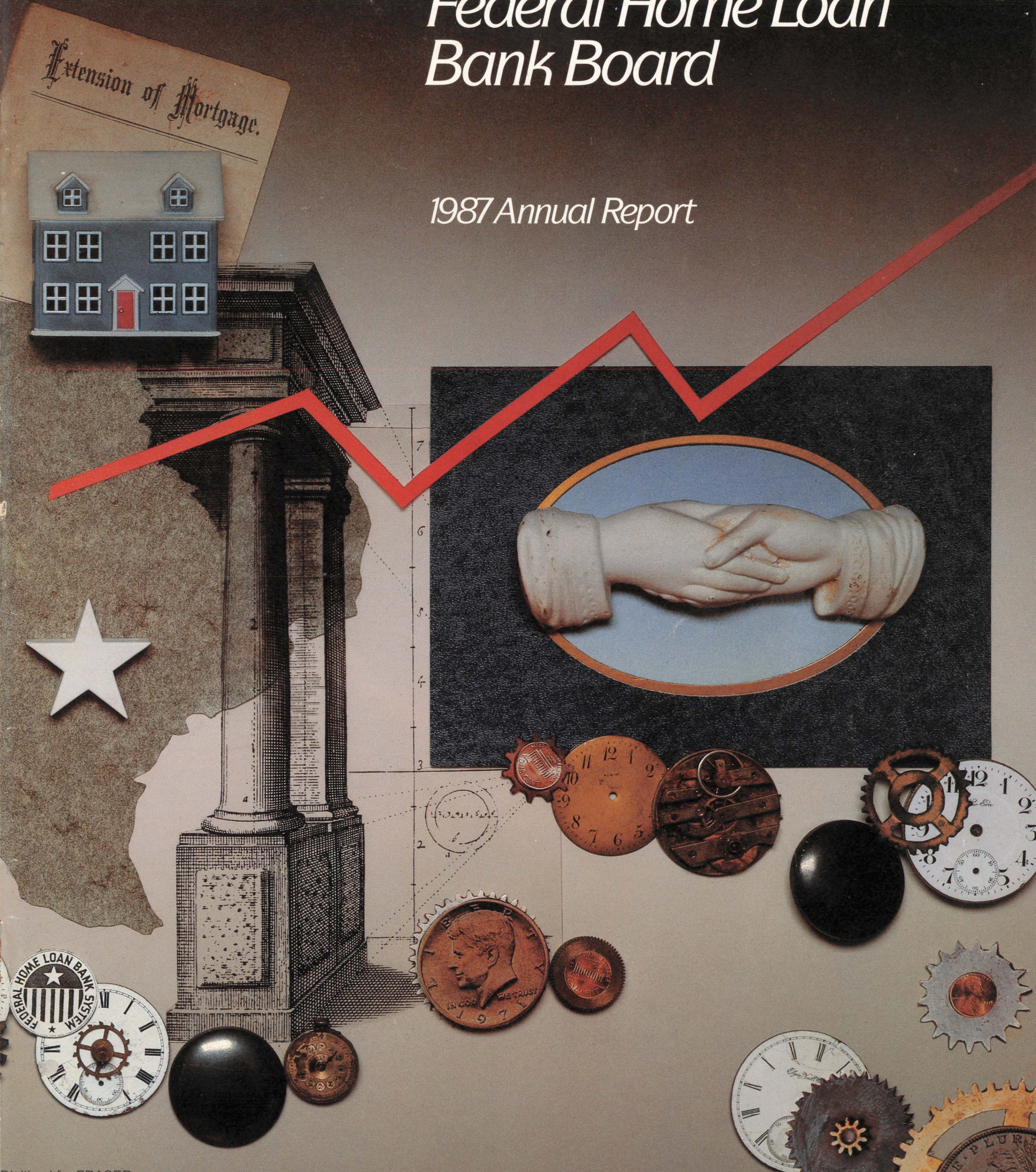
Federal Home Loan Bank Board

1987 Annual Report



Federal Home Loan Bank Board

1987 Annual Report

Washington, D.C.: 1988

KAY CHERNUSH

Federal Home Loan Bank Board Chairman M. Danny Wall (seated); Member Lawrence J. White (left), Member Roger F. Martin (right)

1700 G Street, N.W.
Washington, D.C. 20552

Federal Home Loan Bank Board

Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

July 15, 1988

President of the Senate
Speaker of the House of Representatives

Dear Sirs:

Pursuant to Section 20 of the Federal Home Loan Bank Act, we are pleased to submit the annual report of the Federal Home Loan Bank Board for the calendar year 1987.

The report covers the operations of the Federal Home Loan Bank Board, the Federal Home Loan Bank System, the Federal Savings and Loan Insurance Corporation, and the Financing Corporation.

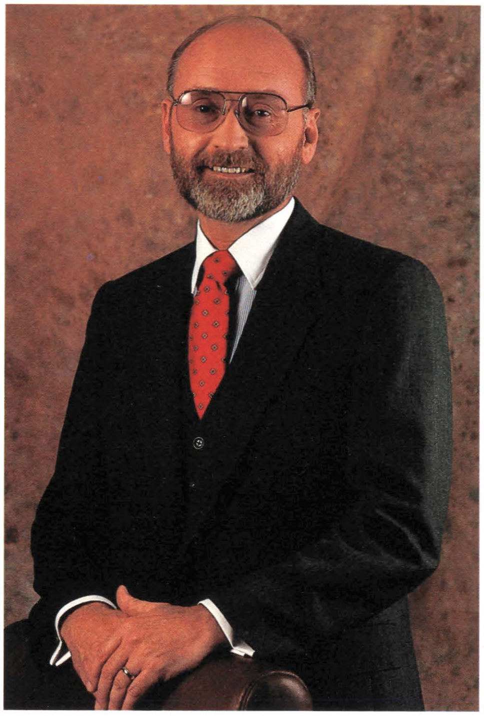
Respectfully,

M. Danny Wall
Chairman

Lawrence J. White
Member

Roger F. Martin
Member

Chairman's Report


KAY CHERNUSH

WE HAVE MADE IMPORTANT PROGRESS over the past year in our drive to restore the thrift industry to health.

With the enactment of the Competitive Equality Banking Act of 1987 (CEBA) by the Congress and its signing by President Reagan, the new Federal Home Loan Bank Board set its agenda. Priorities were to:

◆ Formulate and adopt the new regulations mandated by CEBA.

◆ Set up the mechanics for implementing the $10.825 billion bonding authority granted by CEBA to recapitalize the Federal Saving and Loan Insurance Corporation (FSLIC).

◆ Go to the bond market and start selling the bonds to raise cash for FSLIC.

◆ Set priorities for resolving troubled thrifts and then resolve them.

◆ Develop a plan, or strategy, for dealing with the complex problems in the Southwest, particularly in Texas, where insolvent thrifts and thrift assets are heavily concentrated.

◆ Strengthen the overall staff of the Bank Board, FSLIC and related units, especially in the areas of management, finance, thrift examination and supervision, enforcement and litigation.

◆ Reorder procedures to speed up processing of applications of all types and thereby eliminate delays that had been a major source of criticism.

◆ Use all of the Bank Board's resources to portray an accurate picture of the thrift industry and its problems and communicate that assessment to industry, Congress and the public.

That this was a full plate is an understatement. Nonetheless, we have accomplished a great deal since mid-1987 when Roger Martin and I joined incumbent Board Member Lawrence White to form the new Bank Board.

Well within the time allotted under CEBA, thanks to the diligence and dedication of the staff, we promulgated the new regulations. They deal with a variety of thrift financial matters, including capital requirements, accounting procedures, asset classification, appraisal policies, forbearance, thrift lending and troubled debt restructuring—seven in all.

We quickly organized the Financing Corporation to manage the FSLIC recap bond sale and put together an impressive selling group that included significant representation from minority dealers.

The first bond sale came only six weeks after the August 10 signing of CEBA into law. Despite its newness in the marketplace and the unfavorable condition of the bond market at the time, the first Financing Corporation (FICO) issue performed well. FSLIC recap was under way, and nearly $3 billion had been raised through June 30, 1988.

One of our duties is to spend that money, and, indeed, we are doing that. We set to work identifying the most egregiously troubled thrifts that could be marketed to potential acquirers and began the long process required to successfully negotiate buyer agreements. Courses of action to deal with other troubled thrifts were mapped out. We set a goal of resolving 20 institutions by year-end and did so.

The pace of resolution has gradually speeded up as additional bond proceeds replenished FSLIC's cash position, and we are determined to keep that acceleration continuing. One approach is to identify ailing thrifts that could be dealt with expeditiously, in a negotiating sense, and offer them for bid. A pilot program involving 20 such thrifts began in the summer of 1988, and our objective was to resolve most of them by early fall.

Late in the fall of 1987, we began the systematic analysis of the condition of the thrift industry in the Southwest and by early 1988 had our strategy ready. We call it the Southwest Plan. The heart of the plan is consolidation—combining the sick thrifts with others that bring in good management and, as often as possible, new capital.

There was an interlude between our decision on strategy and the first case resolution because of the complexities involved in negotiating these cases. Finally, in May, we carried out the first two consolidations, followed by another in June. Ten insolvent institutions were merged in these actions. An additional "traditional" merger also was carried out, bringing to 11 the number of Texas thrifts resolved in the first six months.

We expect to complete the Southwest Plan by the end of May 1989, and, in fact, our goal is to have resolved all of the approximately 250 worst-case thrifts by the end of the next calendar year. All of these institutions likely will require financial assistance from FSLIC for resolution of their problems.

We have the funds to accomplish our goal. The estimated cost of resolving the caseload thrifts stood at $17.4 billion at year-end 1987. The General Accounting Office (GAO), which is the Bank Board's official auditor, agreed with this figure.

Our estimate of cash inflow over the three-year period dating from the advent of CEBA is $20 billion. The sources of these funds include recap bonds, insurance premiums, the special assessment on the thrift industry and proceeds from the liquidation of assets held in FSLIC receiverships.

An additional group of about 250 thrifts is insolvent, under generally accepted accounting principles (GAAP), but less severely so. Our estimate to deal with these thrifts is $5.3 billion. The GAO, on the other hand, believes the cost of resolving these additional cases could add as much as $19 billion to the cost, or a total of $36 billion for the approximately 510 insolvent institutions, including those in the FSLIC caseload. We expect to have $42.5 billion in cash available over the next 10 years, including the $20 billion mentioned above, to deal with all of these problems.

Subsequent to the year-end estimates, we have learned from actual case resolutions in Texas that our costs are higher than anticipated. Therefore, we raised our cost estimate for the Southwest Plan from $7 billion to $15.2 billion, while retaining the estimate for cases outside Texas. At this time, we project that it will cost $30.9 billion to resolve all 510 thrifts. That is still within the GAO's peak estimate. We believe we can resolve all of these cases by the end of 1991.

Many factors will influence the long-term costs. The next Congress and the next President are expected to make their own assessment of the thrift situation. They will review the progress we will have made and what remains to be done, if anything, how much it might cost and how to pay for it. It is premature to talk about "taxpayer bail-outs" or any of the other proffered antidotes at this time.

In an important departure from the past, FSLIC is negotiating to gain back some value for its financial assistance to effect case resolutions. FSLIC is now routinely gaining an equity position and/or a share of the profits of the surviving thrift. It also receives a portion of the tax benefits derived from past losses of the failed institutions. In short, we share in the upside of a situation as well as the downside, which is FSLIC's by law.

While much of our attention must be focused on the problem side of the thrift equation, we are definitely not ignoring the positive side. Nearly 90 percent of the industry remains solvent, and two-thirds is profitable, although thrifts' profits have been dragged down by the huge losses of insolvent institutions mainly in Texas.

We are concerned about the pressures on the operating costs of the healthy thrifts from the high rates on deposits that troubled thrifts are paying. These rates have had a ripple effect throughout the industry and are the reason the Bank Board is striving to get these costs down through case resolution and "jawboning" of the most flagrant high-rate payers.

Early diagnosis of problems can avoid later insolvency, so a concerted effort that began back in mid-1985 to improve the examination and supervisory functions is continuing. The examination-supervisory staff has doubled in size since then, and salaries are more competitive so that we can attract and then retain people who have the expertise needed in today's financial environment. Considerable effort is going into thoroughly training these staffs in the new regulations affecting thrifts.

