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.

PART I—FEDERAL HOME LOAN BANKS

PURPOSE AND FINANCING

The Federal home loan banks perform substantially the same function in the field of home mortgage credit as the Federal Reserve System performs in providing a credit reservoir for private banks and as the Federal land banks perform in the field of farm finance. Created in 1932, pursuant to the Federal Home Loan Bank Act (12 U. S. C. 1421), they exert a stabilizing and strengthening effect upon the savings and loan and similar institutions which are members of the system, by providing both with a source of short- and long-term mortgage credits. The banks are owned in part by the private associations and savings banks which they serve. During the fiscal

[1] Government's investment retired on January 17, 1949.

year ended June 30, 1949, the banks, as an integral system, along with Federal Savings and Loan Insurance Corporation and Home Owners' Loan Corporation, under the supervision of the Home Loan Bank Board, were a constituent agency of the Housing and Home Finance Agency.

The Secretary of the Treasury subscribed and paid for capital stock in each of the banks. The aggregate amount of funds originally invested was $124,741,000. Additional capital is invested by member institutions, and provision is made in the Act for the progressive retirement of Government capital when members' investments equal the Government's investment. Also the banks, with the approval of HLBB, may retire the Government's investment in whole or in part, and HLBB may require such retirement if the banks have sufficient resources.

The Federal home loan banks also obtain working capital by the acceptance of deposits from their members and the issuance of consolidated obligations to the public. These obligations are the joint and several liabilities of all the banks, but they are not guaranteed by the United States.

ORGANIZATION AND MANAGEMENT

Each bank is managed by a board of directors whose actions are subject to the approval of the Home Loan Bank Board. HLBB supervises the banks, prescribes 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, and requires that public borrowings and transactions in Government securities by the banks have the approval of HLBB and the Secretary of the Treasury, as required by law. Each board of directors consists of 12 members of whom four are appointed by HLBB and the remainder are elected by the member institutions. Thus the Government has minority representation on the board of each bank even though it is the majority stockholder in seven of the eleven banks.

No new legislation affecting the Federal Home Loan Bank System has been passed during the fiscal year 1949. A description of the organization and management of the Federal home loan banks is set forth in greater detail in appendix A.

RESULTS OF OPERATIONS AND FINANCIAL POSITION

Following is a comparative consolidated summary of results of operations of the eleven Federal home loan banks for the fiscal years 1949 and 1948.

	Year ended June 30		Increase (−decrease)
	1949	1948	
Operating income:			
Interest on advances	$8,852,661	$7,302,156	$1,550,505
Interest on securities and other operating income	4,948,917	3,149,983	1,798,934
Total operating income	13,801,578	10,452,139	3,349,439
Expenses:			
Operating:			
Compensation, travel, and other expenses	1,315,000	1,130,456	181,544
Assessment by HLBB*	355,000	372,000	−17,000
	1,670,000	1,502,456	167,544
Financing:			
Interest and other costs of consolidated obligations	6,358,853	3,725,301	2,633,552
Interest on deposits by members	1,517,415	571,948	945,467
Interest on deposits by U. S. Treasury		7,622	−7,622
	7,876,268	4,304,871	3,571,397
Total expenses	9,546,268	5,807,327	3,738,941
Net operating income	4,255,310	4,644,812	−389,502
Profit on sale of securities (net) and other income	180,345	337,049	−156,704
Net income for the period	$4,435,655	$4,981,861	−$546,206

*After credits ($78,679 in 1949 and $11,000 in 1948) allowed for overassessments in prior years.

The consolidated financial position of the banks at June 30, 1949 and 1948, and the changes resulting from operations during the fiscal year 1949 were:

Assets	June 30		Increase (−decrease)
	1949	1948	
Cash	$24,611,859	$25,689,579	−$1,077,720
Government securities, at amortized cost	360,034,127	164,281,213	195,752,914
Advances to members	363,408,255	475,247,656	−111,839,401
Accrued interest on securities and advances	1,323,835	1,334,854	−11,019
Other assets	115,807	196,136	−80,329
Total assets	749,493,883	666,749,438	82,744,445
Liabilities			
Deposits of members and others	220,479,104	90,060,292	130,418,812
Consolidated notes	257,550,000	306,500,000	−48,950,000
Dividends payable	1,054,764	1,074,560	−19,796
Accrued interest on deposits and consolidated bonds	3,917,966	1,983,763	1,934,203
Accounts payable	5,415	11,742	−6,327
Total liabilities	492,007,249	408,630,357	83,376,892
Net assets	$257,486,634	$258,119,081	−$632,447
Represented by:			
Capital stock:			
Held by members	$128,597,875	$113,173,400	$15,424,475
Held by U. S. Treasury	102,492,700	119,791,200	−17,298,500
	231,090,575	232,964,600	−1,874,025
Accumulated earnings allocated to:			
Legal reserve	12,659,733	11,772,602	887,131
Reserve for contingencies	4,779,143	4,288,061	491,082
Undivided profits	8,957,183	9,093,818	−136,635
	26,396,059	25,154,481	1,241,578
	$257,486,634	$258,119,081	−$632,447

The changes in financial position and the sources of funds with which the banks financed their activities during the year are summarized:

Net income for the year		$4,435,635
Less:		
Dividends declared	$3,147,538	
Amortization of discounts (net of premiums) on Government securities	635,489	
Contributions to retirement fund for prior service credits	46,539	3,829,566
		606,069
Repayments of advances to members	374,971,990	
Less new advances	263,132,589	111,839,401
Increase in members' deposits, net		130,418,812
Decrease in cash		1,077,720
Net changes in other assets and liabilities		1,999,428
		$245,941,450

These funds were used for:

Purchase of Government securities	$756,061,073	
Less sale or redemption of securities (excluding profit from sale, $179,339, which is included in income above)	560,943,648	$195,117,425
Redemption of consolidated notes [1]	326,950,000	
Less sales of consolidated notes [1]	278,000,000	48,950,000
Retirement of capital stock owned by the Government	17,298,500	
Less sales of stock to members (net of retirements, $3,908,200)	15,424,475	1,874,025
		$245,941,450

[1] Includes $168,000,000 for refunding.

The growth of the savings and loan associations during the year and their inability to invest the substantial increase in shareholders' capital have had a direct effect on the activities of the Federal Home Loan Bank System. The continuing growth of the savings and loan associations is apparently due to the higher average yield (1 to 4 percent) on the investment of shareholders than the average yield (1 to 2 percent) on deposits in savings banks. Statistics of insured savings and loan associations prepared for the Home Loan Bank Board show that shareholders' investments increased $1,340,000,000 during the fiscal year 1949 while mortgage holdings increased $1,034,000,000.

A substantial portion of the excess funds of the savings and loan associations were (1) used to liquidate advances from the home loan banks and (2) deposited with the home loan banks. This factor caused the outstanding advances by the home loan bank system to drop $111,839,401 during the fiscal year while deposits increased $130,418,812. As required by the Act, a part of deposits of members were invested in Government securities. This investment rose to a new high of $360,034,127 at June 30, 1949.

This condition affected operations for the current year. Although operating income increased $3,349,439 in 1949, 64 percent of the operating income was earned on advances and 36 percent on Government obligations, compared to 70 percent and 30 percent, respectively, in 1948. Interest paid on members' deposits rose from 5 percent of operating income in 1948 to 11 percent in 1949.

Consolidated notes of the banks at June 30, 1948, of $306,500,000 decreased to $257,550,000 at June 30, 1949, owing to the decline in the demand for advances. The increase in cost of open market financing in 1949 is attributable to higher interest rates, averaging 1.52 percent in 1948 and 1.78 percent in 1949, and an increase of $110,372,000 in the average amount of short-term consolidated notes outstanding during the year. The cost of financing consolidated notes amounted to 46 percent of operating income for 1949 compared with 36 percent for 1948.

As required by the Act, 20 percent of the net income, or $887,131, was transferred to the legal reserve account. After deducting reserve requirements from net income, the earnings remaining in 1949 were 1.53 percent on average paid-in capital compared with 1.77 percent in 1948.

Capital stock outstanding at June 30, 1949, was $1,874,025 less than at the end of the previous fiscal year. The individual banks continued to retire the stock held by the United States but the retirements were only partly offset by increases in members' subscriptions. Dividends declared during the year compared with those during the previous year and from inception were:

	Year ended June 30		*Total dividends from inception*
	1949	*1948*	
Member institutions	$1,704,683	$1,453,089	$11,327,598
U. S. Treasury	1,442,855	1,627,877	24,395,966
	$3,147,538	$3,080,966	$35,723,564

Dividend rates ranged from 1 to 2 percent during the year, the weighted average being 1.35 percent. The dividends received by the Government in 1949 were at a rate lower than the average interest rate (2.001 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 in 1949 was approximately $795,000 (1948, $726,000) more than the income received from the investment.

GOVERNMENT SECURITIES OWNED

The banks held $357,790,000 par value of Government securities at the close of the fiscal year, representing an increase of $195,672,000 since the beginning of the year. Of this, approximately $17,450,000 was necessary to meet the "legal" and contingent reserve requirements.[1] The banks have also complied with section 11 (g) of the Act relating to investment of members' capital stock and current deposits.

In July 1948, pursuant to action of HLBB designed to assure the maintenance of sufficient funds in liquid assets to meet the demands of their member associations, the banks adopted an investment policy requiring the investment of at least $100,000,000 in specified types of assets. Of these funds, designated as a "liquidity reserve," 65 percent of the minimum amount must be invested in special series Treasury notes and the remainder carried in cash or invested in Treasury bills and certificates of indebtedness (or notes traded on the same basis as certificates of indebtedness). Each bank is required to participate in these investments in the ratio of its total paid-in capital to the total paid-in capital of all of the banks. The investments required under the liquidity reserve policy are in addition to those required by law[1]

[1] Section 16 of the Act.

and/or HLBB regulations relating to the legal and contingency reserves.

Earnings on Government securities totaled $4,946,088—$1,799,368 more than in 1948.

ADVANCES TO MEMBERS

The volume of advances (loans) to member institutions made during 1949 was less than in any year since 1945. Advances outstanding at June 30, 1949, aggregated $363,408,255—a decrease of about $111,839,401 from the preceding fiscal year. While membership in the banks increased slightly during the year, the number of borrowing members decreased 13 percent to 1,665, or 44 percent of the total membership of 3,813 at June 30, 1949.

Section 11 (g) of the Act provides that an amount equaling the members' paid-in capital and current deposits shall be invested in (1) obligations of the United States, (2) bank deposits, and (3) advances with a maturity of not to exceed one year. In May 1949 HLBB resolved that amounts due within one year on long-term advances come within the meaning of this provision.

Pursuant to the Act, each bank is authorized to make advances to its members upon the pledge of home mortgages, or obligations of the United States, or obligations fully guaranteed by the United States, subject to such regulations, restrictions, and limitations as HLBB may prescribe. The regulations governing the banks prescribed by HLBB provide that the borrowing capacity for each member shall be the amount for which the member can legally obligate itself, 50 percent of its net assets or 50 percent of its liability for shares and deposits, whichever is less, unless otherwise directed by HLBB. Each bank may establish a line of credit for each member institution not in excess of the member's borrowing capacity. Within this limitation, the credit policy of each bank varies. In an effort to establish a national pattern in the extension of credit, as suggested by HLBB, the board of directors of each bank in 1949 adopted resolutions setting the borrowing limit of each member institution for use in making new loan commitments or for loan expansion purposes (including all borrowing from other sources) at an amount not to exceed 50 percent of its borrowing capacity or 25 percent of share capital.