The new procedures for tracking applications are paying off. We experienced a 66 percent increase in applications processed in the second quarter this year compared with the first quarter. When the new guidelines became effective last October, 484 applications were pending in the pipeline. By June 30, 1988, only three were in the pipeline.

We are also expanding our legal staff so as to better manage our efforts to litigate those thrift operators whose greed and fraudulent schemes led their institutions to grief. While we are not pursuing directors and officers who made poor business judgments, we are suing to recover damages from those who ignored the regulations and sought only personal gain.

The FSLIC staff also has been bolstered. An executive director was appointed, the first in several years who was not an acting head, and he in turn reorganized the agency along realistic functional lines. He has brought in new management and staff with the expertise to work out the complicated agreements by which we resolve cases.

With the hard work and dedication of our staff, we have made important strides over the months since CEBA became law. We have, according to our calculations, sufficient resources to deal with the problems of the industry over the next few years. The problems are manageable. And in enacting CEBA, the Congress, in effect, gave its support to a continuation of the thrift industry as we know it. We believe there is a place for the thrift industry in today's financial world and tomorrow's.

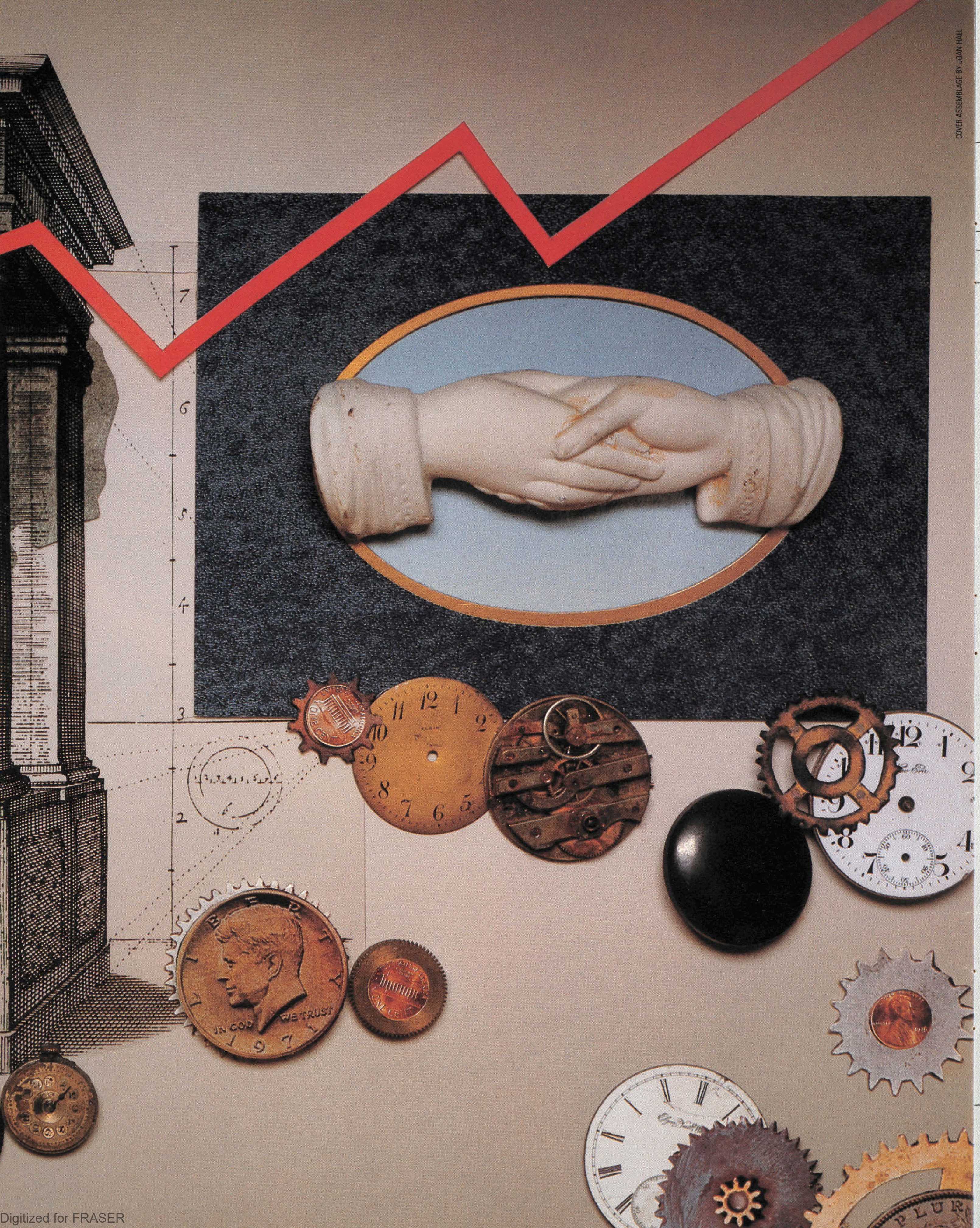
The Congress, the industry and the Bank Board were asked more than two years ago to deal with the industry's problems. A solution could not be agreed to until CEBA was passed in late summer of 1987. In the interim, the problems worsened. Now is not the time, however, to call for taxpayer bailouts, unification of FSLIC and the Federal Deposit Insurance Corporation (FDIC), or any of the other schemes being offered as panaceas to our problems.

What we need is time to carry out our plans. We have the human and financial resources to do the job. Given the time, we will make major strides in resolving the problems and restoring vitality to our industry. And with a little luck, we can complete the task in the time we have forecast.

M. Danny Wall

M. Danny Wall
Chairman
Federal Home Loan Bank Board

Contents



COVER ASSEMBLAGE BY JOAN HALL

The Thrift Industry

SINCE THE LATE 1970s, the thrift industry has operated under conditions of turmoil, both within and outside the industry.

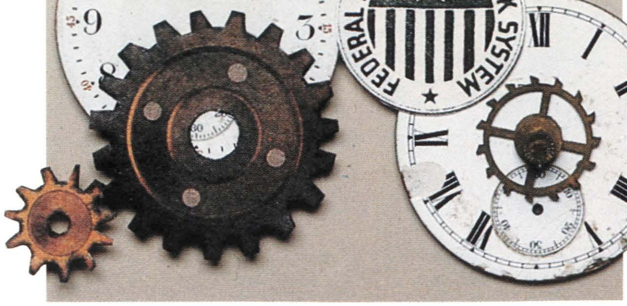
Deregulation of interest rates on deposits, but not on assets, took place in the late 1970s and through 1981. This, linked with the rising interest rates of the period, led to major losses. In short, to remain competitive with other fast-expanding financial institutions under these conditions, thrifts adjusted deposit rates more quickly than they could the rates they charged for loans and other services.

The Garn-St Germain Depository Institutions Act of 1982 was a notable effort to place thrifts back in competition with other financial institutions by modestly increasing the scope of their lending activities. At the same time, the law gave the Bank Board and the Federal Savings and Loan Insurance Corporation (FSLIC) new ability to cope with thrifts in serious difficulty, and empowered a new emergency program to aid those institutions that were in dire straits, but that had essentially sound operations.

The time needed to develop expertise in making these new types of loans and to restructure their assets could not be legislated. Yet, with the advent of rapidly rising oil and gas prices that boosted the economies of the oil and gas producing states to new heights, there was great pressure to keep pace with this new-found economic growth.

The drive to take advantage of opportunities led to ill-advised lending practices and outright speculation by many institutions, especially in states such as Texas, where deregulation was already law or soon became law by action of state legislatures. Soon, fraudulent operators and those who sought quick profits in an industry geared to long-range, steady growth and profit entered the picture.

The regulatory system of the time was poorly prepared for this new era at the state as well as the



federal level. The federal examination staff was centralized in Washington and suffered high turnover because of low salaries brought about by federal pay constraints and limitations on hiring that impeded expansion. This condition was not conducive to mastering the emerging intricacies of the savings and loan business.

Chart One

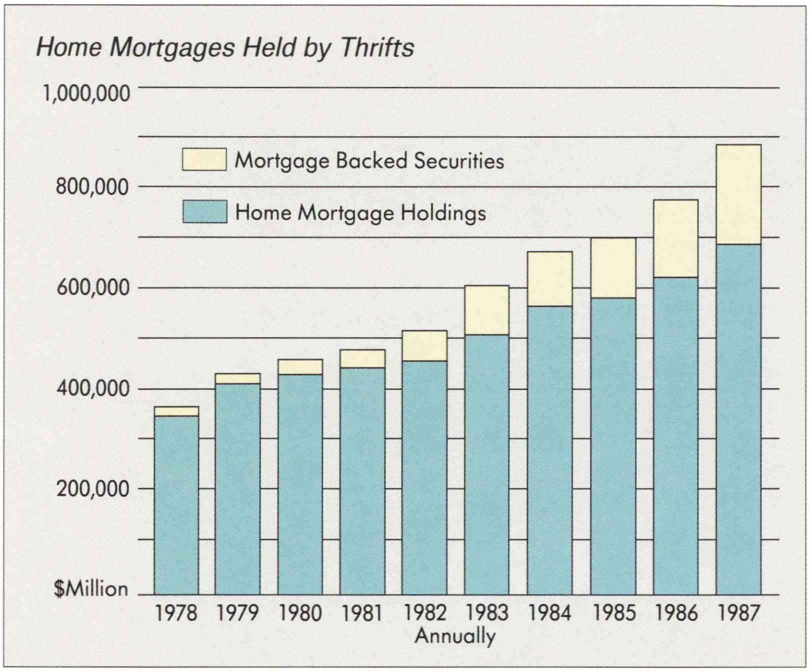
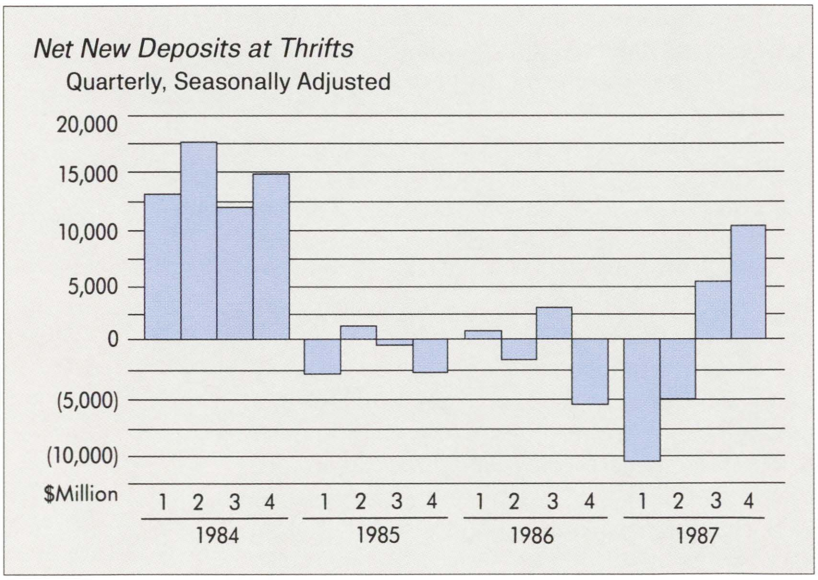


Chart Two



Thus, many factors contributed to the thrift industry's problems, the full extent of which has only become apparent in the last year.

The Federal Home Loan Bank Board in mid-1985 made a critical decision to move the examination and supervision function out of Washington to the 12 District Banks and out from under salary and hiring limitations. This was a significant milestone because a much larger, more professional staff is now in place to deal with current conditions and to prevent future problems.

Today, despite dire predictions by some about the future of the thrift industry, two-thirds of the institutions insured by the FSLIC are profitable and nearly 90 percent are solvent by regulatory accounting standards.

There are more than 3,100 institutions with $1.25 trillion in assets, and more than $900 billion in deposits in 110 million accounts. On average, approximately one in every three Americans has an account with a savings and loan association.