Advances maturing within one year of the date of the note evidencing the loan may be made without collateral.[1] If their term exceeds one year, collateral must be furnished. However, to simplify the present procedure of transporting collateral to the banks, in December 1948 HLBB resolved:

> That home mortgages assigned to a Federal Home Loan Bank by a borrowing institution as security for advances may be placed with or left with the borrowing institution for safekeeping provided that the Federal Home Loan Bank obtains from the borrowing institution a trust receipt or other agreement, by which the security will be held for the benefit and subject to the direction and control of such Federal Home Loan Bank. Forms of trust receipts or other agreements before being used shall be approved by the Federal Home Loan Bank's Counsel as to legal sufficiency and by the Home Loan Bank Board.

Six of the eleven banks have adopted the trust receipt procedure.

At June 30, 1949, long-term advances (in excess of one year) represented 53 percent of the total advances, compared with 52 percent at the close of the preceding year. Secured advances at June 30, 1949,

[1] Section 11 (g) of the Act.

were 45 percent of the face value of collateral posted, compared to 51 percent at June 30, 1948.

During 1949 the banks earned $8,852,661 in interest on advances, an increase of $1,550,505 (21 percent) over 1948. The average interest rate earned on advances was 2.04 percent; in 1948 it was 1.96 percent and in 1947, 1.89 percent.

DEPOSITS OF MEMBERS

Deposits of member institutions and applicants for membership, at June 30, 1949, amounted to $229,450,556, of which about 87 percent were time deposits. These deposits—the highest in the banks' history—were 2⅓ times the deposits at June 30, 1948. This increase, together with the substantial increase in repayments of members' loans during the year, emphasizes the existence of an excess of funds in the hands of member institutions which could not be invested in mortgages.

As a result of a resolution of HLBB in October 1948 authorizing the banks to pay interest not in excess of 1½ percent per annum on time deposits remaining over 30 days, seven of the banks provided for the issuance of 1-year certificates of deposit on members' time deposits. The purpose of this certificate of deposit service is to afford the member institutions a reasonable return on cash deposited for long periods with the banks. At the same time the banks are able to attract an additional source of funds, thus lessening their dependence on the public capital markets.

Demand deposits of member institutions are subject to withdrawal by drafts drawn by the depositing members. Generally drafts have been used for the transfer of funds to the members' commercial depositories. In three of the banks (New York, Pittsburgh, and Winston-Salem), however, this draft service has been extended to permit drafts drawn to any third party to be used to pay any item normally paid by check. The New York bank also operates a money order system which permits member institutions to issue money orders drawn on the New York bank chargeable against the demand deposit account maintained by the member with the bank.

CONSOLIDATED NOTES

Three issues of 1-year consolidated notes of the Federal home loan banks were marketed in 1949, the last issue being dated January 20, 1949. Consolidated notes outstanding at June 30, 1949, were $257,550,000 (excluding $20,450,000 held by the banks), compared with $306,500,000 at June 30, 1948. These notes, bearing interest at rates ranging from 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 ($6,358,853) was $2,633,552 (71 percent) greater than in 1948 owing to an increase of $110,372,000 in the average amount of consolidated notes outstanding and higher average interest rates. The average cost of borrowed money was 1.78 percent in 1949 compared with 1.52 percent in 1948.

CHANGES IN CAPITAL STOCK OWNERSHIP

The fiscal year 1949 marked a change in the consolidated stockholdings of the banks as the Government, holding a 44 percent interest ($102,492,700) of the aggregate stock outstanding at June 30, 1949 ($231,090,575), became the minority stockholder. The Government's original investment of $124,741,000 has been reduced $22,248,300 by the retirement of capital stock in the following banks during the past five years.

	1945 to 1948	*1949*	*Total*
Indianapolis	$1,794,100	$4,783,300	*$6,577,400
Cincinnati	1,632,000	6,143,700	7,775,700
Winston-Salem	1,427,500	1,162,700	2,590,200
Des Moines	96,200	1,500,000	1,596,200
New York		3,000,000	3,000,000
Boston		467,500	467,500
Topeka		241,300	241,300
	$4,919,800	$17,298,500	$22,248,300

*Government's investment fully retired in January 1949.

The investment of the member institutions increased during the year by $15,424,475 to $128,597,875 at June 30, 1949.

RESERVES

The Act requires each bank 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 slightly more than 5 percent of the total paid-in capital of the banks at June 30, 1949. In addition, some of the banks have voluntarily transferred substantial amounts to reserves for contingencies. The latter 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 amounts so added to reserves were $1,378,213 in 1949 and $1,059,760 in 1948.

RECOMMENDATIONS TO THE CONGRESS

The most important of our previous recommendations for legislative action have been incorporated in H. R. 6743 and currently are being considered by the Congress. This bill was approved by the House of Representatives on February 1, 1950. Such recommendations include suggestions covering:

1. Retirement of Government investment.
2. Authorization of limited Treasury borrowings.
3. Continued audit by the General Accounting Office after retirement of the Government's investment.
4. Modification of member-owned stock reserve requirements.

Among the recommendations which are not taken up in H. R. 6743 are suggestions that (a) the Federal Reserve banks be authorized to purchase obligations of the banks, (b) HLBB be authorized to examine the banks "at their discretion from time to time, at least annually," rather than semiannually, and (c) 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 now prescribed by HLBB for advances to members).

No new recommendations to the Congress have been found necessary for this report.

Recommendations to the Management

Recommendations to the management have been made the subject of a letter to the chairman of HLBB and were not considered to be of sufficient importance to warrant inclusion in this report.

Compliance

The scope of our examination is set forth below. During the examination we observed no program, expenditure, or financial transaction which in our opinion was carried on or made without authority of law. In significant matters our opinion is based on decisions of the Comptroller General and advices from his General Counsel. Comparatively inconsequential errors arising in the routine conduct of the banks' affairs have been or are in the process of being corrected.

Scope of Audit and Opinion

Our examination of the Federal home loan banks for the fiscal year 1949 included a field survey of four of the 11 district banks by our representatives and a review of the scope, working papers, and reports of the semiannual examinations for the year ended June 30, 1949, made by the staff of the Home Loan Bank Board. We surveyed the organization and management, the system of internal control, and the accounting and operating policies and procedures of the banks visited. Our surveys of two of the banks were arranged to coincide with the regular semiannual examination in order that we might observe the adherence to the prescribed procedures and the quality of the work of the examiners.

In accepting the accompanying audit certificate of the auditor of 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.

In our opinion, reliance may be placed upon the certification of the auditor of the Home Loan Bank Board that the financial statements present fairly the consolidated financial position of the Federal home loan banks at June 30, 1949, and the consolidated results of their operations for the year then ended, 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.

[Copy]

HOUSING AND HOME FINANCE AGENCY

HOME LOAN BANK BOARD

101 Indiana Avenue N. W., Washington 25, D. C.

OCTOBER 27, 1949.

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, 1949, 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 Auditor of the Home Loan Bank Board.

The report is comprised of the following statements:

Exhibit "1"—Balance Sheet, June 30, 1949.
Exhibit "2"—Income Statement, Year ended June 30, 1949.
Schedule "1"—Compensation, Travel and Other Expenses, Year ended June 30, 1949.
Exhibit "3"—Analysis of Surplus, Year ended June 30, 1949.
Exhibit "4"—Sources and Application of Funds, Year ended June 30, 1949.

In my opinion, the accompanying balance sheet and related statements of income and surplus present fairly the financial position of the Federal Home Loan Banks at June 30, 1949, 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.

E. S. FRAZIER,
Auditor, Home Loan Bank Board.

FINANCIAL STATEMENTS

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FEDERAL HOME LOAN BANKS

CONSOLIDATED BALANCE SHEET, BY BANKS

JUNE 30, 1949

ASSETS	Consolidated	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	$ 24,611,859	$ -	$ 1,614,423	$ 1,070,890	$ 2,097,247	$ 3,054,149	$ 3,902,136	$ 1,259,374	$ 5,295,402	$ 567,875	$ 2,014,432	$ 1,071,489	$ 2,664,442
On deposit with other Federal home loan banks	-	-750,000	750,000	-	-	-	-	-	-	-	-	-	-
	24,611,859	-750,000	2,364,423	1,070,890	2,097,247	3,054,149	3,902,136	1,259,374	5,295,402	567,875	2,014,432	1,071,489	2,664,442
SECURITIES:													
Government securities at amortized cost(A)	360,034,127	-	37,000,773	66,435,890	21,572,551	39,080,672	39,859,126	30,153,763	31,355,521	16,935,142	19,082,249	19,278,469	39,279,971
Consolidated Federal home loan bank notes	-	-20,458,713	-	4,002,644	-	12,438,494	600,569	-	-	1,276,490	500,140	140,037	1,500,339
	360,034,127	-20,458,713	37,000,773	70,438,534	21,572,551	51,519,166	40,459,695	30,153,763	31,355,521	18,211,632	19,582,389	19,418,506	40,780,310
ADVANCES TO MEMBERS:													
With pledge of collateral(B)	290,713,325	-	5,465,285	15,983,997	28,864,147	42,956,728	15,708,625	23,243,327	39,909,677	15,638,219	20,941,976	17,692,545	64,308,799
Unsecured	72,694,930	-	12,168,889	8,394,917	4,351,700	15,389,000	5,827,555	4,947,000	10,960,682	8,011,300	-	505,000	2,138,887
	363,408,255	-	17,634,174	24,378,914	33,215,847	58,345,728	21,536,180	28,190,327	50,870,359	23,649,519	20,941,976	18,197,545	66,447,686
OTHER ASSETS:													
Accrued interest	1,323,835	-291,938	90,647	264,461	105,197	334,247	139,340	112,734	16,220	56,835	98,071	59,725	338,296
Miscellaneous receivables, deferred charges, and other assets(C)	115,807	8,713	6,359	8,451	4,207	23,393	5,210	3,824	28,407	3,640	7,034	2,639	13,930
	1,439,642	-283,225	97,006	272,912	109,404	357,640	144,550	116,558	44,627	60,475	105,105	62,364	352,226
	$749,493,883	-$21,491,938	$57,096,376	$96,161,250	$56,995,049	$113,276,683	$66,042,561	$59,720,022	$87,565,909	$42,489,501	$42,643,902	$38,749,904	$110,244,664
(A) Face value of securities	$357,790,000		$36,810,000	$65,912,500	$21,450,000	$ 39,060,000	$39,496,000	$29,835,500	$31,270,000	$16,795,000	$19,040,000	$19,150,000	$ 38,971,000
Market value of securities	361,930,755		37,225,775	66,942,169	21,557,791	39,138,281	40,120,496	30,413,309	31,384,608	17,027,136	19,295,122	19,434,454	39,391,614
(B) Collateral pledged for advances:													
Unpaid balance of home mortgages	564,646,010		8,837,053	36,952,447	57,547,665	92,292,422	23,343,209	37,084,166	75,379,062	30,342,562	38,119,665	29,873,865	134,873,894
Face amount of Government securities	78,202,300		1,940,000	12,081,000	4,250,000	1,085,000	5,908,000	9,194,200	11,163,500	8,945,500	3,925,000	720,000	18,990,100
Other collateral permitted by rules and regulations	3,642,218				970,000								2,672,218
(C) Furniture and equipment are included at a valuation of $1.00 for each bank. The original cost is	178,727		12,503	25,595	15,746	11,206	15,137	12,936	11,698	9,714	17,366	10,936	35,890

The notes on page 15 are an integral part of this statement.

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FEDERAL HOME LOAN BANKS

CONSOLIDATED BALANCE SHEET, BY BANKS (continued)

JUNE 30, 1949

LIABILITIES	Consolidated	Interbank eliminations	Boston	New York	Pittsburgh	Winston-Salem	Cincinnati	Indianapolis	Chicago	Des Moines	Little Rock	Topeka	San Francisco
DEPOSITS:													
Members--time	$200,163,541	$ -	$15,210,198	$37,722,134	$13,910,295	$ 22,817,600	$26,077,122	$24,224,151	$20,990,022	$ 7,983,862	$ 2,216,776	$ 9,410,999	$ 19,600,382
Members--demand (including applicants)	29,287,015	-	1,333,953	17,141,841	1,675,095	942,900	6,196,586	1,604,263	16,100	2,000	11,400	172,975	189,902
Receivership funds, Federal Savings and Loan Insurance Corporation	28,548	-	-	-	-	-	-	-	-	-	-	28,548	-
Other Federal home loan banks	-	-750,000	-	-	-	-	-	750,000	-	-	-	-	-
	229,479,104	-750,000	16,544,151	54,863,975	15,585,390	23,760,500	32,273,708	26,578,414	21,006,122	7,985,862	2,228,176	9,612,522	19,790,284
CONSOLIDATED NOTES	257,550,000	-20,450,000	16,000,000	9,000,000	18,000,000	64,000,000	6,500,000	18,500,000	35,000,000	17,000,000	24,500,000	14,500,000	55,000,000
OTHER LIABILITIES:													
Dividends payable:													
U.S. Treasury	418,757	-	60,000	-	-	-	50,000	-	106,304	43,490	43,862	35,462	79,639
Members	636,007	-	50,998	-	-	-	183,335	123,168	100,585	51,909	24,849	27,574	73,589
	1,054,764	-	110,998	-	-	-	233,335	123,168	206,889	95,399	68,711	63,036	153,228
Accrued interest on deposits and consolidated notes	3,917,966	-291,938	221,778	89,906	276,316	991,824	162,907	317,325	578,468	236,096	307,959	261,712	765,613
Accounts payable	5,415	-	-	2,678	-	53	798	439	-	-	646	493	308
	4,978,145	-291,938	332,776	92,584	276,316	991,877	397,040	440,932	785,357	331,495	377,316	325,241	919,149
CAPITAL STOCK:													
Capital stock owned by members	128,597,875	-	10,410,900	12,716,000	9,724,200	14,911,400	18,805,250	12,467,800	13,842,425	9,595,700	5,199,300	5,703,800	15,221,100
Capital stock owned by the Government, held by U.S. Treasury	102,492,700	-	12,000,000	15,963,200	11,146,300	6,618,000	5,000,000	-	14,173,900	5,798,700	8,772,400	7,092,300	15,927,900
	231,090,575	-	22,410,900	28,679,200	20,870,500	21,529,400	23,805,250	12,467,800	28,016,325	15,394,400	13,971,700	12,796,100	31,149,000
SURPLUS AND SURPLUS RESERVES:													
Legal reserve	12,659,733	-	927,766	1,605,449	1,184,526	1,147,578	1,723,350	914,570	1,569,071	871,625	723,412	607,979	1,384,407
Reserve for contingencies	4,779,143	-	500,000	620,951	-	400,000	500,000	-	-	800,000	58,192	500,000	1,400,000
Undivided profits	8,957,183	-	380,783	1,299,091	1,078,317	1,447,328	843,213	818,306	1,189,034	106,119	785,106	408,062	601,824
	26,396,059	-	1,808,549	3,525,491	2,262,843	2,994,906	3,066,563	1,732,876	2,758,105	1,777,744	1,566,710	1,516,041	3,386,231
	$749,493,883	-$21,491,938	$57,096,376	$96,161,250	$56,995,049	$113,276,683	$66,042,561	$59,720,022	$87,565,909	$42,489,501	$42,643,902	$38,749,904	$110,244,664

The notes on page 15 are an integral part of this statement.

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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, 1949, was $2,925,004,000. 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 surpassed in the Winston-Salem, Cincinnati, Des Moines, Indianapolis, and Topeka banks. The entire investment of the Government in the Indianapolis bank has been retired.

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 YEAR ENDED JUNE 30, 1949

	Consolidated	Interbank eliminations	Boston	New York	Pittsburgh	Winston-Salem	Cincinnati	Indianapolis	Chicago	Des Moines	Little Rock	Topeka	San Francisco
OPERATING INCOME:													
Interest on advances	$ 8,852,661	$ -	$434,631	$ 621,719	$ 816,789	$1,599,245	$ 572,282	$ 721,285	$1,160,257	$564,752	$490,122	$460,773	$1,410,806
Interest on securities	4,946,088	−89,215	457,317	806,204	278,145	379,949	622,169	493,250	455,455	311,434	311,673	298,920	620,787
Interest on deposits with other Federal home loan banks	-	−131,554	12,275	76,490	3,502	-	7,213	16,479	-	2,908	875	-	11,812
Miscellaneous	2,829	-	-	394	-	1,302	136	-	790	-	128	-	79
Total operating income	13,801,578	−220,769	904,223	1,504,807	1,098,436	1,980,496	1,201,800	1,231,014	1,616,502	879,094	802,798	759,693	2,043,484
EXPENSES:													
Operating:													
Compensation, travel, and other expenses (schedule 1)	1,300,285	-	95,805	154,408	143,040	100,077	130,393	76,799	132,012	81,274	88,631	76,547	221,299
Assessment by Home Loan Bank Board[1]	355,000	-	23,895	35,907	30,424	46,257	33,419	30,020	39,712	24,343	21,870	20,647	48,506
Furniture and equipment purchased	14,715	-	2,972	1,304	923	3,874	14	1,089	993	461	466	1,160	1,459
Total operating expense	1,670,000	-	122,672	191,619	174,387	150,208	163,826	107,908	172,717	105,078	110,967	98,354	271,264
Financing:													
Interest on consolidated obligations	5,927,655	−110,396	284,305	274,628	473,252	1,127,761	261,010	502,372	776,244	418,833	448,773	345,850	1,125,023
Consolidated obligations expense--concessions (discount)	382,041	21,181	16,326	15,610	28,684	66,758	16,271	30,664	47,854	24,697	26,796	20,851	66,349
Consolidated obligations expense--office of fiscal agent	49,157	-	4,311	4,331	4,436	4,561	4,592	4,592	4,235	4,499	4,446	4,378	4,776
Interest on members' deposits	1,517,415	-	92,919	386,675	96,778	161,117	170,184	216,932	127,732	52,483	9,433	67,222	135,940
Interest on other Federal home loan banks' deposits	-	−131,554	25,399	-	-	63,788	-	8,804	25,193	706	924	-	6,740
Total financing expense	7,876,268	−220,769	423,260	681,244	603,150	1,423,985	452,057	763,364	981,258	501,218	490,372	438,301	1,338,828
Total expenses	9,546,268	−220,769	545,932	872,863	777,537	1,574,193	615,883	871,272	1,153,975	607,296	601,339	536,655	1,610,092
Net operating income	4,255,310	-	358,291	631,944	320,899	406,303	585,917	359,742	462,527	271,798	201,459	223,038	433,392
OTHER INCOME:													
Profit on sales of securities, net	179,339	-	−63	−1,168	175	46,306	8,198	16,705	86,012	22,382	150	70	572
Miscellaneous	1,006	-	39	52	119	58	208	41	209	40	62	69	109
Total other income	180,345	-	−24	−1,116	294	46,364	8,406	16,746	86,221	22,422	212	139	681
NET INCOME TRANSFERRED TO UNDIVIDED PROFITS (exhibit 3)	$ 4,435,655	$ -	$358,267	$ 630,828	$ 321,193	$ 452,667	$ 594,323	$ 376,488	$ 548,748	$294,220	$201,671	$223,177	$ 434,073

[1] After credits of $78,679 allowed for overassessments in prior years.

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FEDERAL HOME LOAN BANKS

CONSOLIDATED STATEMENT OF SURPLUS, BY BANKS
FOR THE YEAR ENDED JUNE 30, 1949

	Consolidated	Boston	New York	Pittsburgh	Winston-Salem	Cincinnati	Indianapolis	Chicago	Des Moines	Little Rock	Topeka	San Francisco
UNDIVIDED PROFITS:												
Balance, June 30, 1948	$ 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
Add net income for the year (exhibit 2)	4,435,655	358,267	630,828	321,193	452,567	594,323	376,488	548,748	294,220	201,671	223,177	434,073
	13,529,473	1,180,802	1,732,368	1,444,303	1,865,369	1,442,873	1,178,233	1,708,624	379,272	952,912	639,561	1,005,156
Deduct:												
Dividends paid:												
Government-owned stock	1,442,855	122,338	174,632	167,195	116,711	147,507	47,833	212,608	98,230	87,724	108,798	159,279
Member-owned stock	1,704,683	98,437	116,943	134,625	193,483	333,352	236,844	195,464	127,390	47,518	78,145	142,482
	3,147,538	220,775	291,575	301,820	310,194	480,859	284,677	408,072	225,620	135,242	186,943	301,761
Retirement fund--prior service contributions (-refunds), net	46,539	7,591	16,757	-73	17,314	-64	-47	1,768	-11,311	-72	-80	14,756
Transfer to (-from) reserve for contingencies	491,082	500,000	-1,220	-	-	-	-	-	-	-7,698	-	-
Transfer to legal reserve	887,131	71,653	126,165	64,239	90,533	118,865	75,297	109,750	58,844	40,334	44,636	86,815
	4,572,290	800,019	433,277	365,986	418,041	599,660	359,927	519,590	273,153	167,806	231,499	403,332
Balance, June 30, 1949 (exhibit 1)	$ 8,957,183	$ 380,783	$1,299,091	$1,078,317	$1,447,328	$ 843,213	$ 818,306	$1,189,034	$106,119	$785,106	$408,062	$ 601,824
LEGAL RESERVE:												
Balance, June 30, 1948	$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
Transfer from undivided profits	887,131	71,653	126,165	64,239	90,533	118,865	75,297	109,750	58,844	40,334	44,636	86,815
Balance, June 30, 1949 (exhibit 1)	$12,659,733	$ 927,766	$1,605,449	$1,184,526	$1,147,578	$1,723,350	$ 914,570	$1,569,071	$871,625	$723,412	$607,979	$1,384,407
RESERVE FOR CONTINGENCIES:												
Balance, June 30, 1948	$ 4,288,061	$ -	$ 622,171	$ -	$ 400,000	$ 500,000	$ -	$ -	$800,000	$ 65,890	$500,000	$1,400,000
Transfer from (-to) undivided profits	491,082	500,000	-1,220	-	-	-	-	-	-	-7,698	-	-
Balance, June 30, 1949 (exhibit 1)	$ 4,779,143	$ 500,000	$ 620,951	$ -	$ 400,000	$ 500,000	$ -	$ -	$800,000	$ 58,192	$500,000	$1,400,000