During 1987, thrifts continued to fulfill their primary function of helping Americans build and purchase their own homes. First, thrifts have originated two-fifths of the home mortgages written in the nation, a larger share than that of any other sector of the financial services industry. Despite a slight downturn in the number of originated home mortgage loans from the record of $265 billion of 1986, thrift institutions have maintained their key role in the origination process by producing an impressive $254 billion in home mortgage loans.

Second, and more important, thrift institutions have deepened their commitment to housing by continuing to augment their holdings of mortgage assets. Home mortgage holdings grew 10.5 percent in 1987. Moreover, thrifts provided capital for home buyers by sharply increasing purchases of mortgage backed securities by 26 percent (Chart One). In line with this enduring presence, thrift financing for multifamily residential units also rose above 1986 figures.

Finally, thrifts continued to support housing by expanding their lending for construction loans

on one-to-four-family units. Only in the depressed multifamily market did thrift lending weaken last year.

A measure of the confidence placed in the thrift industry may be seen in the flow of funds into savings and loans following the collapse of the stock market on October 19, 1987.

For the nine months preceding the fall, the sum of withdrawals outpaced deposits at thrifts on net by an average of $1.5 billion per month. Two factors appear to have been contributing to this—there was a very low savings rate as Americans were simply not saving their money. Second, households were putting a larger portion of their savings directly into market instruments and apparently into paying off existing debts.

October 1987 changed all of that. Americans were rudely reminded that equity investments can be risky. Savings accounts at federally insured institutions, on the other hand, do offer protection, having the full faith and credit of the United States Government behind them. Accordingly, Americans responded by depositing a torrent of savings (Chart Two). Net new deposits averaged $4.5 billion a month from October through April. The seven-month trend was reversed in May, but one month's result was not sufficient to indicate any new trend.

As statistics from thrifts have come in, it has been increasingly clear that the industry today has two distinct segments: institutions that are solvent and generally well-managed make up 90 percent of the industry; the remaining 10 percent are insolvent. The insolvent group seriously distorts aggregate data because of the massive losses, and, thus, reflects unfavorably on the whole.

Thrifts in the predominant healthy segment have generally taken action to restructure their investment portfolios as they recovered from the effects of the high interest rate environment of the early 1980s. It is worth noting that these thrifts were able to recover largely because they had dedicated, experienced management sensitive to their fiduciary responsibilities.

Their restructured investment portfolios attained a better maturity match between assets and liabilities, thus reducing the thrifts' exposure to the effects of dramatic fluctuations in interest rates. Careful underwriting helped many thrifts avoid the credit quality problems that plagued their less thoughtful peers. In short, the healthy segment of

Table One

Operating Highlights of FSLIC-Insured Institutions By Solvency Status
Dollar Amounts in Millions

All thrifts	1987	1986
Number	3,147	3,220
Total assets	$1,250,855	$1,163,851
Regulatory capital	$50,575	$52,509
Regulatory capital-to-assets ratio	4.05%	4.51%
Net operating income	$2,849	$4,562
Net nonoperating income	$(7,930)	$(1,290)
Taxes	$2,700	$5,141
Net income	$(7,780)	$131
Return on assets	(0.63%)	0.02%
Solvent		
Number	2,801	2,965
Total assets	$1,151,757	$1,095,673
Regulatory capital	$65,732	$60,101
Regulatory capital-to-assets ratio	5.70%	5.49%
Net operating income	$7,228	$7,510
Net nonoperating income	$(2,145)	$2,034
Taxes	$2,702	$3,159
Net income	$2,382	$6,385
Return on assets	0.21%	0.60%
Insolvent		
Number	346	255
Total assets	$99,098	$68,177
Regulatory capital	$(15,157)	$(7,592)
Regulatory capital-to-assets ratio	(15.29%)	(11.14%)
Net operating income	$(4,379)	$(2,948)
Net nonoperating income	$(5,785)	$(3,324)
Taxes	$(3)	$(18)
Net income	$(10,162)	$(6,253)
Return on assets	(11.90%)	(10.98%)

Note: Classifications based upon regulatory accounting principles.

the industry solidified its position in 1987, with the group's regulatory capital-to-assets rising from 5.49 percent in 1986 to 5.70 percent at the close of 1987 (Table One). Furthermore, the healthy thrifts turned a profit of $2.4 billion.

In contrast, the 10 percent of the thrift industry that is insolvent lost $10.2 billion in that same 12-month period, with the result that the industry had a net loss of $7.8 billion for 1987, compared with 1986 earnings of $131 million.

The institutions that produced these losses were concentrated in the energy and farm states, principally in the Dallas and Topeka districts of the Federal Home Loan Bank System. The Dallas District alone accounted for more than 60 percent of 1987 losses.

Table Two

Federal Home Loan Bank System Members: Summary of Membership Changes

Year	Total Members (Beginning of Period)	Consummated Mergers[a]	New Members	Terminations	Liquidations
1979	4,242	97	67	12	0
1980	4,250	103	109	12	0
1981	4,244	256	51	9	1
1982	4,029	499	46	20	1
1983	3,555	196	71	17	6
1984	3,407	74	88	11	9
1985	3,401	83	193	9	10
1986	3,492	79	111	5	21
1987	3,498	119	102	16	17
1988	3,447				

a. Institutions disappearing as a result of official mergers consummated during year, not merger application approvals. Includes voluntary, supervisory and FSLIC-assisted mergers.

A number of economic factors beyond the institutions' control, coupled in many cases with their own questionable investment practices, triggered their problems. A major downturn in oil and gas production precipitated by a softening in the world price of crude oil caused a severe economic reversal in the so-called "oil patch" areas. Economic distress felt by the farming sector also worked against thrifts. These developments, along with a sharp contraction in office building and multifamily residential construction nationally, caught many thrifts that had been imprudent with a plethora of bad loans and assets.

With the severe stress in those regional economies, the cost of funds began to rise, fueled by insolvent institutions competing for a finite number of dollars under unfavorable conditions. The situation is illustrated by the average cost of funds in the Dallas district. In the fourth quarter of 1987, it exceeded the national average by 47 basis points, and in the first quarter of 1988 it declined to 44 basis points over the national average.

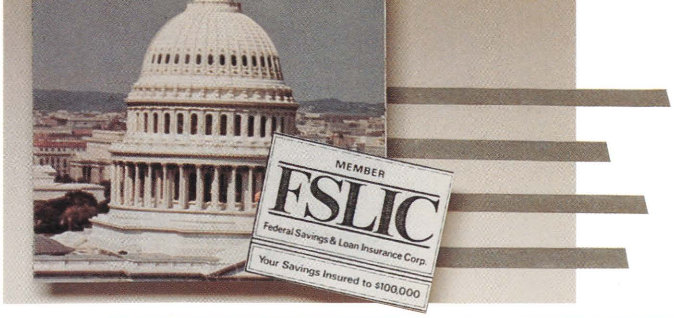
To address this challenging problem, the Board developed and recently began implementing the "Southwest Plan," which is a strategy for consolidating ailing thrifts with healthy ones, thereby reducing costs and restoring vitality to the industry without sacrificing service to the consumers.

The Bank System As A Credit Facility

DESPITE ALL OF THE PROBLEMS in the thrift industry, the Federal Home Loan Bank System continues to meet its mandate as the underpinning to the industry and a central credit source on which member thrifts can rely for advances (Table Two; Chart Three, Chart Four).

With assets of more than $154 billion, the 12 District Banks together represent the second largest bank in the nation and one of the strongest central credit facilities in the world today. In 1987, these institutions had a capital-to-assets ratio of 8.9 percent, turned a profit of more than $1.3 billion, and paid out more than $1 billion in cash and stock dividends to the individual member thrift institutions.

The District Banks can raise funds in capital markets by acting through their fiscal agent, the Office of Finance. These funds may then be advanced to member thrifts. In 1987, the office sold



$71.5 billion in consolidated bonds and discount notes of the Bank System. In addition to these public debt offerings, the system continues to draw upon global and alternative sources of funding and, thus, lowers the cost of funds to the thrift industry without increasing the Federal debt.

During 1987, the District Banks advanced loans to their member savings and loan institutions totaling $194.4 billion. This reflects a 22 percent growth of $24.4 billion in outstanding advances over the previous year.

Chart Three

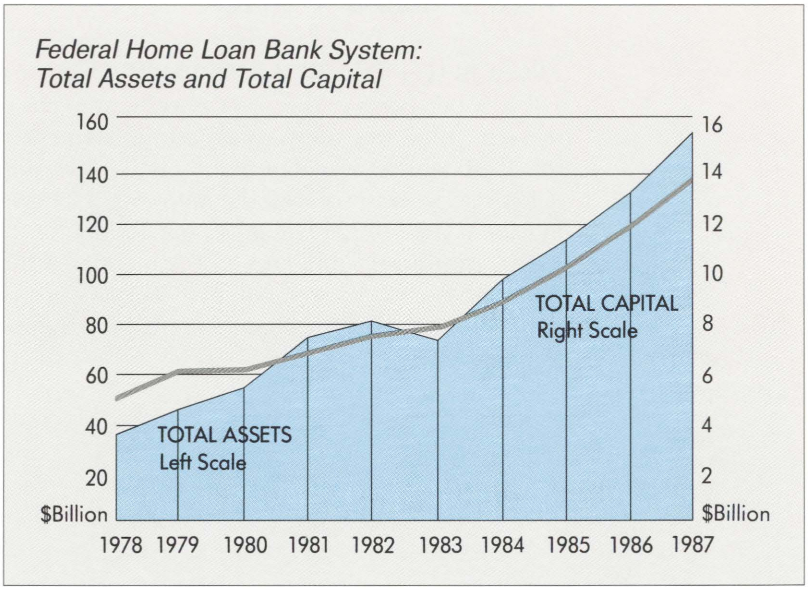
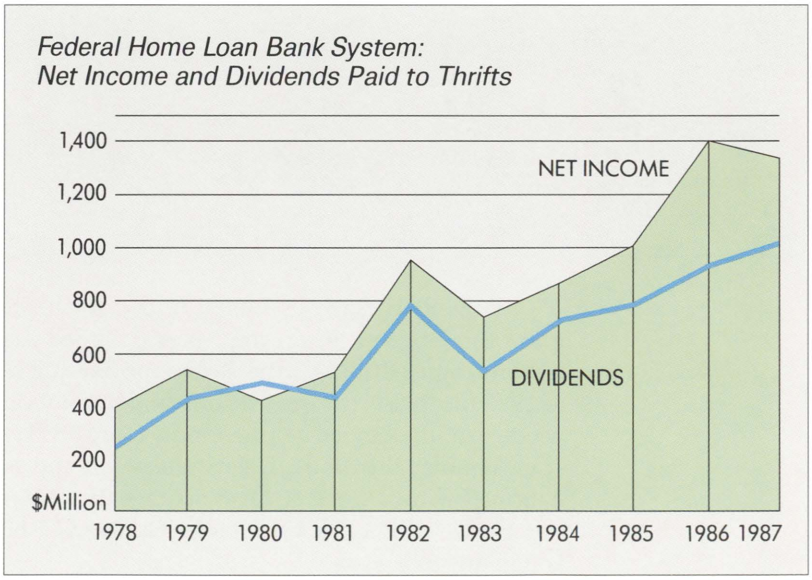


Chart Four



The Federal Savings and Loan Insurance Corporation

WITH THE STRUGGLE TO PASS CEBA completed and a new Bank Board seated, a priority task of the Board was to strengthen FSLIC (Table Three). It was clear that FSLIC needed more than just financial rebuilding, as its human capital had also suffered from the turbulence of the last few years.

Increasing the number of staff was one of the first orders of business to relieve the mounting burden of dealing with insolvent thrifts, including complex financial and legal ramifications of the central insolvency problem, and to restore morale. At the same time, a search began for a new top executive of FSLIC, which had been operating for two years under acting directors borrowed from their full-time positions at Federal Home Loan Banks.

The rebuilding was accomplished for the most part within a few months, and a new executive director, Stuart Root, was brought in. Root reorganized FSLIC along functional lines and installed a talented corps of deputy executive directors to oversee four functional areas and coordinate the drive to resolve insolvent cases. The expanded organization moved out of the Bank Board building into new quarters nearby.