FEDERAL HOME LOAN BANKS

CONSOLIDATED STATEMENT OF SOURCES AND APPLICATION OF FUNDS, BY BANKS

FOR THE YEAR ENDED JUNE 30, 1949

	Consolidated	Interbank eliminations	Boston	New York	Pittsburgh	Winston-Salem	Cincinnati	Indianapolis	Chicago	Des Moines	Little Rock	Topeka	San Francisco
SOURCES OF FUNDS:													
Net income for the year (exhibit 2)	$ 4,435,655	$ -	$ 358,267	$ 630,828	$ 321,193	$ 452,667	$ 594,323	$ 376,488	$ 548,748	$ 294,220	$ 201,671	$ 223,177	$ 434,073
Less amortization of discount (–premium) on securities, net	635,489	21,181*	37,755	42,386	58,558	108,328	17,977	–1,004	112,533	23,529	66,018	42,051	106,177
	3,800,166	–21,181	320,512	588,442	262,635	344,339	576,346	377,492	436,215	270,691	135,653	181,126	327,896
Repayment of loans by members	374,971,990	-	19,877,751	37,952,805	23,054,285	63,801,722	20,160,498	19,134,744	51,113,227	25,993,495	19,459,585	12,525,576	81,898,302
Investment securities redeemed or sold--cost (note 1)	560,943,648	–4,670,402*	35,281,864	86,575,357	39,645,770	53,751,123	45,465,261	49,565,387	64,931,140	32,416,619	34,984,682	29,104,423	93,892,424
Sale of consolidated notes (note 2)	278,000,000	-	16,000,000	9,000,000	18,000,000	64,000,000	6,500,000	18,500,000	35,000,000	17,000,000	24,500,000	14,500,000	55,000,000
Capital paid in by members	19,332,675	-	1,066,700	1,687,200	700,500	1,878,200	1,803,750	1,983,200	1,771,725	1,791,500	804,200	3,863,100	1,982,600
Increase in deposit liabilities	130,418,812	-	8,336,477	30,313,027	10,949,024	17,257,515	13,567,439	14,352,467	11,619,385	2,919,572	1,584,976	8,068,183	11,450,747
Increase in deposits from other Federal home loan banks	-	–750,000	-	-	-	-	-	750,000	-	-	-	-	-
Decrease in deposits with other Federal home loan banks	-	–27,750,000	2,750,000	12,500,000	2,000,000	-	6,500,000	1,000,000	-	3,000,000	-	-	-
Net increase in sundry liabilities plus net decrease in sundry assets	1,999,428	–8,713*	117,299	–73,357	123,620	426,717	95,125	140,206	440,630	138,052	187,021	158,683	254,145
Decrease in cash	1,077,720	-	–183,654	–116,408	325,423	–814,677	–846,843	1,081,510	–832,129	14,198	–686,484	214,599	2,922,185
	$1,370,544,439	–$33,200,296	$83,566,949	$178,427,066	$95,061,257	$200,644,939	$93,821,576	$106,885,006	$164,480,193	$83,544,127	$80,969,633	$68,615,690	$247,728,299
APPLICATION OF FUNDS:													
Loans to member institutions	$ 263,132,589	$ -	$18,873,310	$ 29,968,417	$15,028,700	$ 36,279,100	$12,909,500	$ 14,093,350	$ 39,826,955	$19,204,965	$13,610,200	$ 8,520,000	$ 54,818,092
Purchase of investment securities	756,061,073	–25,150,296*	49,435,773	126,116,417	53,722,510	101,869,131	56,783,381	61,718,926	86,483,398	38,900,453	46,695,163	40,007,427	119,478,790
Redemption of consolidated notes (note 2)	326,950,000	20,450,000*	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
Repayment of paid-in capital:													
To U.S. Treasury	17,298,500	-	467,500	3,000,000	-	1,162,700	6,143,700	4,783,300	-	1,500,000	-	241,300	-
To member institutions	3,908,200	-	62,000	33,900	8,300	6,500	4,200	4,800	260,000	224,400	29,100	3,160,100	114,900
Decrease in deposits from other Federal home loan banks	-	–28,500,000	2,500,000	-	-	10,750,000	-	-	3,750,000	-	1,000,000	-	10,500,000
Dividends paid	3,147,538	-	220,775	291,575	301,820	310,194	480,859	284,677	408,072	225,620	135,242	186,943	301,761
Contributions to retirement fund (prior service)	46,539	-	7,591	16,757	–73	17,314	–64	–47	1,768	–11,311	–72	–80	14,756
	$1,370,544,439	–$33,200,296	$83,566,949	$178,427,066	$95,061,257	$200,644,939	$93,821,576	$106,885,006	$164,480,193	$83,544,127	$80,969,633	$68,615,690	$247,728,299

*Represents transactions involving open market purchases by the banks of consolidated obligations at a premium.

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

[2]Includes $168,000,000 for refunding.

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FEDERAL HOME LOAN BANKS

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

FOR THE YEAR ENDED JUNE 30, 1949

	Consolidated	Boston	New York	Pittsburgh	Winston-Salem	Cincinnati	Indianapolis	Chicago	Des Moines	Little Rock	Topeka	San Francisco
COMPENSATION:												
Officers' salaries	$ 414,247	$37,380	$ 46,875	$ 39,150	$ 31,456	$ 45,100	$31,700	$ 43,950	$36,850	$34,302	$26,500	$ 40,984
Other salaries	287,440	14,967	45,852	39,150	24,457	33,030	11,274	30,128	9,168	18,928	18,881	41,605
Directors' fees	54,022	6,550	5,850	5,000	4,330	6,485	2,675	7,455	2,220	3,090	3,470	6,897
Counsel's compensation	78,027	4,200	5,125	6,300	3,000	4,000	3,000	5,000	1,500	125	3,500	42,277
	833,736	63,097	103,702	89,600	63,243	88,615	48,649	86,533	49,738	56,445	52,351	131,763
TRAVEL EXPENSE:												
Directors	51,707	2,643	3,174	5,688	3,984	5,421	2,797	3,140	2,690	4,625	4,855	12,690
Officers	32,796	2,130	3,364	3,736	2,098	2,612	2,416	2,115	2,609	1,857	1,880	7,979
Counsel and others	10,715	160	400	1,139	-	22	246	401	74	519	257	7,497
Maintenance and operating cost of automobiles	3,752	682	-	-	-	975	-	-	-	677	-	1,418
	98,970	5,615	6,938	10,563	6,082	9,030	5,459	5,656	5,373	7,678	6,992	29,584
OTHER EXPENSES:												
Rent of banking quarters, less amount charged Home Loan Bank Board for district examiners	88,549	3,160	7,200	11,451	5,844	8,400	5,760	11,700	5,382	5,076	4,830	19,746
Retirement fund contributions	53,123	3,925	6,979	6,395	4,440	5,547	3,302	5,754	3,667	3,657	3,775	5,682
Stationery, printing, and other office supplies	32,105	2,610	8,292	3,281	3,379	2,132	2,178	3,450	1,245	1,925	1,027	2,586
Telephone and telegraph	26,679	1,654	1,734	2,159	2,118	2,125	1,820	1,667	930	2,145	1,050	9,277
Postage and expressage	19,839	892	2,449	1,807	2,449	1,641	1,219	2,942	1,440	1,274	899	2,827
Insurance and surety bond premiums	16,420	1,267	2,199	1,781	865	1,480	1,020	1,538	1,193	1,571	964	2,542
Audit expense	42,340	2,706	4,356	3,646	5,700	4,082	3,544	4,854	2,769	2,426	2,262	5,995
Stockholders' annual meeting	17,387	3,495	4,184	433	1,495	1,565	698	1,156	3,284	-	1,063	14
Maintenance of banking quarters and equipment	12,996	900	2,295	560	793	1,624	819	1,989	508	2,328	184	996
Public relations	13,562	2,581	1,883	1,136	685	1,782	540	874	1,944	666	221	1,250
Dues and subscriptions	15,422	1,576	1,074	1,108	1,167	1,158	983	1,933	1,054	2,925	276	2,168
Reports and other publications	10,528	561	714	544	297	389	755	910	2,168	476	577	3,137
Services of Home Loan Bank Board Examining Division	4,430	1,669	-	-	1,502	27	-	-	-	2	-	1,230
Safekeeping and protection services	2,429	25	-	-	-	7	29	-	390	18	20	1,940
Miscellaneous	11,770	72	409	8,576	18	789	24	1,056	189	19	56	562
	367,579	27,093	43,768	42,877	30,752	32,748	22,691	39,823	26,163	24,508	17,204	59,952
Total (exhibit 2)	$1,300,285	$95,805	$154,408	$143,040	$100,077	$130,393	$76,799	$132,012	$81,274	$88,631	$76,547	$221,299

General Comments

CASH

Cash amounted to $24,611,859 at June 30, 1949. No specific part of this amount is restricted by statutory reserve requirements. In July 1948, when a liquidity policy was established (see p. 5), the HLBB regulation requiring that 25 percent of members' deposits be invested in cash and Treasury bills was rescinded. The omission of such specific reserves was predicated upon their general inclusion within the new liquidity policy.

GOVERNMENT SECURITIES OWNED

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

	June 30		
	1949	*1948*	*Increase*
Treasury bonds:			
2%	$18,359,000	$14,259,000	$4,100,000
2¼%	67,250,000	59,275,000	7,975,000
2½%	32,323,500	28,023,500	4,300,000
2¾%	843,000	843,000	
	118,775,500	102,400,500	16,375,000
Savings bonds, series F and G	8,017,500	7,317,500	700,000
Treasury notes, special series, 2% FHL Banks	50,000,000		50,000,000
Treasury notes, special series, 1½% FHL Banks	58,500,000	37,400,000	21,100,000
Treasury notes, special series, 1¼% FHL Banks	8,500,000		8,500,000
Treasury notes, 1⅜%	46,650,000		46,650,000
Certificates of indebtedness, 1¼%	4,270,000		4,270,000
Treasury bills, discount	63,077,000	15,000,000	48,077,000
	$357,790,000	$162,118,000	$195,672,000

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

The securities in the banks' portfolios, according to maturities, were:

	June 30		
	1949	*1948*	*Increase*
Less than 1 year	$113,997,000	$15,000,000	$98,997,000
1 to 5 years	127,496,500	42,716,500	84,780,000
5 to 10 years	27,030,000	25,010,000	2,020,000
Over 10 years	89,266,500	79,391,500	9,875,000
	$357,790,000	$162,118,000	$195,672,000

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		
	1949	*1948*	*Increase*
Book value (amortized cost)	$360,034,127	$164,281,213	$195,752,914
Market value	361,930,755	163,938,794	197,991,961
Market value excess (—deficiency)	$1,896,628	—$342,419	$2,239,047

The principal factor in the change in relationship of aggregate market values to amortized cost of securities owned was the increase in bond prices due to action by the Government in June 1949 which had the effect of permitting bond prices to seek their natural level.

Government securities acquired during the year totaled $756,767,000 (par) and those sold or redeemed amounted to $561,095,000. The net profit on securities sold was $179,339.

In 1949 the banks earned $4,946,088 on their securities investments compared with $3,146,720 in 1948. The yield on the average investment was 1.65 percent in 1949 and 1.74 percent in 1948. The decrease in yield in 1949 was due to the investment by the banks in short-term Government securities in order to maintain a more liquid position.

ADVANCES

Advances are evidenced by notes of member or nonmember 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 1½ percent on short-term to 2½ percent on long-term paper. By action of HLBB, in October 1948 the permissible maximum interest rate was increased from 3 percent to 4 percent.

At June 30, 1949, the advances outstanding were $363,408,255, a decrease of $111,839,401 (24 percent) from those at the preceding year end. Advances made during 1949, $263,132,589, were less than in any year since 1945. Repayments of $374,971,990, on the other hand, were the highest in the banks' history. The banks have now loaned a total of $2,763,995,000, of which 46 percent has been loaned in the last four years. As shown in the following tabulation, the use of the banks' credit facilities has varied widely over the years.

Fiscal year	*Advances*	*Repayments*	*Advances 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	114,287,000	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
1949	263,132,000	374,972,000	363,408,000
	$2,763,995,000	$2,400,587,000	

For the first time since 1945, the number of borrowing institutions decreased during the fiscal year. The following tabulation shows the relation of borrowing members to the total membership in the banks since 1939.

June 30	Total membership	Borrowing members: Number	Borrowing members: Percent of total
1939	3,946	2,385	60
1940	3,914	2,000	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	3,690	1,121	30
1947	3,700	1,455	39
1948	3,733	1,911	51
1949	3,813	1,665	44

Advances outstanding on June 30, 1949, were less in each bank than at the close of the preceding fiscal year. The balances at June 30, 1949, and the amount and percentage of decrease during the fiscal year 1949, by banks, were:

Federal home loan bank	Advances at June 30, 1949	Decrease during fiscal year 1949: Amount	Decrease during fiscal year 1949: Percent
Boston	$17,634,174	$1,004,441	5
New York	21,378,914	7,984,368	25
Pittsburgh	33,215,847	8,025,565	19
Winston-Salem	58,345,728	27,522,622	32
Cincinnati	21,536,180	7,250,908	25
Indianapolis	28,190,327	5,041,394	15
Chicago	50,870,359	11,286,272	18
Des Moines	23,649,519	6,768,530	22
Little Rock	20,941,976	5,849,365	22
Topeka	18,197,545	4,005,576	18
San Francisco	66,447,086	27,080,210	29
	$363,408,255	$111,839,401	24

The classes of loans and the types of underlying collateral at June 30, 1949 and 1948, were:

	June 30, 1949		*June 30, 1948*		*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 (note 1)	736	$192,087,376	798	$245,521,485	—62	—$53,434,109
Short-term—under section 10 (a) of the Act (note 1)	628	95,875,949	748	123,033,477	—120	—27,157,528
Short-term—under section 11 (g) (3) of the Act (note 2)	5	2,750,000	2	1,555,000	3	1,195,000
Total	1,228*	290,713,325	1,374*	370,109,962	—146*	—79,396,637
Unsecured advances:						
Short-term—under section 11 (g) (3) of the Act (note 2)	------	------------	6	510,000	—6	—510,000
Short-term—under section 11 (g) (4) of the Act (note 3)	592	72,694,930	761	104,627,694	—169	—31,932,764
Total	592	72,694,930	767	105,137,694	—175	—32,442,764
Total advances outstanding	1,665*	$363,408,255	1,911*	$475,247,656	—246*	—$111,839,401
Collateral:						
Unpaid balances of home mortgages		$564,646,010		$597,302,904		—$32,656,894
U. S. securities direct or guaranteed (at par)		78,202,300		119,035,300		—40,833,000
Other collateral permitted by regulations		3,642,218		2,995,849		646,369
Total face value of collateral		$646,490,528		$719,334,053		—$72,843,525
Total collateral value assigned by banks		$463,911,671		$523,139,882		—$59,228,211

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

[1]Advances to members upon security of home mortgages, obligations of the United States, or obligations fully guaranteed by the United States, subject to HLBB regulations.

[2]Advances, not to exceed one year, to members, subject to HLBB regulations.

[3]Unsecured advances, not to exceed one year, to members whose creditor liabilities (not including advances from home loan banks) do not exceed 5 percent of their net assets, subject to HLBB regulations.

In May 1949 HLBB resolved:

> That sums due within one year on any advance by a Federal Home Loan Bank to a member may be deemed investments in compliance with Section 124.2 (c) of the Regulations for the Federal Home Loan Bank System.

The effect of this resolution is to permit amounts due within one year on long-term advances to be considered "advances with a maturity of not to exceed one year" pursuant to section 11 (g) of the Act. In two banks (Cincinnati and Indianapolis) at the year end this interpretation was necessary to meet the requirements of the Act.

One borrower (Long Beach Federal Savings and Loan Association) was reported to be delinquent. This borrower was indebted to the San Francisco bank on notes totaling $6,300,000, plus interest at the rate of 2 percent from December 31, 1947. One of the notes for $2,300,000 matured in June 1948, the others in November 1948. The borrower has deposited cash in the amount of $1,385,554 and United States Treasury bonds of $5,300,000 with the Court Registry pending outcome of a suit brought by the borrower 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. The borrower seeks 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 and of Department of Justice attorneys, the action and claim have no validity, and the suit is being defended.

Interest earned on advances was $8,852,661 in 1949, an increase of $1,550,505 (21 percent) over the 1948 earnings. This increase was attributed mainly to an increase of approximately $61,133,000 in the average outstanding advances. The average interest rate earned on advances in 1949 was 2.04 percent; in 1948 it was 1.96 percent and in 1947, 1.89 percent.

MEMBERS' DEPOSITS

Deposits are accepted from members under terms and conditions prescribed by HLBB. The banks, by HLBB regulation, 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 HLBB being 1½ percent.

Members' deposits soared to unprecedented heights in 1949. The increase during the current fiscal year, $130,551,578 (132 percent) over the preceding year, was attributed to two principal factors: (1) the substantial growth in the shareholders' investment in the member institutions, and (2) the decline in the mortgage activity of the members.

Members' deposits fluctuate greatly from year to year as shown by the following tabulation. (Deposits of applicants for membership, a relatively unimportant item, are not included.)

Balances, June 30	*Time*	*Demand*	*Total*	*Increase (—decrease) from 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
1949	200, 163, 000	29, 139, 000	229, 302, 000	130, 494, 000

Of the total demand deposits of $29,139,000 in the 11 banks at June 30, 1949, one bank (New York) held $17,119,000 (59 percent). The New York bank maintains both a bank draft service and a money order system for the benefit of its member institutions payable against their demand deposit accounts.

The Act places restrictions on the use of members' deposits by the banks. Before July 1948 the regulations of HLBB, in accordance with authority granted in section 11 (g) of the Act, required that 25 percent of these deposits be kept in cash and Treasury bills and the remaining 75 percent in cash, Treasury bills, certificates of indebtedness, Treasury notes, Treasury bonds eligible for purchase by commercial banks, or short-term advances to members. In July 1948, when a new liquidity policy was established by action of HLBB (see p. 5), the regulations limiting the use of funds provided by members' deposits were superseded.

Interest paid on members' deposits by the 11 banks aggregated $1,517,415 during 1949, an increase of $945,467 from the preceding year.

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 Act authorizes the use of interbank deposits. The banks make these deposits from funds in excess of their current needs and from the proceeds, not immediately needed, of consolidated obligations. The rates of interest paid on such deposits ranged from 1.65 percent to 1.80 percent. The rates are fixed by HLBB at the average cost of all consolidated obligations outstanding. Interest paid on interbank deposits totaled $131,554 in 1949.

CONSOLIDATED OBLIGATIONS

Consolidated obligations are the joint and several liabilities of the eleven Federal home loan banks; they are not guaranteed by the Government as to either principal or interest. Consolidated bonds, designated consolidated notes because they mature in one year or less, were the only type of obligations outstanding at June 30, 1949.

Pursuant to the requirements of the Government Corporation Control Act, all bonds, notes, debentures, and similar obligations 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 Act at five times the total paid-in capital of all the banks as of the time of issuance. Consolidated bonds may be issued upon such terms and conditions as HLBB may prescribe when there are no debentures outstanding. However, there is no statutory limitation on the amount of bonds that may be outstanding at any one time. 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 required under section 16 of the Act. This compares with the statutory lending limitation in section 10 (c) of the Act which states that advances to any member shall not exceed 12 times the amounts paid in by such member for capital stock of the bank. The paid-in capital stock under the HLBB regulation includes the Government's investment as well as the members' stock—at June 30, 1949, $102,492,700 and $128,597,875, respectively. Consolidated notes of $278,000,000 (including those held by individual banks) outstanding at June 30, 1949, were well within the limitation ($2,925,004,000) established by HLBB. In order to assure payment of the notes, HLBB regulations 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 consolidated notes outstanding. At June 30, 1949, the total of the assets so held was $672,988,750.

During the year under review the consolidated notes of $306,500,000 outstanding at June 30, 1948, were redeemed, $278,000,000 of notes were issued, and $20,450,000 of the notes issued during the year were purchased before maturity. Thus the liability for outstanding consolidated notes was reduced $48,950,000. The transactions for the year, at face value, are summarized by issues:

	Outstanding June 30, 1948	*Issued*	*Redeemed*	*Outstanding June 30, 1949*
Series A-1948, 1¼% dated September 15, 1947, due September 15, 1948	$85,000,000		$85,000,000 [1]	
Series A-1949, 1¾% dated January 20, 1948, due January 20, 1949	97,000,000		97,000,000 [2]	
Series B-1949, 1⅝% dated April 15, 1948, due April 15, 1949	84,500,000		84,500,000	
Series C-1948, 1.45% dated June 10, 1948, due July 22, 1948	40,000,000		40,000,000 [1]	
Series C-1949, 1.65% dated July 22, 1948, due July 22, 1949		$115,000,000	14,450,000 [3]	$100,550,000
Series D-1949, 1¾% dated September 15, 1948, due September 15, 1949		120,000,000	3,725,000 [3]	116,275,000
Series A-1950, 1⅝% dated January 20, 1949, due January 20, 1950		43,000,000 [1]	2,275,000 [3]	40,725,000
	$306,500,000	$278,000,000	$326,950,000	$257,550,000

[1] Refunded.
[2] Retired $54,000,000; refunded $43,000,000.
[3] Purchased in open market before maturity and held by the banks at June 30, 1949, but not retired.

After June 30, 1949, the banks retired $71,500,000 and refunded $163,500,000. Of the issue due July 22, 1949, the banks retired $63,500,000 and refunded $51,500,000 through a short-term issue due September 15, 1949. Of the issues due September 15, 1949, the banks retired $8,000,000 and refunded the balance.

The cost (interest paid, concession on notes sold, and expenses of the office of the fiscal agent) of borrowed money was $6,358,853 compared with $3,725,301 in 1948. Of the increase of $2,633,552, approximately $1,673,000 resulted from a rise of $110,372,000 in the average outstanding notes during the fiscal year, $938,000 reflected the increase in average interest rates from 1.52 percent in 1948 to 1.78 percent in 1949, and $23,000 resulted from the amortization of premiums paid on notes purchased before maturity.

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.[1] At June 30, 1949, the Government's interest in the banks' capital stock was $102,492,700 (44 percent), a decrease of $17,298,500 during the year. This represents retirements of Government stock in seven of the banks, including complete retirement of the Government's interest in the Indianapolis bank. The law provides[2] 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. An amount of $3,567,300 was retired pursuant to the requirements of the Act, and an additional $13,731,200 was voluntarily retired.

[1] 15 U. S. C. 606 note.
[2] Section 6 (g) of the Act.

The members' investment in the capital stock rose to $128,597,875 at the year end resulting from:

Capital paid in	$19,332,675
Less retirement of members' capital stock under section 6 (c) of the Act	3,908,200
Increase in members' investment in 1949	$15,424,475

The banks have complied with section 11 (g) of the Act which requires that an amount equal to the total of the members' capital stock and 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 HLBB.

Surplus increased $1,241,578 during the fiscal year and amounted to $26,396,059 at June 30, 1949. 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, 1949		$4,435,655
Less:		
Dividends	$3,147,538	
Contribution to pension fund for prior service payments	46,539	3,194,077
Increase in surplus		$1,241,578
Distributed to:		
Legal reserve		$887,131
Contingency reserve		491,082
Undivided profits		−136,635
Total distribution		$1,241,578

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.[1] This requirement was met by all the banks.