The FSLIC Fund

FROM BOTH THE BOARD'S VIEWPOINT and FSLIC's perspective, the most important event of the year 1987 was the passage and enactment of the Competitive Equality Banking Act of 1987 (CEBA). The act provided the authority for bringing about the $10.825 billion recapitalization of the FSLIC insurance fund, and CEBA mandated that the Bank Board enact certain new regulations pertaining to such basic mechanics of thrift operations as minimum capital levels.

Table Three

Financial Condition of FSLIC
Dollar Amounts in Millions

	Cash and Short Term Securities	Total Reserves	Total FSLIC-Insured Deposits	Reserve Ratio (Total Reserves/Total FSLIC-Insured Deposits)
1987	$3,369	$(13,686)	$932,156	(1.47)
1986	4,029	(6,333)	890,664	(0.71)
1985	6,137	4,557	843,932	0.54
1984	5,872	5,605	784,725	0.71
1983	7,959	6,425	671,052	0.96
1982	6,355	6,307	560,462	1.13
1981	5,806	86,156	519,937	1.18
1980	$5,061	$6,462	$503,156	1.28

While its passage had been hoped for in the previous Congress, when the Act was signed into law on August 10, 1987, the Board moved quickly to put into place the regulations and resolutions needed to implement its provisions. Only 18 days after signing, the Bank Board chartered the Financing Corporation (FICO) to manage the debt issue. Under CEBA, FICO can issue up to $3.75 billion in any one year.

FICO's organization consists of a three-member directorate appointed by the Bank Board. The members include two Federal Home Loan Bank presidents and the director of the Office of Finance of the Federal Home Loan Bank System. The Office of Finance, with years of experience in managing debt issues for the Bank System, is the operating arm of FICO.

The FICO Directorate held its first organizational meeting on August 28, 1987. It approved bylaws, appointed the Corporation's officers and set FICO into actual operation.

FICO's First Offering

In carefully planned and orchestrated action over a brief time span, FICO officials set out to educate the financial community about FICO and FICO debt. The financial center of the United States, New York City, was chosen as the site of the first presentation to investment dealers and investors. Senior Bank Board, Bank System and FICO officials made the presentation to potential dealers and investors. Similar presentations followed in other financial centers such as Boston, Chicago and Los Angeles.

The sessions included a description of FSLIC's recapitalization plan, an explanation of FICO's role, a look ahead at the anticipated structure of FICO's debt offerings and an explanation of plans for the repayment of principal and interest on the debt. The meetings were compressed within a few weeks as FICO prepared for the first offering in late September.

Considered in the light of the market at that time, the lack of any kind of a FICO bond performance record and the absence of any secondary market, the first issue did well, with a coupon of 10.70 percent.

There have been four public and two private sales thus far of the bonds, through the first half of 1988, with the yields varying from 9.42 percent to 10.73 percent. Total debt outstanding as of June 30, 1988, was $2.9 billion. Reflecting the 30-year maturity of the bonds, most investors have been institutional. Bank trust departments, pension and retirement funds, mutual funds, insurance companies and foreign investors have made up 75 percent of the buyers.

The Japanese have been among the purchasers, and have also been specially singled out for marketing because of their interest in long-term in-

Late in April 1988, the Bank Board announced that Standard and Poor's had qualified FICO's debt securities as eligible investments for "AAA" rated financings . . . This serves to encourage purchase by individuals and institutions interested in adding high quality bonds to their portfolios.

vestments. A delegation headed by Bank Board Chairman M. Danny Wall, accompanied by Board Member Roger Martin, FICO Vice Chairman Richard Syron and FICO President Austin Dowling visited the Far East in late 1987 to discuss FICO plans with investors in Japan, Hong Kong, Taiwan and South Korea.

FICO bonds are non-callable instruments whose principal is guaranteed through the purchase of zero coupon bonds financed by investments in FICO stock by the 12 Federal Home Loan Banks. The bonds are held in a segregated account in the Federal Reserve Bank of New York City. Interest will be repaid from assessments on the federally insured thrift industry.

Among the definitive signs of increasing acceptance of FICO bonds is the fact that the Federal Reserve Board's discount window now accepts the bonds for open market operations and also as collateral.

Late in April 1988, the Bank Board announced that Standard and Poor's had qualified FICO's debt securities as eligible investments for "AAA" rated financings. Despite the fact that FICO did not request a rating, because it has agency status and no need for one, it is helpful in that it is a good rating and will encourage secondary market trading.

Ratings are made only on request, so there was sufficient interest on the part of someone to ask for the rating. This qualification serves to encourage purchase by individuals and institutions interested in adding high quality bonds to their portfolios.

In early May, Salomon Brothers purchased $750 million worth of FICO bonds and used them to introduce a new financial product, FICO Strips. These strips represent ownership of both the principal and coupon obligations of the bonds. The total face amount offered was $3 billion, composed of $750 million of principal and $2.25 billion of coupon strips. The FICO strips are available in minimum denominations of $1,000 and may be purchased by individuals and institutions. The strips will mature semi-annually from November 1988 through May 2018.

Another significant point concerning FICO is the effort to attract the participation of minority investment firms in these offerings. A special organizational meeting was held in Washington before the initial offering to solicit applications to become members of FICO bond selling groups. Five minority firms and one woman-owned firm subsequently became members of the bond selling group and are participating in the program. Four more minority firms are eligible to receive bonds through a reallowance process. In total, these firms have received seven percent of the four public issues thus far.

The bond program is viewed as a success, notwithstanding recent fluctuations in the bond market, and the Bank Board is relying on a steady stream of bond proceeds flowing into the FSLIC during the years ahead. These funds, together with insurance premiums and recoveries from sales of assets held by FSLIC receiverships, have made it possible for the FSLIC to begin resolution of troubled thrifts, which it had been unable to do before because of the lack of financial resources.

What does the future hold for the insurance fund? As of year-end 1987, there were 259 thrifts in the FSLIC caseload—which means these institutions are likely to need FSLIC financial assistance to achieve resolution of their problems. The estimated cost to resolve them was put at $17.4 billion. The General Accounting Office, the Bank Board's official auditor, agreed with this estimate. The Bank Board expects FSLIC to have resources of approximately $20 billion over the next two years to deal with these insolvent thrifts.

Beyond that, projections become less certain because of the vagaries of the economy and other variables. The Bank Board estimated that at year-end 1987 there were an additional 252 institutions considered insolvent under generally accepted accounting principles (GAAP). This is a somewhat stricter accounting method than regulatory accounting, and GAAP, incidentally, will become the standard for thrift financial reporting beginning January 1, 1989.

The cost to resolve these additional insolvent entities was projected by FSLIC and the Board to be $5.3 billion, reflecting the fact that their negative net worth is substantially less severe than those in the FSLIC caseload. Actually, if economic conditions affecting certain of these thrifts were to improve, their fortunes could turn around without FSLIC assistance. The GAO's estimate, on the other hand, differs from the Board's, gauging the cost of resolving the GAAP insolvent thrifts at between $9 billion and $19 billion more than the cost for the 259 caseload institutions.

For all 511 insolvent thrifts, including the 259 in the FSLIC caseload, the Bank Board initially estimated the cost of resolution at $22.7 billion compared with the GAO estimate of $26 billion to $36 billion. Subsequent to the GAO audit, the Bank Board revised upward its estimate for resolving cases in Texas, adding $8.2 billion to the cost of resolving all 511 for a total of $30.9 billion.

Over the next 10 years, FSLIC projects resources of $42.5 billion from its various sources, which should enable FSLIC to deal with the insolvent thrifts. FSLIC financial resources include the nearly $11 billion from the FSLIC recap, plus other cash from insurance premiums, a continuation of the special assessment on the industry through 1998 and significant recoveries (more than $11 billion) from assets held in FSLIC receiverships. These assets are principally loans and real estate investments taken over when FSLIC resolved institutions.

It is noteworthy that as often as possible, FSLIC is now leaving assets with the acquirers of insolvent institutions, and FSLIC is providing yield maintenance on the assets—the difference between the income on the assets and the market rate—to help the ongoing institution become profitable or to maintain existing profitability. In return, FSLIC is taking an ownership position and/or sharing in profits of the thrift. FSLIC also either takes all of the tax benefits accruing to the insolvent institution or shares them with the acquirer. Because of its conservative accounting, FSLIC has included little of this potential income in its cash flow projections.

The Resolution Process

Examinations of savings and loan institutions are now done under the supervision of the Federal Home Loan Banks. If one of these periodic examinations reveals a problem, the District Bank appoints a supervisory agent. The agent's job is to monitor the institution in an effort to resolve its problems without involving FSLIC.

If an unassisted acquisition is deemed impossible, the agent may request that the institution be transferred into FSLIC. Once in FSLIC's caseload, there is a careful analysis to determine how the institution's problems will be resolved. A financial officer and a marketing officer are assigned to each case.

In conjunction with the supervisory staff of the concerned District Bank, this team works up a plan to deal with that particular thrift's difficulties. Experience has demonstrated that the majority of the institutions under its care can be sold by FSLIC if the insurer provides some form of financial assistance and payment to buyers. Other cases may require some form of institutional restructuring. Only as a last resort, when all other alternatives are inapplicable, does FSLIC consider liquidation and insured account payout (Table Four).

FSLIC Case Activities

In the closing months of 1986 and in early 1987, FSLIC's marketing efforts were limited because the depleted fund severely restricted the options for dealing with troubled institutions. In order to measure cost savings when considering alternative courses of action, FSLIC developed a marketing model to provide the answers to "what if?" proposed solutions.

Using this model with data about economically depressed regions, FSLIC launched an accelerated marketing program late in the second quarter of

1987. The result was dramatic: for the year, FSLIC marketed more than 50 institutions with total liabilities of at least $17 billion. As of December 31, FSLIC had proposals pending for the acquisition of 50 thrifts located in 15 different states. The number does not include institutions in the Southwest Plan.

FSLIC plans to resolve most of these institutions during 1988 at an estimated cost, on a present value basis, of $2.5 billion.

In addition to these cases, FSLIC had approximately 200 institutions in various stages of marketing and negotiations in the first six months of 1988, including about 100 in the Southwest Plan. To expedite this activity, the District Banks will participate by processing smaller institutions. It also appears that some of the institutions in FSLIC's caseload will be resolved without financial assistance from FSLIC. In 1987, three institutions were removed from FSLIC's caseload so that unassisted resolutions could be undertaken by the District Bank concerned. Through the first six months of 1988, four such actions occurred.

FSLIC hopes to resolve all of the cases by merger or acquisition because this method is usually the least-cost solution for FSLIC on a case-by-case basis compared with liquidation or insured account payout. Consider the results in 1987.

During the year FSLIC resolved a total of 48 troubled thrifts at an estimated cost of $4.5 billion. Of these, 31 were resolved by assisted sales to other financial institutions, corporate and private investors. This approach saved FSLIC some $400 million from the cost that would have been incurred by liquidating the institutions and paying out the insured funds to depositors.

Following the enactment of CEBA, through the end of 1987, the Board completed 16 assisted acquisitions, an average of one transaction a week. One of the goals in 1988 is to maintain that same average rate of one transaction a week, exclusive of insurance actions and Southwest Plan activity.

FSLIC was able to sustain this pace through the first six months of 1988, when the cases of 44 troubled institutions were resolved. Their consolidated assets were approximately $10.6 billion. The cost to FSLIC for assistance over the life of agreements with acquirers, plus liquidations, will total approximately $4.5 billion. Twenty-nine cases, including 11 in the Southwest Plan, were resolved by assisted sales to other financial institutions or to corporate and private investors. The savings to FSLIC was $554.2 million, compared with the cost of liquidating them.

From August 10, 1987, when CEBA and the FSLIC recapitalization became effective, through June 30, 1988, FSLIC resolved 69 cases.