Eight of the banks have voluntarily established reserves for contingencies aggregating $4,779,143 at June 30, 1949. 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. HLBB requires that the reserve for 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 amounted to $3,147,538 in 1949 compared with $3,080,966 in 1948. Dividend rates ranged from 1 to 2 percent during the fiscal year 1949. The Cincinnati bank increased its dividend rate from 1¾ percent to 2 percent for the six months ended June 30, 1949. The Topeka bank reduced its dividend rate from 2 to 1 percent for the six months ended June 30, 1949, after increasing it 1 percent for the six months ended December 31, 1948.

[1] Section 16 of the Act.

OPERATIONS

Although gross income of the banks increased $3,192,735 in 1949 to a total of $13,981,923, total expenses increased $3,738,941 to $9,546,268. Thus the net income for the period decreased $546,206 to $4,435,655. The increase in direct expense of open market financing was the principal reason for this change, requiring 46 percent of total operating income in 1949 compared with 36 percent in 1948.

The results of operations, by banks, for 1949 were:

Bank	*Total operating income*	*Total expenses*	*Other income*	*Net income*	*Percent of net income to net worth at June 30, 1949*
Boston	$904,223	$545,932	—$24	$358,267	1.5
New York	1,504,807	872,863	—1,116	630,828	2.0
Pittsburgh	1,098,436	777,537	294	321,193	1.4
Winston-Salem	1,980,496	1,574,193	46,364	452,667	1.8
Cincinnati	1,201,800	615,883	8,406	594,323	2.2
Indianapolis	1,231,014	871,272	16,746	376,488	2.7
Chicago	1,616,502	1,153,975	86,221	548,748	1.8
Des Moines	879,094	607,296	22,422	294,220	1.7
Little Rock	802,798	601,339	212	201,671	1.3
Topeka	759,693	536,655	139	223,177	1.6
San Francisco	2,043,484	1,610,092	681	434,073	1.3
Consolidated (after interbank eliminations)	13,801,578	9,546,268	180,345	4,435,655	1.7

Consolidated results of operations of the banks, by years since 1945, were:

Year ending June 30	*Gross income*	*Compensation and other bank expenses*	*Interest on deposits and debenture interest and expense*	*Net income*	*Dividends*
1945	$6,366,311	$1,313,288	$705,638	$4,347,385	$2,121,580
1946	6,880,613	1,357,774	856,697	4,666,142	2,385,147
1947	7,731,123	1,536,436	2,183,033	4,011,654	2,581,359
1948	10,789,188	1,502,456	4,304,871	4,981,861	3,080,966
1949	13,981,923	1,670,000	7,876,268	4,435,655	3,147,538

PART II—HOME LOAN BANK BOARD

PURPOSE AND FINANCING

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 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. HLBB supervises and regulates the activities of the Federal Home Loan Bank System, charters and supervises the activities of Federal savings and loan associations, and its members act as the board of directors of HOLC and FS&LIC.

The Home Loan Bank Board does not receive appropriated funds from the United States Treasury, but its administrative expenses (exclusive of Examining Division expenses which are classified as nonadministrative) are subject to annual limitation by the Congress. Except for costs of examining savings and loan associations, which are paid by the examined associations, HLBB expenses are allocated to and paid by FS&LIC, HOLC, and the 11 Federal home loan banks.

ORGANIZATION

The functions of the staff of HLBB were reorganized on January 1, 1949, to promote efficiency and establish more direct lines of authority. The principal change was the discontinuance of the Office of the Governor of the Federal Home Loan Bank System. The divisions of HLBB which had been responsible to the Office of the Governor became directly responsible to the Board or one of its members. Under the plan the Supervisory and Examining Divisions report directly to the Board, and the docket section was transferred to the Office of the Secretary. The new division of Federal home loan bank operations has assumed the functions of the comptroller and the billing unit formerly a part of the Examining Division. The review and analysis section was abolished and its functions were taken over by the Division of Federal Savings and Loan Operations. A budget officer was designated to plan and coordinate budget functions, formerly the responsibility of the assistant to the chairman of the Board.

Other organizational changes during the fiscal year 1949 include the transfer of the duplicating section and its personnel from HOLC to HLBB and the transfer of the bank examining personnel in the office of the comptroller to the office of the auditor; both changes were effective July 1, 1948. A description of the organization and management and an organization chart of HLBB at June 30, 1949, are presented in appendix B.

The staff of HLBB at June 30, 1949, numbered 420, an increase of 97 from June 30, 1948, which is explained below.

RESULTS OF OPERATIONS AND FINANCIAL POSITION

A significant phase of HLBB activity during the year was the expansion of its examining staff from 197 at June 30, 1948, to 275 at June 30, 1949. As a result, the number of examinations of insured Federal and state savings and loan associations in arrears was reduced from 746 to 234 during the year. In addition, HLBB chartered 17 Federal savings and loan associations during the year thus increasing the number in existence to 1,495 at June 30, 1949.

A comparison of expenses and assessments to the organizations supervised by HLBB for the last two fiscal years follows.

	Year ended June 30		Increase (−decrease)
	1949	1948	
Operating expenses:			
Salaries	$1,785,176	$1,455,644	$329,532
Travel	258,632	176,787	81,845
Other	108,707	98,589	10,118
Total operating expenses	2,152,515	1,731,020	421,495
Less miscellaneous income	1,022	1,241	−219
Net expense	2,151,493	1,729,779	421,714
Assessments to:			
Insured institutions for examination fees	1,428,274	897,172	531,102
Federal home loan banks	433,679	383,000	50,679
Federal Savings and Loan Insurance Corporation	175,172	168,430	6,742
Home Owners' Loan Corporation	110,418	115,533	−5,115
Other Government agencies for duplicating services	25,587	----------	25,587
Long Beach conservatorship	----------	62,540	−62,540
Total assessments	2,173,130	1,626,675	546,455
Excess of assessments over expense (−underassessments)	21,637	−103,104	124,741
Excessive assessments at beginning of fiscal year	273,135	387,239	−114,104
	294,772	284,135	10,637
Assessment credit applicable to prior years—Federal home loan banks	78,679	11,000	67,679
Excessive assessments at end of fiscal year	$216,093	$273,135	−$57,042

In the assessment by HLBB to FS&LIC for the fiscal year 1949, 50 percent ($47,500) of the salaries of the FS&LIC Operating Analysis Division was allowed as a deduction from the HLBB assessment. The same percentage will be used for fiscal year 1950. HLBB did not bear any part of this expense in 1948 even though the services were utilized by the Board. In the fiscal year 1947, 80 percent of the costs of the Operating Analysis Division were absorbed by HLBB. In the fiscal year 1951 it is contemplated that HLBB will not bear any of this expense. No adequate evaluation of the activities of the Operating Analysis Division based on the degree of benefit received by or the needs of the divisions using the services has been made before allocation of its costs. We recommended to the board of directors (HLBB) of FS&LIC in our 1949 audit report that a study of the Operating Analysis Division be made to determine the needs for the service and a fair and reasonable basis for the allocation of its expenses.

During the fiscal year 1949 HLBB charged the Federal home loan banks $98,560 for the cost of chartering and supervising Federal savings and loan associations. In the banking field similar costs are billed by the supervisory bodies to the individual commercial and savings banks. Also, state savings and loan associations have borne similar costs charged by the state supervisory bodies. In line with the customary practice for conducting such activities, we have suggested that HLBB consider the adoption of a plan whereby the costs of chartering and supervising be charged to and absorbed by the Federal savings and loan associations instead of the Federal home loan banks.

The act of July 3, 1948 (62 Stat. 1239), directed that the cost of examining savings and loan associations be classified as nonadministrative expense. The Bureau of the Budget limited such costs to $1,410,000, which was $6,339 more than the actual examining expenses.

The Government Corporations Appropriation Act, 1949 (62 Stat. 1189), placed a statutory limitation of $460,000 on administrative expenses; the actual expense was $22,323 less than this maximum.

The following summary shows the financial position of HLBB at June 30, 1949 and 1948, and the changes resulting from operations during the fiscal year 1949.

Assets	*June 30* 1949	*June 30* 1948	*Increase (—decrease)*
Cash	$115,204	$173,884	—$58,680
Accounts receivable:			
Insured institutions for examining fees	146,300	120,660	25,640
Government agencies	6,669	674	5,995
Long Beach Federal Savings and Loan Association	89,781	89,766	15
Other assets		421	—421
	$357,954	$385,405	—$27,451
Liabilities			
Accounts payable and accrued liabilities	$141,861	$112,270	$29,591
Excessive assessments against Federal home loan banks, less Examining Division deficits	216,093	273,135	—57,042
	$357,954	$385,405	—$27,451

The estimated liability for employees' accumulated annual leave, approximately $371,000 and $306,000 at June 30, 1949 and 1948, respectively, is not included in the above statement. In our opinion, the liability should be recorded in the accounting records of HLBB and shown in its financial statements in the amount estimated to be payable.

Following is a summary of the sources of funds and their application from inception of the Federal Home Loan Bank Board in 1932 to June 30, 1949.

Funds provided by:	
Assessments:	
Federal home loan banks	$5,108,728
Federal Savings and Loan Insurance Corporation	1,899,283
Home Owners' Loan Corporation	2,167,623
Fees received by Examining Division of HLBB	12,313,517
Appropriations from U. S. Treasury for:	
Federal savings and loan promotion fund	110,089
Establishment of the Federal Home Loan Bank System	223,407
Miscellaneous income, including $158,342 charged to Long Beach Federal Savings and Loan Association conservatorship	200,942
Total funds provided	$22,023,589
Funds applied to:	
Operating expense	$21,807,496
Working capital	216,093
Total funds applied	$22,023,589

The working capital was derived from excessive assessments against the Federal home loan banks, less deficits incurred by the Examining Division:

Federal home loan banks:		
Assessments made	$5,108,728	
Expenses allocated	4,719,338	
Excessive assessments		$389,390
Examining Division:		
Expenses allocated	12,486,814	
Fees received	12,313,517	
Deficit		173,297
Net excessive assessments represented by working capital		$216,093

HLBB considered our recommendation made in previous audit reports to return the excessive assessments to the banks and in January 1949 allowed a credit of $78,679 against their 1949 assessments. HLBB plans to make additional refunds to the banks when it considers conditions are appropriate.

Recommendations to the Congress

1. *Reorganization of Home Loan Bank Board*

On October 14, 1949, an overall plan for centralization of Government housing functions into a Housing and Home Finance Corporation was submitted by the Comptroller General to the Government Operations Subcommittee of the House Committee on Expenditures in the Executive Departments at its request. Under this plan the Housing and Home Finance Agency would be incorporated, and the powers and functions now exercised by various housing agencies and activities would be transferred to it for coordination and general administration. As one of the present constituent units, HLBB would become an operating division of the proposed new corporation to supervise the functions of the Federal home loan banks. An additional function of this division would be the operation of a secondary market for FHA and VA mortgages through the Federal home loan banks. The operation of a secondary market is at present the responsibility of Federal National Mortgage Association, a subsidiary of RFC. Banks, insurance companies, and building and loan associations have constituted 95 percent of the market for FHA and VA mortgages. HLBB through the Federal home loan banks is the logical buying and distribution channel for the mortgages, and it would act as agent for a Home Owners' Mortgage Division (proposed under the reorganization plan as successor to Home Owners' Loan Corporation), which would have the function of owning and servicing all home mortgages owned by the Government. The functions of HLBB with respect to Federal Savings and Loan Insurance Corporation and Home Owners' Loan Corporation would be relocated.

2. *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 the revenues (exclusive of reimbursements for examinations of savings and loan associations) are obtained from Government corporations and no appropriations are received from the United States Treasury.

We recommend that title I of the Government Corporation Control Act be amended to include the Home Loan Bank Board.[1]

3. *Services and benefits furnished without cost by the Government*

Generally accepted accounting principles and sound business practices dictate that all items of income and expense of a business enterprise should be included in its accounts and financial statements. Although HLBB may not be termed a business enterprise, its expenses are borne by such enterprises through assessments and fees for services provided by HLBB calculated to reimburse HLBB for its cost. Under the present law, however, the Government furnishes certain services and benefits to HLBB without charge. While the cost is, of course, included in the expense of Government as a whole, it is paid by other agencies. Consequently, the accounts of HLBB do not include corresponding items of expense, the assessments and fees levied against the constituent agencies and private associations do not include such costs, and the financial statements do not fully disclose the results of its operations. Among these costs are rent, employees' retirement and compensation benefits, and Department of Justice legal services.

We believe it to be not only desirable but practicable to require that the Board's financial picture be completed through actual payment of the costs involved and that the fees and assessments collected from its constituent units be calculated to reimburse the Board for these actual costs. Not only may it be inferred from the organic law that the full cost of the Board's activities are to be absorbed by the institutions under its jurisdiction, but the above costs are readily obtainable and could be so recovered.

Recommendations to the Management

There are no new recommendations considered to be of sufficient importance to warrant inclusion in this report. Certain of our recommendations have been adopted, and others are being considered by the management.

Compliance

The scope of our examination is set forth below. During the examination we observed no program, expenditure, or financial transaction, which, in our opinion, was carried on or made without authority of law. In significant matters, our opinion is based on decisions of the Comptroller General and advices from his General Counsel. Comparatively inconsequential errors arising in the routine conduct of the affairs of HLBB have been or are in process of being corrected.

All disbursements were subject to settlement and adjustment 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 have been audited through April 1949 and that no material amount of exceptions was outstanding.

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

Scope of Audit and Opinion

We have examined the balance sheet of the Home Loan Bank Board as of June 30, 1949, and the related statements of expenses and assessments for the year then ended. We have reviewed the system of internal control and the accounting procedures, 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 included all auditing procedures which we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and the related statement of expenses and assessments, including the explanatory notes, present fairly the financial position of the Home Loan Bank Board at June 30, 1949, and the results of its operations for the 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

66228—50——4

EXHIBIT 1

HOME LOAN BANK BOARD

COMPARATIVE BALANCE SHEET—JUNE 30, 1949 AND 1948

	June 30	
ASSETS	*1949*	*1948*
CASH	$115,204	$173,884
ACCOUNTS RECEIVABLE:		
Insured institutions for examining fees	146,300	120,660
Government agencies	6,669	674
Long Beach Federal Savings and Loan Association (note 1)	89,781	89,766
FIXED ASSETS:		
Furniture, fixtures, and equipment at cost, June 30, 1949, $167,813; June 30, 1948, $111,061—less 100 percent depreciation	----------	----------
OTHER ASSETS	----------	421
	$357,954	$385,405
LIABILITIES		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES:		
Due Government agencies:		
Housing and Home Finance Agency and affiliates	$5,283	$17,366
Other	58,734	46,311
Accrued salaries	31,885	17,721
Other payables	45,959	30,872
EXCESSIVE ASSESSMENTS made against Federal home loan banks, less deficits incurred by the Examining Division (exhibit 2)	216,093	273,135
	$357,954	$385,405

The notes on page 40 are an integral part of this statement.

EXHIBIT 2

HOME LOAN BANK BOARD

COMPARATIVE STATEMENT OF EXPENSES AND ASSESSMENTS

For the Years Ended June 30, 1949 and 1948

	Year ended June 30		Increase (—decrease)
	1949	1948	
Operating expenses:			
Salaries (schedule 1)	$1,785,176	$1,455,644	$329,532
Travel	258,632	176,787	81,845
Transportation of things	968	1,282	—314
Communications	17,071	24,287	—7,216
Rents and utilities	32,888	36,398	—3,510
Printing and binding	5,049	5,970	—921
Other contractual services	5,582	23,655	—18,073
Supplies and materials	36,135	5,559	30,576
Equipment	11,014	363	10,651
Housing and Home Finance Agency		1,075	—1,075
Total operating expenses	2,152,515	1,731,020	421,495
Less miscellaneous income	1,022	1,241	—219
Net expense	2,151,493	1,729,779	421,714
Assessments to:			
Insured institutions for examination fees	1,428,274	897,172	531,102
Federal home loan banks	433,679	383,000	50,679
Federal Savings and Loan Insurance Corporation	175,172	168,430	6,742
Home Owners' Loan Corporation	110,418	115,533	—5,115
Other Government agencies for duplicating services	25,587		25,587
Long Beach conservatorship		62,540	—62,540
Total assessments	2,173,130	1,626,675	546,455
Excess of assessments over expenses (—underassessment)	21,637	—103,104	124,741
Excessive assessments at beginning of fiscal year	273,135	387,239	—114,104
	294,772	284,135	10,637
Assessment credit applicable to prior years—Federal home loan banks	78,679	11,000	67,679
Excessive assessments at end of fiscal year (exhibit 1)	$216,093	$273,135	—$57,042

The notes on page 40 are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

1. 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, Home Loan Bank Board, Federal Savings and Loan Insurance Corporation, and others, and a claim has been made on behalf of the Long Beach Federal Savings and Loan Association seeking substantial damages. In the opinion of general counsel of HLBB and FS&LIC, and of Department of Justice attorneys, the action and claim have no validity, and the suit is being defended.

2. The estimated liability for employees' accumulated annual leave is approximately $371,000 and $306,000 at June 30, 1949 and 1948, respectively.

3. Certain costs normally chargeable to operations have not been included as operating costs nor reflected in the balance of excessive assessments at June 30, 1949, because HLBB is not required by law to pay such costs. These costs, which are borne by the Government, include rent, postage, contributions to the civil service retirement and disability fund and the Federal employees' compensation fund for the Government's share of the cost applicable to HLBB employees, and legal services rendered by the Department of Justice.

EXHIBIT 3

HOME LOAN BANK BOARD

STATEMENT OF EXCESSIVE ASSESSMENTS, BY YEARS

From Inception to June 30, 1949

(Based on information received from HLBB)

Year ended June 30	Total assessments (note 1)	Total expense (notes 1 and 2)	Excessive assessments	Analysis of excessive assessments: Examining Division (note 3)			Federal home loan banks		
				Income	Expense	Deficit	Assessments	Expense	Balance of excessive assessments
1933	$223,407	$223,407(4)	------	------	------	------	------	------	------
1934	455,758	403,457	$52,301	------	------	------	$266,373	$214,072	$52,301
1935	589,382	544,513	44,869	$151,757	$151,757	------	231,358	186,489	44,869
1936	930,238	822,887	107,351	336,803	336,803	------	296,994	189,643	107,351
1937	1,140,896	1,074,872	66,024	563,000	563,000	------	232,003	165,979	66,024
1938	1,214,385	1,120,894	93,491	740,776	740,776	------	150,000	56,509	93,491
1939	1,105,888	1,121,062	−15,174	668,426	668,426	------	225,000	210,174	−15,174
1940	1,304,521	1,286,703	17,818	735,028	735,028	------	300,000	282,182	17,818
1941	1,487,170	1,345,447	141,723	917,955	917,955	------	300,000	158,277	141,723
1942	1,503,888	1,462,434	41,454	1,007,954	1,007,954	------	300,000	258,546	41,454
1943	1,351,859	1,311,607	40,252	911,566	911,566	------	300,000	259,748	40,252
1944	1,410,354	1,535,388	−125,034	958,657	963,812	$5,155	350,000	469,879	−119,879
1945	1,795,146	1,810,112	−14,966	971,942	991,699	19,757	450,000	445,209	4,791
1946	1,793,773	1,820,181	−26,408	958,707	977,924	19,217	450,000	457,191	−7,191
1947	2,001,542	2,038,004	−36,462	1,065,500	1,115,225	49,725	530,000	516,737	13,263
1948	1,616,916	1,731,020	−114,104	897,172	1,001,228	104,056	372,000	382,048	−10,048
1949	2,095,473	2,152,515	−57,042	1,428,274	1,403,661	−24,613	355,000	436,655	−81,655
Total	$22,023,589	$21,807,496	$216,093	$12,313,517	$12,486,814	$173,207	$5,108,728	$4,719,338	$389,390

NOTES:

1. Assessments equaled expenses for both HOLC and FS&LIC and are included here (HOLC, $2,167,623; FS&LIC, $1,899,283). Also included in assessments and expenses are appropriations which were fully expended aggregating $333,496 and other miscellaneous expenses which are fully reimbursed aggregating $200,912.
2. Includes $110,089 in the years 1934 to 1937 inclusive, representing the Federal savings and loan promotion fund which 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.
3. HLBB made a determination in the year 1949 that for the period from inception of the Examining Division in October 1934 to December 15, 1943, the income and the expenses of the Examining Division were equal in amount, and for the period after December 15, 1943, based on accounting records, the Examining Division had income, expenses, and deficit, as shown above.
4. 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.

SCHEDULE 1

HOME LOAN BANK BOARD

STATEMENT OF EXPENSES AND ASSESSMENTS AND THEIR ALLOCATION

For the Year Ended June 30, 1949

	Total expenses	*Examining Division*	*Duplicating Section*	*Federal home loan banks*	*Federal Savings and Loan Insurance Corporation*	*Home Owners' Loan Corporation*	*Other Government agencies*
OPERATING EXPENSES:							
Salaries:							
Office of HLBB Chairman	$25,361	$837		$11,036	$7,357	$6,131	
Office of HLBB members	40,423	1,334		17,590	11,727	9,772	
Assistant to the Board	18,139			8,162	5,442	4,535	
Assistant to the Board Chairman	15,866	2,107		6,191	4,128	3,440	
Budget Office	16,116	2,140		6,289	4,193	3,494	
Office of the Secretary	70,722	3,487		30,256	20,170	16,809	
Duplicating Section	44,610		$44,610				
Docket Section	14,100	1,410		8,756	3,934		
Office of Information	11,054			4,975	3,316	2,763	
Office of the Auditor	55,528			24,988	16,658	13,882	
Legal Department	116,260			52,317	34,878	29,065	
Personnel Department	32,928	7,185		11,584	7,723	6,436	
Supervisory Division	115,461	11,546		71,701	32,214		
FHLB Operations Division	105,803	21,977		83,826			
FS&L Operations Division	26,859			26,859			
Office of the Governor	6,240	676		5,564			
Examining Division	1,060,706	1,060,257			449		
Total salaries (exhibit 2)	1,785,176	1,121,956	44,610	370,094	152,189	96,327	
Travel	258,632	228,670		29,946		16	
Transportation of things (—reduction)	968	957		—19	16	14	
Communications	17,071	2,632	118	8,782	3,021	2,518	
Rents and utilities	32,888	32,888					
Printing and binding	5,049	3		2,226	1,538	1,282	
Other contractual services	5,582	500	493	2,526	1,199	864	
Supplies and materials	36,135	6,809	21,726	3,160	2,955	1,485	
Equipment	11,014	1,630	2,000	7,384			
Duplicating Section:							
Direct charges (—reduction)		7,616	—49,968		11,308	5,457	$25,587
Allocated charges (—reduction)			—18,979	13,578	2,946	2,455	
Total operating expenses	2,152,515	1,403,661		437,677	175,172	110,418	25,587
LESS MISCELLANEOUS INCOME	1,022			1,022			
Net expense	2,151,493	1,403,661		436,655	175,172	110,418	25,587

Assessments to:							
Insured institutions for examination fees	1,428,274	1,428,274					
Assessments against Federal home loan banks	433,679			433,679			
Federal Savings and Loan Insurance Corporation	175,172				175,172		
Home Owners' Loan Corporation	110,418					110,418	
Other Government agencies for duplicating services	25,587						25,587
Total assessments	2,173,130	1,428,274		433,679	175,172	110,418	25,587
Excess of Assessments Over Expense (−Underassessments)	$21,637	$24,613		−$2,976			

General Comments

EXAMINATION FEES

The Examining Division of HLBB examines insured institutions (Federal and state) and such other institutions, including applicants for insurance, as HLBB 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 HLBB.