Table Four

FSLIC Case Resolutions
Dollar Amounts in Millions

	Liquidations				Acquisitions and Mergers	
	By Transfer of Account		By Cash Payout			
	Number of Cases	Deposits Transferred	Number of Cases	Amount	Number of Cases	Assets of Merged/ Acquired Institutions
1988: Jan-June	12	$1,300	2	$1,350	29	$ 9,100
1987: July-Dec	4	1,612	0	0	17	3,400
1987: Jan-June	11	1,435	2	242	14	4,300
1986	19	5,556	2	127	27	7,400
1985	9	1,847	2	47	23	4,300
1984	8	528	1	305	27	5,500
1983	6	$ 295	0	$ 0	47	$18,300

One of the most important case resolutions occurred in May 1988 when San Francisco's America First Financial Corporation invested $100 million in the acquisition of Eureka Federal Savings and Loan Association, San Carlos, California.

The cash infusion was a record, and was an outstanding example of confidence in the thrift industry and belief in the value of the thrift charter. America First acquired another insolvent California thrift through Eureka Federal Savings two months later.

One of the Bank Board's key objectives in the area of case resolution has been to move as quickly on insolvent institutions as the availability of funds and the ability to work out lasting agreements permit. As a direct result, the Bank Board in mid-June announced an expedited case resolution process.

Twenty institutions were put on a list marketed to more than 700 potential bidders. These were institutions relatively uncomplicated insofar as their loan portfolios, asset quality and regulatory matters were concerned. By using a standardized assistance agreement package, it was thought that these cases could be resolved much more speedily than by the usual process of case-by-case negotiation. The expectation is that acceptable bids can be approved within 35 days of receipt and that the cost to FSLIC will be reduced. If successful, the plan will be expanded.

The "Southwest Plan"

In an effort to deal with the problems in the thrift industry posed by the concentration of insolvent institutions in Texas and four neighboring states, the Board developed and adopted a specific program called the Southwest Plan. Although intended to apply to all five states, the Bank Board is concentrating its efforts in Texas in 1988 because of the magnitude of the problem there. At year-end, 109 of the state's 281 savings and loan institutions were insolvent, compared with 42 in neighboring states.

Through consolidation and the infusion of new capital, the Southwest Plan envisions a reduction in the total number of Texas institutions to between 160 and 180. One of the key objectives of the plan is to preserve as much as possible the competitive character of the industry and the availability of service to its customers while reducing costly duplication in corporate structures and office locations through consolidation.

Another important goal of the plan is to lower the cost of funds, both to the thrifts and commercial banks in the area and nationwide as well. The high premiums paid by the troubled thrifts in Texas to attract and retain deposits have raised the cost of funds for healthy and troubled financial institutions all across the nation.

The effect of lowering the cost of funds would be dramatic. If the cost were to be reduced nationwide by 25 basis points, it would produce a gain of $2.3 billion for the entire thrift industry.

Recognizing that the condition of thrifts in Texas, because of the size of their problems, was skewing the entire industry, the Board in late 1987 hired a consultant to examine the problem and formulate a plan of action. In essence, the plan involves grouping insolvent institutions and then seeking bids from prospective acquirers of the groups.

The Board set as criteria for carrying out the plan, in addition to consolidation, that the acquirer bring good management to the consolidation and, whenever possible, new capital.

The plan envisions three types of ongoing institutions: local thrifts with assets of up to $800 million; regionals with assets from $800 million to $2.5 billion; and multi-regionals whose assets exceed $2.5 billion. It is not the intention of the Bank Board to produce any statewide institutions through the consolidation process. Studies indicate that when the plan has been fully implemented, there will be more local and multi-regional institutions than there are now in Texas, and fewer of the regional-sized ones.

Following the adoption of the strategy, FSLIC and the Federal Home Loan Bank of Dallas solicited statements of interest from thrifts and from private investor groups that were thought to be interested in acquiring one or more of these troubled institutions. More than 150 proposals were received. The Board expects to complete the groupings by the end of 1988 and the resolution of all the troubled thrifts in the state by the end of May 1989. As much as $1 billion in new capital could be infused into the Texas thrift industry.

The Southwest Plan was inaugurated in May 1988 with the consolidation of four troubled thrifts with Coastal Banc Savings Association, based in Houston. The four southeast Texas institutions taken over by Coastal had assets of approximately $470 million. While the consolidation was relatively

One of the key objectives of the Southwest Plan is to preserve as much as possible the competitive character of the industry and the availability of service to its customers while reducing costly duplications in corporate structures and office locations through consolidation.

modest in size, it resolved four of the 109 insolvent thrifts and carried out the objectives of the plan, including bringing in strong management and new capital of $3.5 million.

The agreement also included some of the new features that provide long-term benefits to FSLIC in return for the financial assistance needed to reach agreement initially. In this case, FSLIC received a percentage of Coastal preferred stock and will share in both gains from the sale of assets and net operating loss carry-forwards. The expected net cost to FSLIC of the transaction is $138.3 million.

Days later, the second consolidation under the Southwest Plan occurred, again with four troubled thrifts being acquired by another thrift that brought in good management. The acquirer, Southwest Savings Association, Dallas, also converted $25 million of subordinated debt to equity capital.

This was a much larger consolidation than the Coastal agreement, with a record $2 billion assistance package being provided by FSLIC. Then too, FSLIC gained its most significant ownership position yet in an institution—receiving 50 percent of Southwest Savings' common stock. The agency will also receive 90 percent of the thrift's first $60 million in profits. The branch network resulting from the consolidation stretches across the northern half of Texas, serving a depositor base of more than $5 billion. In both the Coastal and Southwest agreements, the acquirer plans to begin consolidating branches within a few months of the agreement, fulfilling one of the tenets of the Southwest Plan, which is to eliminate duplicative branches.

In late June, a significant development in the Southwest Plan occurred with the acquisition of two insolvent Texas thrifts by MeraBank, a Federal Savings Bank, of Phoenix, Arizona. The significance of the transaction was that MeraBank became the first out-of-state institution to participate in the Southwest Plan. At the time of the announcement, MeraBank also said it had an agreement to acquire a third insolvent Texas thrift by the end of September, which would boost its asset holdings in Texas to approximately $1 billion.

The Dallas Bank's "As Agent" Program is a further effort to lower the cost of funds. The Dallas Bank acts "as agent" for Ninth District issuers and purchasers of FSLIC-insured certificates of deposit. Institutions will authorize the FHLB of Dallas to purchase book-entry discounted FSLIC-insured certificates of deposit from other Ninth District FSLIC-insured institutions. FHLB of Dallas handles transfer of funds, safekeeping of depository receipts and other functions. The objective of the program is to reduce the cost of funds for Ninth District savings institutions through the efficient redistribution of liquidity among institutions.

Insurance Settlements

In 1987, 17 cases were resolved by insurance action. Generally this involves transferring the insured deposits and branch offices of the closed thrift to another FSLIC-insured institution, without any disruption of service to the insured depositors. Acquiring institutions paid FSLIC premiums totaling $24 million to take over the insured accounts.

The rarest form of liquidation is an insured deposit payout. In 1981, the Bank Board paid out insured depositors at Economy Savings and Loan Association in Chicago, which was the first payout in 10 years. From 1981 through June 30, 1988, only nine payouts occurred, including two that were begun in early June involving two Costa Mesa, California institutions—American Diversified Savings Bank and North America Savings and Loan Association. The institutions were closed on a Monday, and the next day FSLIC began a record insured depositor payout of $1.3 billion.

These two institutions were unique in that they had no retail deposits or offices, and lacked the franchise value that would have made them marketable. They were also among the highest rate payers in the nation. Therefore, the Bank Board decided that their closing was imperative, and the only alternative was to liquidate them and pay their insured depositors. The previous record payout had been to depositors of Empire savings in Mesquite, Texas, in 1984, with a total of $300 million in deposits.

A total of 80 associations have been placed in the Management Consignment Program since its inception in April 1985. By June 30, 1988, 31 associations had left the program through FSLIC-assisted mergers, acquisitions, or liquidations. Ten of these were resolved in the first six months of 1988.

The Bank Board viewed the transaction as opening a second front in the offensive against the high cost of funds that had begun a few weeks earlier with the first consolidations under the Southwest Plan.

The Board continues to take the position that such payouts will be rare. However, when a payout does become necessary, the emphasis will be on expediting the payout so that insured depositors receive their money as quickly as possible.

The Management Consignment Program

It is also possible for FSLIC to place an institution in its Management Consignment Program (MCP) (Table Five). The MCP is an early intervention process for a thrift whose assets are being dissipated. This program is an interim solution for a thrift that has been declared insolvent by the Bank Board. MCP thrifts are rechartered and new management is put in place, temporarily, to operate the institution on a day-to-day basis. The newly chartered institution assumes all assets, liabilities and deposits of its predecessor.

Table Five

Management Consignment Program
Dollar Amounts in Millions

	Cases	Assets
Active Cases Dec. 31, 1985	23	$16,013
Active Cases Dec. 31, 1986	45	20,194
Plus: Added in 1987	25	11,453[a]
Less: Resolved in 1987	11	4,709[b]
Less: Cases Transferred to other MCP	1	1,170[c]
Active Cases Dec. 31, 1987	58	$20,509

a. Net assets reported upon entrance into the program.
b. Net assets for quarter prior to resolution.
c. Net assets for quarter prior to transfer.

The program allows the District Bank supervisory agents to work closely with management of the MCP thrift to stabilize the losses while FSLIC considers all the factors necessary to work out the best resolution, preferably a FSLIC-assisted merger or acquisition. A total of 80 associations have been placed in this program since its inception in April 1985.

By June 30, 1988, 31 associations had left the program through FSLIC-assisted mergers, acquisitions or liquidations. Ten of these were resolved in the first six months of 1988, and one thrift was added. The 49 institutions in the program at mid-year had total net assets of $16.9 billion.

There have been two major initiatives taken in this program. The first involves the creation of an executive level committee to set national policy and direction for the program. The committee is chaired by the Executive Director of the Office of Regulatory Activities (ORA). Its members are the Executive Director of FSLIC, the Executive Director of the Bank Board, and an FHL Bank president, with others serving in advisory roles. The mission of the program has been refined, and individual strategies for each thrift in the program are under review and revision.

The second major initiative was the creation of a division within FSLIC's Washington office that reports directly to FSLIC's principal deputy executive director of operations. This division is responsible for evaluating the program's procedures and policies. In this way, each problem institution's difficulties can be dealt with quickly and effectively in accordance with overall Board strategy for case resolution.

Tax Code Incentives

Since 1981, the tax laws have contained a number of provisions ("the FSLIC tax provisions") that were enacted to help FSLIC fulfill its statutory mandate of protecting the safety and soundness of insured institutions. These provisions are currently set to expire at the end of 1988. We believe these provisions should be extended until the end of 1991 and have asked Congress to approve such an extension.

There are two areas in which the expiring tax provisions affect the FSLIC's ability to arrange for assisted acquisitions of troubled thrift institutions. First, the Internal Revenue Code provides that the assistance paid by the FSLIC in connection with an assisted acquisition will not be considered taxable income. The benefit of this provision is not limited to the troubled institution or the acquirer; it also works to the advantage of the FSLIC by reducing the amount of assistance otherwise needed. For example, if under current law FSLIC must pay an acquirer $100 as an inducement to acquire a troubled thrift, FSLIC may need to pay future acquirers $150 if that assistance is to be subject to tax.

Second, special provisions in the Internal Revenue Code's corporate reorganization rules clarify that a FSLIC-supervised merger or acquisition can qualify as a tax-free reorganization, such that the net operating and built-in tax losses of the troubled institution can be fully utilized by the acquiring institution. Here again, although the nominal benefit of this provision accrues to the acquiring institution, in a very real sense the benefit assists FSLIC because contractual agreements between it and the acquirer require that tax benefits enjoyed by the acquiring institution must be accounted for and rebated to FSLIC.

By making each dollar of FSLIC assistance go further, the extension of these provisions will not only allow FSLIC to resolve a greater number of cases, and to resolve them more quickly than it would if these provisions were allowed to expire, but will allow, we believe, for the most cost effective resolution of these cases from the Federal government's viewpoint.

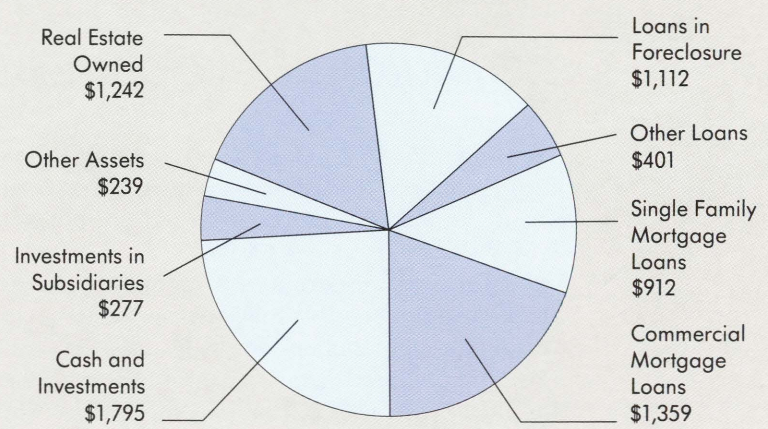
Asset Disposition

As troubled institutions are resolved through assisted sales, mergers or liquidations in particular, FSLIC acquires inventories of real estate and nonperforming loans (Chart Five). Proceeds from the sale of these assets in 1987 amounted to $601 million. Through the first quarter of 1988, FSLIC managed 85 liquidating receiverships with $7.6 billion in assets, and had $154 million in its corporate portfolio.

To assist in the disposition of these assets in an orderly, businesslike manner, the Bank Board contracts with outside specialists in loan and real estate workout. The Bank Board also chartered the Federal Asset Disposition Association (FADA) as an independent agency in 1985 to assist in this function. After the new Board took charge in July 1987, the group was thoroughly reviewed in light of criticisms from certain Congressional sources and others. The review led to a management change, redirection of the agency and new contracting procedures that apply to all such contractors.

Chart Five

FSLIC Receiverships: Composition of Assets, December 31, 1987
Dollar Amounts in Millions



Subsequent to this action, however, legislation was introduced in the House of Representatives calling for the disassembly of FADA. The Bank Board believes FADA can serve a valuable function insofar as the disposal of assets is concerned. FADA and other contractors bring an expertise unavailable in FSLIC to bear on working out difficult and entangled loan and real estate assets. While FSLIC has every intention of using other private contractors, the presence of FADA provides a comparative measure of the performance of other contractors and their fee charges.

The Board further believes that the restructured FADA should be given the opportunity and the time to prove itself. Then, if its performance does not meet expectations, steps will be taken to eliminate it.

Since July 1986, when it was given its first assignment, FADA has managed more than 2,700 different assets for 35 troubled thrifts, with a cumulative book value of some $4.6 billion. FSLIC receiverships continue to benefit from improvements in the efficiency of FADA's operations. Approximately $405 million has been channeled by FADA to FSLIC from property sales and loan payoffs on non-performing assets. An additional $265 million in loans restructured through FADA should also provide better future returns to FSLIC.

Regulatory Developments

DEMONSTRATING ITS AWARENESS OF the urgent need for solutions to the many problems facing the industry, the Board acted promptly following the enactment of CEBA.

First, with respect to the regulatory process, the Board took steps to speed up applications processing for all matters under its jurisdiction (Table Six). Applications delegated to the 12 District Banks for processing are to be done within 60 days, while those submitted to the Bank Board are to be handled within 90 days.

Since the CEBA Applications Processing Policy Statement went into effect on October 9, 1987, the Board has acted on 2,549 of the 3,090 applications received by June 30, 1988. These have ranged from requests to open branches to applications for capital forbearance.

In the first three months of 1988, the Bank Board received 999 applications, and acted on 630 of them. Applications rose to 1,143 in the second quarter, with 1,048 acted on, a 66 percent increase over the first three months. All remaining applications on June 30 were within the guidelines' time frame.

Well within the time frame prescribed by the new law, the Board carried out the process of formulating, circulating for comment and adopting, following two days of public hearings, seven major regulations mandated by CEBA. These regulations dealt with: qualified thrift lender requirements, uniform accounting standards, classification of assets, capital forbearance, regulatory capital requirements, appraisal policies and practices and troubled debt restructuring.

Together, the new regulations bring significant change to the regulation of the thrift industry. First, they give the Board several additional vehicles that can be used to ensure against repetition of past excesses that contributed to the problems now faced in the industry. Second, they will also help ensure the future safety and soundness of the industry.

At the same time, competent and responsible managers will find in these regulations the flexibility they need to make the business decisions necessary for conducting profitable operations.

The new regulations also demonstrate the Board's intent to assign increased responsibility to the field supervisory staff. This, in turn, will bring about more aggressive and responsive supervision of FSLIC-insured institutions.

Functionally, the appraisal regulation aims at making thrifts more comparable with commercial banks. While the Board adopted a statement of policy to provide guidance on the development of appropriate appraisal standards and policies and set minimum standards, it leaves the responsibility for the development, maintenance and implementation of these functions with each institution's management.

Similarly, the asset classification regulation is designed to make certain that the Board's plan for regulating classification practices is consistent with that of the other federal banking agencies. It differs from the former rule, where assets were automatically classified if the loan file did not contain a conforming appraisal.

Under the new rule, management must classify the institution's assets and establish appropriate loss allowances. Once again, this is intended to have management carefully exercise its responsibilities rather than routinely turn to a detailed but not necessarily completely germane directive.

The regulation dealing with uniform accounting standards was specifically designed to bring thrift accounting procedures into line with generally accepted accounting procedures (GAAP) by 1993.

Another of the regulations with particular meaning for the Board's ability to provide for a safer industry is the individual regulatory capital regulation (Table Seven). This gives the Board the flexibility to impose higher regulatory capital standards on those institutions it determines are holding high-risk investments.

Two of the new regulations are designed to provide the Board with the additional flexibility to help thrifts in difficulty regain their vitality. The troubled debt restructuring regulation allows institutions with problem debts to use certain Financial Accounting Standards Board (FASB) principles in accounting for debt restructuring. This furthers an already established Board policy of encouraging renegotiation of loans in difficulty.

The second of these regulations aimed at restoring health to ailing thrifts is the capital forbearance regulation. Here, the Board refrains from enforcing regulatory capital requirements with respect to well-managed savings and loans that have made loans in economically troubled regions, and, importantly, can demonstrate a reasonable prospect for returning to mandated capital levels. The regulation also decentralizes the decision by delegating authority to the principal supervisory agent to determine if capital forbearance ought to be extended.

Perhaps the most significant of all the new regulations is that pertaining to the qualified thrift lender test. This regulation goes to the very heart of Congress' mandate that thrifts provide housing-related finance. It requires thrifts to maintain 60 percent of their tangible assets in housing and housing-related investments. A savings and loan's ability to meet this requirement will affect its eligibility for advances from its District Bank, and will also affect the ability of the holding company parent and thrift affiliates to engage in certain nontraditional thrift activities.

Table Six

Applications Processed, 1979–1987

Type of Application	1979	1980	1981	1982	1983	1984	1985	1986	1987
Branch office[a]	804	634	503	289	398	431	376	376	608[d]
Organization of new federal association	16	9	8	4	10	64	73	44	25
Insurance of accounts	43	72	48	27	43	73	186	38	30
Voluntary mergers[b]	38	109	217	215	84	31	44	36	34
Miscellaneous[c]	318	339	239	163	162	195	278	204	163
Total	1,219	1,163	1,015	698	697	794	957	698	860

a. Includes Board and District Bank actions.

b. Includes Board and District Bank actions on voluntary mergers only.

c. Includes applications for amendments of charters and by-laws, purchase of branch offices, agency offices, change of office location, admittance to and withdrawal from Federal Home Loan Bank membership, conversion to federal charter, service corporation and trust activities, issuance of subordinated debt and certificate forms. Includes only those activities processed by the Board or the Office of District Banks under delegated authority.

d. Includes 128 interstate branch applications.

Table Seven

Composition of Regulatory Capital
Dollar Amounts in Millions

Regulatory Capital Item	Dec 87	Dec 86	Percent Change
Preferred stock	$ 1,009	$ 384	163.16%
Perpetual	778	N.A.	N.A.
Redeemable qualifying	231	N.A.	N.A.
Common stock	1,709	1,445	18.26
Contributed capital	20,150	18,032	11.74
Qualifying mutual capital certificates	6	6	7.41
Qualifying subordinated debentures	3,754	3,406	10.24
Appraised equity capital	1,969	2,201	−10.52
Net worth certificates	242	364	−33.43
Accrued net worth certificates	35	32	8.68
Income capital certificates	1,469	1,840	−20.16
Retained earnings	16,038	24,574	37.74
Total regulatory capital excluding general valuation allowances	$46,382	$52,282	−11.28%

As the successor to the Office of Regulatory Policy, Oversight and Supervision, the Office of Regulatory Activities has responsibility for implementing national regulatory policies and procedures and for overseeing and improving the Bank System's examination and supervision activities.

Examination and Supervision Activities

IN THE SECOND HALF OF 1985, the Bank Board began a sorely needed restructuring of its regulatory function. The most important aspect of this activity was personnel. Turnover among the examination staff had been high because the organization was subject to federal pay limitations, and salaries for examiners and related positions were low compared with similar positions in the financial services industry. Young professionals spent a couple of years gaining valuable experience and then moved on to higher-paying jobs. It was almost as if the Board were running a graduate school for accountants.

In a move to halt the turnover of trained personnel, the examination staff was transferred to the various District Banks. It was one of the most significant moves ever by the Bank Board. Since that transfer was made, the examination and supervisory professional staff has doubled in size, and the quality has increased measurably because professionals are remaining and the examiners can work more closely with the supervisory personnel who already were located in the District Banks than when the examiners were in Washington, D.C.

In September 1986, as a continuation of the restructuring process, the Bank Board created the Office of Regulatory Policy, Oversight and Supervision (ORPOS) as a separate office within the Bank System. As the successor to the Office of Examinations and Supervision, ORPOS took responsibility for implementing national regulatory policies and procedures and for overseeing and improving the Bank System's examination and supervision activities. Its name recently changed to Office of Regulatory Activities to more accurately reflect the organization's tasks.

Working closely with the Board and the 12 District Banks, the Office of Regulatory Activities, under Executive Director Darrel Dochow, is leading a major effort to enhance the effectiveness of the examination and supervision system by focusing on improvement of three areas:

- supervisory policies and procedures;
- consistency of examination and supervisory efforts at the District Banks;
- efficiency of processing applications.

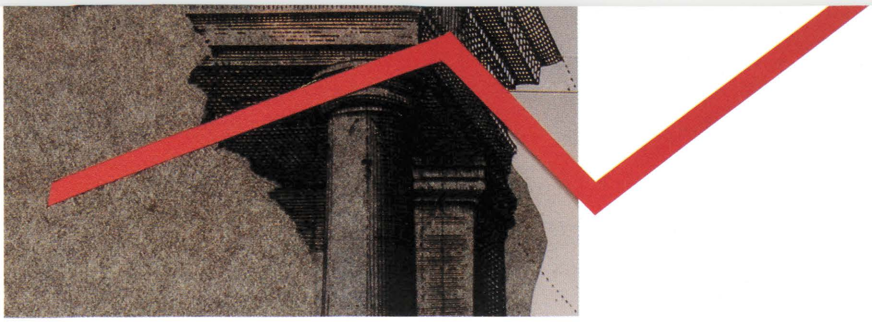
As an integral part of this effort, further strengthening of the examiner accreditation program is under way. A mandatory core curriculum has been adopted for all examiners and supervisory personnel. Three mandatory courses, the first of which is already in operation, comprise the curriculum. They are new examiner training, intermediate examiner school and senior examiner school.

Regulatory Activities also has undertaken a massive, much needed project, the development of a multi-volume Regulatory Handbook for regulatory personnel that will spell out policies and procedures. The availability and use of this handbook should be a significant contribution toward ensuring consistent application of policies and procedures throughout the system. Dozens of staff members from Regulatory Activities and the Bank System are engaged in this project.

Another crucial part of the effort to improve the quality and consistency of supervision is a new peer review program. It consists of in-depth reviews of examination and supervisory functions of each District Bank conducted by teams made up of personnel from the Washington office and supervisory staff from several District Banks.

They review processes such as pre-examination analyses, business plans, workpapers, examination reports and the responsiveness of supervisory actions to examination findings. Seven of the 12 Banks have been reviewed and two more are scheduled for review in 1988. The results so far indicate that the Banks are meeting expectations for increased effectiveness, efficiency and responsiveness.