The examination fees receivable of $146,300 are all considered to be collectible.

The per diem rates for examinations were changed effective August 11, 1948, from $31 for senior examiners and $26 for assistants to a single rate of $30; and effective July 1, 1949, the single rate was increased to $34. The financial results of the operations of the Examining Division during the last four fiscal years were:

Year ended June 30	*Expenses*	*Examination fees*	*Net income (−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
1949	1,403,661	1,428,274	24,613
	$4,498,038	$4,349,653	−$148,385

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. 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.

LONG BEACH FEDERAL SAVINGS AND LOAN ASSOCIATION—CONSERVATORSHIP COSTS

The balance sheet of HLBB at June 30, 1949, shows the unpaid balance of $89,781 representing costs incurred in the conduct of the association's affairs while the association was in the 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 $158,342. 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 HLBB and of Department of Justice attorneys, the action and claim have no validity, and the suit is being defended.

EXCESSIVE ASSESSMENTS

Excessive assessments against the home loan banks have been reduced by the absorption of underassessments for several years and by the deficits sustained by the Examining Division through insufficient charges for examinations of savings and loan associations. 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 funds derived from the excessive assessments are primarily used for working capital of HLBB and to finance the receivables for examination fees due from the savings and loan associations. In our opinion the Examining Division deficits should be charged against the Federal Savings and Loan Insurance Corporation.[1] The function of examining insured institutions is the responsibility of FS&LIC by law (12 U. S. C. 1726 (b)) and therefore should be operated and financed by that Corporation.

The auditor and the comptroller of HLBB, at our request, have analyzed the amount representing the excessive assessment to determine the ownership of the funds. The accounting records, from inception of the Examining Division in October 1934 to December 15, 1943, showed only direct expenses. No indirect or allocated charges for services performed by other divisions or offices of HLBB for the benefit of the Examining Division were charged. It was impracticable to determine by means of accounting data what the additional costs should have been. HLBB has made an administrative determination that for this period the Examining Division's income equaled expenses. From December 16, 1943, through June 30, 1949, all direct and indirect costs of the Examining Division were accumulated. As a result of the determination for the period from October 1934 to December 15, 1943, and the subsequent accumulations, the excessive assessments at June 30, 1949, have been allocated by HLBB to:

Excessive assessments to the Federal home loan banks	$389,390
Less Examining Division deficit	173,297
Excessive assessment balance, June 30, 1949	$216,093

[1] In April 1949 HLBB decided that it would not make an assessment against FS&LIC for the Examining Division deficit.

The accumulated excessive assessments against the banks were reduced during the year 1949 by a credit of $78,679, allowed on their 1949 assessments, representing a partial distribution of the accumulated excess. The amount of the credit was determined by a study of the cash requirements of HLBB. Further distributions will be considered by HLBB depending on its cash position and other conditions. The Examining Division deficit was decreased during 1949 by $24,613 representing an excess of income over expenses of the division.

OPERATING EXPENSES

Expenses of HLBB were $2,152,515 for the fiscal year 1949, or $421,495 more than for the preceding year. Activity in the Examining Division increased so that the number of examinations in arrears was reduced from 746 at June 30, 1948, to 234 at June 30, 1949. Its personnel was enlarged by a net addition of 78, and its expenses, principally for salaries and travel, were $402,433 greater than in 1948. The expenses of the Duplicating Section, which was transferred from HOLC to HLBB at the beginning of the year, include $47,753 for services reimbursable from affiliated and other Government agencies. No comparable amount appeared in the expenses of prior years.

The salaries of the Operating Analysis Division of FS&LIC were absorbed by HLBB to the extent of approximately $47,500 representing 50 percent of such salaries. The same percentage will be used for fiscal year 1950. The costs of this division in the fiscal year 1947 were borne 80 percent by HLBB and 20 percent by FS&LIC; in 1948 FS&LIC absorbed the entire costs; in 1949, as stated above, they were divided equally; and in the fiscal year 1951 it is contemplated that FS&LIC will be charged with all such expenses. No evaluation of the activities of the Operating Analysis Division based on the degree of benefit received by or the needs of the divisions using its services has been made to justify the allocation of its costs.

SUPERVISION OF ASSOCIATIONS

Officers of the home loan banks, as agents for FS&LIC and 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. 45.) A partial offset to this deficiency is the existence in 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.

APPENDIX

FEDERAL HOME LOAN BANKS

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 12 district banks organized in October of 1932, 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 there were 11 district banks at June 30, 1949. The San Francisco bank continues to operate the Los Angeles and Portland banks as branches.

The home loan banks bear the names of the cities in which they are located. The regions over which they have jurisdiction are:

District	*Location of bank*	*Jurisdiction*
1	Boston, Massachusetts	Maine, Vermont, New Hampshire, Massachusetts, Connecticut, Rhode Island
2	New York City	New York, New Jersey, Puerto Rico, Virgin Islands
3	Pittsburgh, Pennsylvania	Delaware, Pennsylvania, West Virginia
4	Winston-Salem, North Carolina	Maryland, District of Columbia, Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama
5	Cincinnati, Ohio	Ohio, Kentucky, Tennessee
6	Indianapolis, Indiana	Michigan, Indiana
7	Chicago, Illinois	Wisconsin, Illinois
8	Des Moines, Iowa	North Dakota, South Dakota, Minnesota, Iowa, Missouri
9	Little Rock, Arkansas	Arkansas, Mississippi, Louisiana, Texas, New Mexico
10	Topeka, Kansas	Nebraska, Kansas, Oklahoma, Colorado
11	San Francisco, California	Montana, Washington, Oregon, Idaho, Utah, Wyoming, Alaska, California, Nevada, Arizona, Hawaii

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.

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 HLBB, and the other eight are elected by the member institutions 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, HLBB shall fill any position for which a nomination is required.

Although the management of each bank is vested in its board of directors, the board is subject, in all its acts, to the 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.

HOME LOAN BANK BOARD

ORGANIZATION AND MANAGEMENT

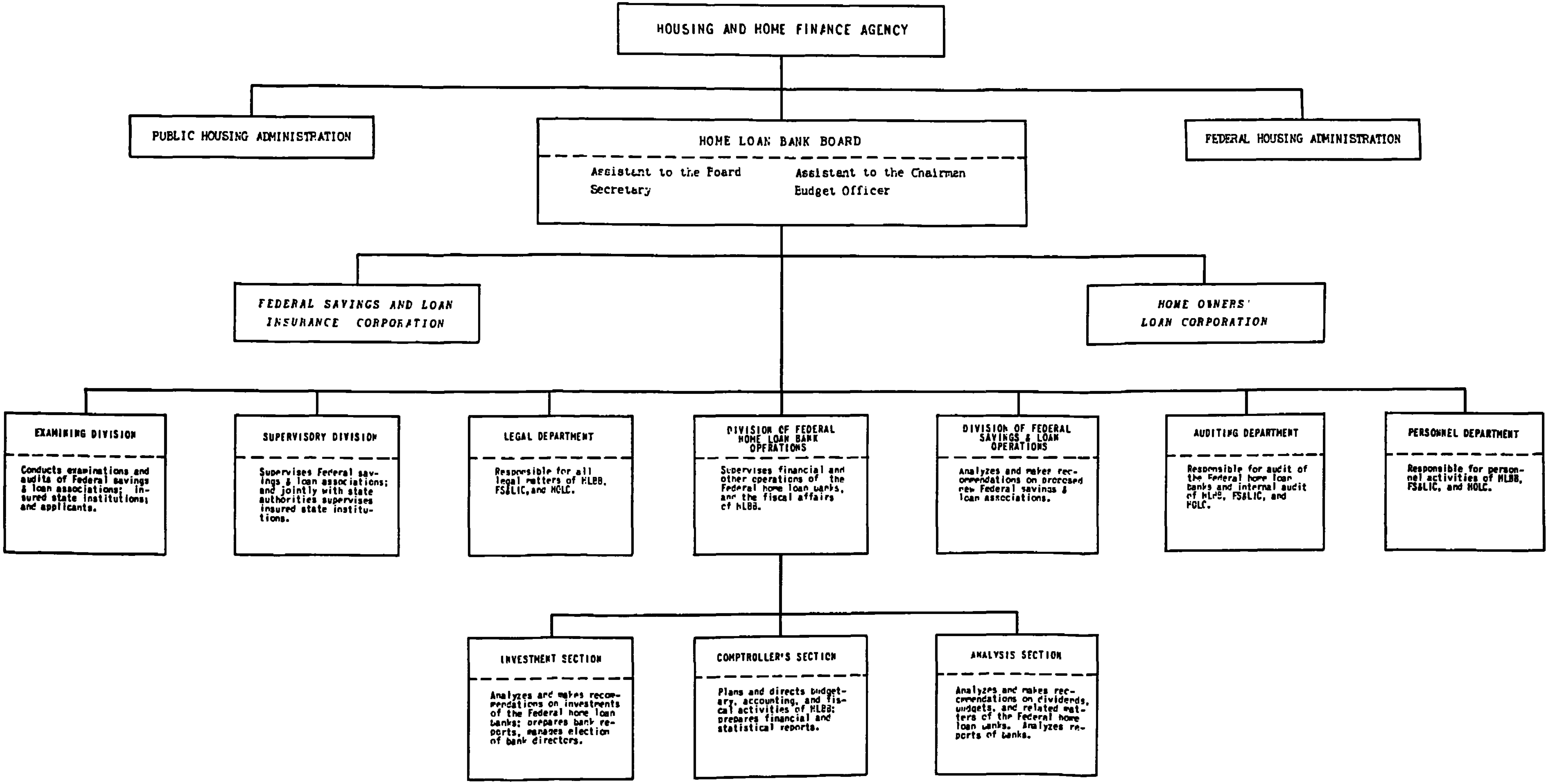
The Federal Home Loan Bank Act, in section 17 (12 U. S. C. 1437), provided for a Federal Home Loan Bank Board of five full-time members to be appointed by the President of the United States on a bipartisan basis, by and with the advice and consent of the Senate.

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 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 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.)

An organization chart showing the divisions and their functions appears on page 53. In addition to the secretary's responsibility of recording and preserving the official resolutions of the board, he has the functions of purchase and supply, providing communication facilities, and the maintenance of files and other records. The budget officer has the function of coordinating the budgets of HLBB, FS&LIC, and HOLC for submission to the Congress, Bureau of the Budget, and other interested agencies. The board has delegated authority to the respective division heads to carry out their assigned functions as indicated in the organization chart.

HOME LOAN BANK BOARD
Organization Chart
June 30, 1949



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