Since the enactment of CEBA, Regulatory Activities and the Bank System's Office of Education have worked diligently to produce suitable material to train examiners in the law's new requirements. They have developed training programs, produced



manuals and video tapes and held seminars to update Bank System examiners and supervisory personnel. Moreover, to obtain maximum value for the training dollars spent, Regulatory Activities has made CEBA educational materials and guidelines and a special video training tape available to all insured thrifts for their own instructional use.

A special division has also been established within Regulatory Activities to deal with consumer-related issues. A priority of the division is to develop materials that will help thrifts perform a self-assessment of their compliance with consumer-related regulations, trust activities and other laws such as the Bank Secrecy Act and the Community Reinvestment Act.

The system is also fully committed to the full use of electronic data processing technology to improve examination and supervision efforts. Two-thirds of the nation's thrifts now transmit their quarterly and monthly reports electronically. Standardized reports of examination results can be quickly transmitted to the District Banks by field examiners equipped with lap-top computer terminals.

During 1987, non-problem savings and loan institutions were examined on average once every 17 months. Problem institutions were examined on an average of once every 12 months.

The fast-changing pace of economic events, innovation in the number and types of financial services and intense competition characterize the financial services sector in the 1980s. Such an environment poses continuing challenges and threats to the viability of financial institutions, and, indirectly, to supervisory agencies such as the Board. The Board's intention is to meet this challenge head-on.

Within Regulatory Activities, another recently created unit is charged specifically with establishing a systematic process for identifying, analyzing and assessing situations that pose a threat to the safety and soundness of the thrift industry. This system should allow regulators to take appropriate action before such situations contribute materially to the problems of the thrift industry. To date, the group has worked with the Board's Office of Policy and Economic Research (OPER) and the District Banks to develop and implement a program that identifies and addresses interest rate risk.

Enforcement and Litigation Activities

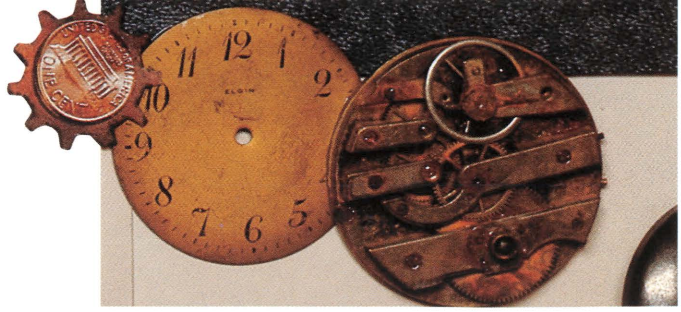
WITHIN THE BANK BOARD, an Office of Enforcement coordinates formal administrative enforcement activities throughout the Bank System when violations of law or unsafe practices are found. These activities result in cessation of actions before they do major harm, or reduce the amount of losses to the institutions and/or FSLIC. Enforcement may prosecute matters by administrative or civil litigation, but usually resolves them by obtaining enforcement orders or consent agreements.

The office obtained 25 cease-and-desist orders in 1987 and 11 in the first half of 1988, and 43 removal and prohibition orders last year plus 15 in the first six months of 1988. It also successfully responded to a number of cases of alleged securities violations and alleged illegal acquisitions of control by thrift institutions or their stockholders.

Enforcement has been actively involved in making criminal referrals and was instrumental in setting up a criminal prosecution task force established by the Department of Justice in 1987. The task force of 50 lawyers, investigators and accountants is the largest ever formed to handle financial institution crime and is primarily devoted to handling thrift institution crime.

At this time, the unit is concentrating a major part of its efforts in Texas because of the size of the thrift problems there. The force is composed of representatives from the Bank Board, Department of Justice, Federal Bureau of Investigation, Internal Revenue Service and the U.S. Attorney's Office in Dallas. As a result of task force efforts, there have been 10 convictions and there continue to be dozens of ongoing investigations.

The Board believes in seeking restitution for FSLIC where wrongful actions have been a major cause of an institution's problems or downfall. Consequently, the trial and appellate caseload of the Board's Office of General Counsel increased again



in 1987. It is currently involved in more than 11,000 matters of all kinds before state and federal courts across the nation.

The General Counsel has filed actions on behalf of 75 failed savings and loan institutions against officers and directors and other implicated parties such as law firms, accountants, appraisers, and large borrowers. For the period from January 1, 1986, through December 31, 1987, the Board has recovered more than $4 billion in cash and other property on behalf of FSLIC.

Staff Compensation, Restructuring and Relocations

THE BANK BOARD STILL LACKS flexibility and compensation parity with the other financial regulatory agencies, and the ability to compete with the private sector in offering desirable basic employment packages to the most qualified potential employees. Nevertheless, we have mounted an aggressive recruiting campaign emphasizing the very real advantages of working at the Bank Board; mainly the exciting and challenging opportunities afforded by the rapidly changing financial services industry.

To relieve overcrowding in our Washington headquarters, accommodate an expanding staff and allow for the consolidation of offices previously scattered over five different locations, the Bank Board has leased a nearby building where the offices of FSLIC are now located. Staffing in Washington has increased 28 percent over the past fiscal year, to 1,149 employees at mid-year 1988.

SKIP BROWN

Executive Committee of the Federal Home Loan Bank Board (left to right):
Jordan Luke, Karl T. Hoyle, Darrel W. Dochow, James E. Boland Jr., Stuart D. Root, Gregory D. Rothwell,
S. G. Frank Haas III

Financial Statements

GAO

**United States
General Accounting Office
Washington, D.C. 20548**

**Comptroller General
of the United States**

B-114893

To the Chairman
Federal Home Loan Bank Board

We have examined the statements of financial condition of the Federal Home Loan Bank Board as of December 31, 1987 and 1986, and the related statements of income and expenses and retained earnings, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. In addition to this report on our examination of the Bank Board's 1987 and 1986 financial statements, we are also reporting on our study and evaluation of internal accounting controls and compliance with laws and regulations. During our examination, we identified matters that do not affect the fair presentation of the financial statements, but nonetheless warrant management's attention. We are reporting them separately to the Bank Board.

This opinion applies only to the Bank Board's financial statements. The Bank Board formulates policies for and supervises the operations of several related organizations, including the Federal Savings and Loan Insurance Corporation. On July 5, 1988, we issued a qualified opinion on the Corporation's financial statements (GAO/AFMD-88-58) and disclosed that the Corporation is insolvent.

In September 1987, the Bank Board retroactively revised the estimated useful life used to depreciate its furniture, fixtures, and equipment, shortening it from 11 years to 4 years. In addition, as of September 1987, instead of capitalizing all purchases in excess of $1,000, the Bank Board expenses all those items below $5,000 and capitalizes and depreciates only those items that exceed this limit. Using the revised useful life will result in a reduction in the furniture, fixtures, and equipment account of more than $5 million over the next 3 years. The 1987 financial statements reflect a $2 million reduction of furniture, fixtures, and equipment and a corresponding increase to depreciation expense. As a result, the Bank Board's 1987 net income was significantly lower than its 1986 net income.

In our opinion, the financial statements referred to above present fairly the financial position of the Federal Home Loan Bank Board as of December 31, 1987 and 1986, and the results of its operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Charles A. Bowsher

Charles A. Bowsher
Comptroller General
of the United States

May 17, 1988

Federal Home Loan Bank Board: Comparative Statement of Financial Condition, December 31, 1987 and 1986
(in thousands)

	1987	1986
Assets		
Cash with U.S. Treasury	$ 524	$ 749
Accounts receivable (Note 2)	8,420	8,694
Land and building (Note 1)	43,919	42,566
Furniture, fixtures and equipment (Note 1)	3,058	5,873
Other assets	0	39
Total assets	**55,921**	**57,921**
Liabilities		
Accounts payable and accrued liabilities	844	2,912
Employees' accrued annual leave	1,372	1,122
Total liabilities	**2,216**	**4,034**
Capital		
Retained earnings	12,675	12,857
Paid in capital	41,030	41,030
Total capital (Note 4)	53,705	53,887
Total liabilities and capital	**$55,921**	**$57,921**

The accompanying notes are an integral part of these financial statements.

Federal Home Loan Bank Board: Comparative Statement of Income and Expenses and Retained Earnings for the Years Ended December 31, 1987 and 1986
(in thousands)

	1987	1986
Income		
Assessments:		
Federal Home Loan Banks	$ 8,071	$ 8,268
Federal Savings and Loan Insurance Corporation	25,603	24,819
Gain on sale of land (Note 1)	0	9,176
Rent and miscellaneous other	1,487	1,872
Total income	**35,161**	**44,135**
Expenses		
Personnel compensation	17,752	15,679
Personnel benefits (Note 3)	2,830	2,118
Travel and transportation	901	942
Rent, communication, and utilities	3,057	3,245
Depreciation:		
Furniture, fixtures, and equipment	2,816	1,085
Building	939	905
Return of gain on sale of land to FHLBanks (Note 1)	0	9,176
Building maintenance and other services	7,048	6,533
Total expenses	**35,343**	**39,683**
Net income	(182)	4,452
Retained earnings at beginning of year (Note 4)	12,857	8,405
Retained earnings at end of year (Note 4)	**$12,675**	**$12,857**

The accompanying notes are an integral part of these financial statements.

Federal Home Loan Bank Board: Comparative Statement of Changes in Financial Position for the Years Ended December 31, 1987 and 1986
(in thousands)

	1987	1986
Source of Funds		
Net income (loss)	$ (182)	$ 4,452
Adjustment for non-cash items:		
Depreciation	3,755	1,990
Funds provided from operations	3,573	6,442
Decrease in:		
Accounts receivable	274	(3,796)
Other assets	39	306
Increase in:		
Accrued annual leave	250	(314)
Sale of land (Note 1)	0	3,064
Prior year adjustment to retained earnings	0	99
Total funds provided	**4,136**	**5,801**
Application of Funds		
Acquisition of capital assets	2,293	2,579
Decrease in:		
Accounts payable and accrued liabilities	2,068	212
Reduction of paid-in-capital-sale of land (Note 1)	0	3,064
Total funds applied	**4,361**	**5,855**
Decrease in cash	**$ (225)**	**$ (54)**

The accompanying notes are an integral part of these financial statements.

Federal Home Loan Bank Board: Notes to Financial Statements, December 31, 1987 and 1986

1. Summary of Significant Accounting Policies:

a. Furniture, Fixtures, and Equipment (FF&E)—The FF&E cost at December 31, 1987 was $12,368,137 less accumulated depreciation of $9,310,405. The cost at December 31, 1986 was $12,367,816 less accumulated depreciation of $6,494,574. Depreciation was computed on the straight-line method based on an 11-year useful life. In September 1987 a review of the FF&E policy was made. It was determined that the new policy (which is subject to periodic review) would be that all FF&E up to $5,000 would be expensed and that FF&E over $5,000 would be capitalized and depreciated on the straight-line method over a 4-year useful life. This new policy change will result in a FF&E reduction of $3,057,732 over a 2-year period—$2,000,000 in 1988 and $1,057,732 in 1989.

b. Land and Building—These assets are recorded at cost less accumulated depreciation for the building. Cost of land was originally $10,165,227 and is now at $7,101,112 because the parcel of land at 3rd and D Streets, N.W., Washington, D.C., was sold in September 1986. The proceeds from the sale (cost $3,064,115 and gain $9,175,884) were reimbursed to the 12 FHLBanks since they were originally assessed for the land purchase. Building costs at December 31, 1987 and 1986, were $45,407,226 and $43,114,511 less accumulated depreciation of $8,588,934 and $7,649,727 respectively. Depreciation for the building is computed on the straight-line method over 50 years.

2. Related Parties—The twelve District Federal Home Loan Banks (FHLBanks), together with their member institutions, comprise the primary components of the FHLBank System. In addition, their affiliated organizations—the Federal Savings and Loan Insurance Corporation, the Office of Regulatory Policy, Oversight and Supervision, the Federal Home Loan Mortgage Corporation, the Office of Finance and the Neighborhood Reinvestment Corporation—assist in carrying out the Bank System's mission. The FHLBank System is governed and regulated by the Federal Home Loan Bank Board (Bank Board) which is an independent Federal agency in the executive branch of government. The Bank Board is the chartering and regulatory authority for the federal savings and loan associations and federal mutual savings banks. Further, the Bank Board, through the Federal Savings and Loan Insurance Corporation (FSLIC), governs the insurance of accounts in savings and loan associations and mutual savings banks. Bank Board expenses are met through assessments from the FHLBanks (25 percent) and the FSLIC (75 percent). This income is recognized as earned monthly; assessment income for the FHLBanks and the FSLIC for 1987 was $8,071,260 and $25,603,496 respectively.

3. Retirement Plan—Approximately 73% of the Bank Board's employees are covered by the Civil Service Retirement System (CSRS), which is currently two-tiered. For employees hired prior to January 1, 1984, the Bank Board withholds approximately 7 percent of their gross earnings. This contribution is then matched by the Bank Board and the sum is transferred to the Civil Service Retirement Fund, from which this employee group will receive retirement benefits. For employees hired on or after January 1, 1984, with more than five years of service (not necessarily continuous), the Bank Board withholds, in addition to Social Security withholdings, approximately 1.3 percent of their gross earnings, but matches such withholdings with a 7 percent contribution. At the point such earnings exceed the FICA maximum wages of $43,800 for 1987, employees covered under this tier of CSRS are required to have 7 percent of their earnings withheld while the agency expense remains a 7 percent contribution. This second employee group will receive retirement benefits from the CSRS along with the Social Security System, to which they concurrently contribute. Beginning in January 1987, all employees hired since January 1, 1984, either as new employees or as having less than 5 years of accumulated service (with a break in service over one year) are included in the new Federal Employee Retirement System (FERS). For such employees the Bank Board withholds 1.3% of their gross earnings and matches those withholdings with a 14.8 percent contribution (through 10/10/87) and a 12.5% contribution effective 10/11/87. This group of employees will receive benefits from the FERS as well as the Social Security System to which they concurrently contribute. The retirement expenses incurred for all plans during calendar years 1987 and 1986 were $1,381,947 and $1,025,131, respectively.

Although the Bank Board funds a portion of pension benefits under both of the above Retirement Systems relating to its employees and makes the necessary payroll withholdings from them, the Bank Board does not account for the assets of either retirement plan nor does it have actuarial data with respect to accumulated plan benefits or the unfunded pension liability relative to its employees. These amounts are reported by the Office of Personnel Management for both Retirement Systems and are not allocated to the individual employers. Except for one retired employee who has health insurance through the Bank Board's own health plan, the Office of Personnel Management accounts for all health and life insurance programs for retired federal employees.

4. Capital:

	(in thousands) 1987	1986
Retained Earnings at Beginning of Year	$12,857	$ 8,306
Prior Year Adjustment	–0–	99
Adjusted Beginning Retained Earnings	12,857	8,405
Net Income (Loss)	(182)	4,452
Retained Earnings at End of Year	12,675	12,857
Paid-in-Capital at Beginning of Year	41,030	44,094
Sale of Land (3rd and D Sts.) (Note 1)	–0–	(3,064)
Paid-in-Capital at End of Year	41,030	41,030
Total Capital at End of Year	**$53,705**	**$53,887**

5. Litigation—At the end of 1987, legal actions were pending that involved the Bank Board. Currently, it is not possible to predict the eventual outcome of the various actions. However, it is management's opinion that these claims will not result in liabilities to such an extent that they will materially affect the FHLBB's financial position.

GAO

United States
General Accounting Office
Washington, D.C. 20548

Comptroller General
of the United States

B-114893

To the Chairman
Federal Home Loan Bank Board

We have examined the consolidated statements of financial condition of the Federal Savings and Loan Insurance Corporation as of December 31, 1987 and 1986, and the related consolidated statements of income and expense and reserves, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. In addition to this report on our examination of the Corporation's 1987 and 1986 consolidated financial statements, we are also reporting on our study and evaluation of internal accounting controls and compliance with laws and regulations.

SAVINGS AND LOAN INDUSTRY'S FINANCIAL CONDITION

Over the past decade, the savings and loan industry has experienced severe financial difficulties. During this time, as restrictions on interest rates on deposits were progressively lifted and competition for deposits escalated, savings and loan associations had to pay increasingly higher interest rates to preserve their core deposits at the same time they were encumbered with low-yielding loan portfolios. The resulting negative interest rate spread led to large industrywide operating losses and capital depletion in 1981 and 1982. With the liberalization in the early 1980s of the types of activities in which thrifts could participate, many institutions began to diversify their asset portfolios away from traditional home mortgage loans and into other activities. These activities included transactions such as acquisition, development, and construction loans, and various direct investments, which offer potentially higher rates of return, but carry commensurate risk. Moreover, the profitability of many of these activities was predicated upon continued increases in real estate values to make them economically viable.

Although interest rates declined sharply beginning in late 1982, reducing or eliminating the negative interest rate spread problem, many institutions have been adversely affected by substantial losses on their loans and investments. These losses have been further compounded by the severe economic downturn in the Southwest. Between the end of 1982 and 1986, the number of insolvent thrifts as measured by generally accepted accounting principles more than doubled from about 220 to 460.

In 1987, the industry's financial condition continued to deteriorate. The 3,147 FSLIC-insured savings and loan institutions reported an overall net loss of $6.8 billion. Although nearly two-thirds of these institutions operated profitably, earning $6.6 billion during the year, those profits were far outweighed by the $13.4 billion in losses incurred by the remaining one-third of the institutions, located primarily in the Southwest. In 1987, the number of insolvent institutions further increased to 505, with reported negative net worth of $18 billion.

THE CORPORATION'S FINANCIAL CONDITION

The deterioration of the industry's financial condition has overwhelmed the resources the Corporation had accumulated to protect depositors. At the end of 1980, the Corporation had reserves of $6.5 billion, representing 1.35 percent of total insured deposits; at December 31, 1987, it had a deficit of $13.7 billion. Due to increasing costs related to insurance activities, the Corporation began incurring losses in 1984. The Corporation's 1987 loss of $8.6 billion was primarily due to the $3.5 billion in costs related to institutions that have closed or received assistance and to the $6.9 billion increase in its liability for failed but still operating institutions.

GAO

United States
General Accounting Office
Washington, D.C. 20548

Comptroller General
of the United States

B-114893

The accompanying financial statements reflect a $17.4 billion liability for the expected costs of resolving the problems of the more than 200 hopelessly insolvent institutions for which the Corporation had assumed responsibility as of December 31, 1987, as well as several other institutions whose problems the Corporation expects to resolve in 1988. Because of the thrift industry's continuing difficulties, the Corporation has had to accept responsibility for increasing numbers of savings and loan institutions needing financial assistance. At the same time, its own weakened financial condition has prevented it from taking prompt action to liquidate or assist troubled institutions. As a result, a significant number of the failed but still operating institutions that were in the Corporation's 1986 caseload remained in its 1987 caseload. In 1986, the Corporation's caseload increased from 93 institutions to 183. During 1987, its caseload further increased to 205. These 205 institutions reported total assets of $52.1 billion and negative tangible net worth of $14.6 billion at the end of 1987. In contrast, the 183 institutions in the Corporation's 1986 caseload reported total assets of $55.1 billion and negative tangible net worth of $8.2 billion.

The $17.4 billion liability at December 31, 1987, is not a projection of the cost to resolve all known problems in the industry. Instead, as previously noted, it is primarily the estimated cost to resolve the problems of those insolvent institutions for which the Corporation had assumed responsibility. At December 31, 1987, almost 300 additional institutions with assets of about $88 billion were insolvent under generally accepted accounting principles, exposing the Corporation to further risk.

A precise estimate of the eventual cost to resolve the problems of the 300 additional institutions cannot presently be made because the cost depends upon various uncertainties, such as the quality of each institution's assets, future interest rates, and the economic outlook for certain sectors of the economy in which many of the troubled institutions operate. The Corporation believes that the negative tangible net worth of those institutions indicates that the cost to resolve the problems of the additional 300 institutions will be at least $5.3 billion. We believe that this estimate may substantially understate the magnitude of financial assistance the institutions will need.

These institutions, which have been incurring losses and which the Corporation probably will not act on for several years, will likely incur future operating losses, thus increasing the eventual costs the Corporation must absorb. In addition, the historical costs of resolving institutions' problems have consistently exceeded the reported negative tangible net worth of those institutions. Over the last 3 years, liquidating and merging institutions has cost the Corporation more than 20 percent of an institution's assets and has generally exceeded negative tangible net worth by almost 70 percent. Our estimates of the Corporation's ultimate cost to deal with these additional institutions, using historical factors, would indicate that the potential cost for the 300 additional institutions could be substantially in excess of the currently reported $5.3 billion negative tangible net worth, and range from $9 to $19 billion.

OUTLOOK FOR THE CORPORATION

Our opinion on the Corporation's 1986 financial statements, dated May 1, 1987, was qualified as subject to the Corporation "obtaining sufficient funds to continue operating and to meet its obligations." On August 10, 1987, the Congress passed the Competitive Equality Banking Act of 1987 which provides for recapitalizing the Corporation through the sale of a maximum of $10.8 billion in bonds over a 3- to 10-year period. The bonds will be repaid by the proceeds from zero coupon securities purchased with Federal Home Loan Bank funds, while the interest will be paid using a substantial portion of the insurance premiums the Corporation would otherwise receive over the next 30 years.

GAO United States
General Accounting Office
Washington, D.C. 20548

Comptroller General
of the United States

B-114893

Over the next 10 years, the Corporation expects to have about $28 billion in net new funds from regular assessments, special assessments, and the sale of bonds authorized by the Competitive Equality Banking Act of 1987, as well as from the sale of assets from existing receiverships available for resolutions and other operating expenses. Although this amount covers the current estimated cost related to the Corporation's 1987 caseload, depending upon the outcome of various uncertainties, it probably will not be adequate to resolve the problems of the additional 300 troubled institutions or to address any future problems in the industry.

In estimating its funds available for resolutions, the Corporation has assumed the following.

—The amount of FSLIC-insured deposits will grow by more than 7 percent each year. While this assumption is consistent with overall growth during the last 10 years, it exceeds the growth rate over the last 3 years. Further, this assumption implies that no significant number of institutions will leave the FSLIC system in spite of the planned expiration in August 1988 of the moratorium on exits from the system. This assumption further implies that other financial institutions will not be able to take away any substantial portion of the thrift industry's current business.

—It will continue the special assessment of one-eighth of one percent of insured deposits throughout the next 10 years, and will not phase it out in accordance with section 306(c) of the Competitive Equality Banking Act of 1987 or as contemplated by its April 12, 1988 proposed regulation, under which the special assessment would be phased out for thrifts meeting certain capital requirements.

—Recapitalization bonds will continue to be marketed at interest rates of slightly less than 10 percent.

In determining the costs related to its caseload, the Corporation has assumed the following.

—It can minimize its resolution costs by selling or merging substantially all institutions rather than liquidating them since liquidations are almost invariably more expensive than mergers. However, over the last 5 years, almost one-third of the Corporation's resolutions were liquidations.

—It can act on most of the problem institutions in the next 2 years, thus minimizing those institutions' additional losses and the cost to the Corporation. Since assistance agreements usually contain provisions requiring the Corporation to, as a minimum, compensate the acquirer for the negative net worth of the troubled institutions, allowing institutions to continue operating and incurring additional losses would increase the Corporation's resolution costs.

—Interest rates will remain favorable and will not increase to any significant extent. Any significant increase in costs of funds to the thrift industry could again exacerbate the financial pressures on the industry and cause additional deterioration in capital and profitability.

—Virtually no new problem cases will develop in the industry over the next 10 years and no further resolution costs will be incurred beyond those currently identified.

We believe that these assumptions are relatively optimistic and, as with any projection, may prove incorrect. An adverse change in any of these assumptions will reduce the Corporation's available funds or increase its resolution costs, thus affecting its ability to resolve the industry's problems.

GAO

United States
General Accounting Office
Washington, D.C. 20548

Comptroller General
of the United States

B-114893

Finally, while it was initially contemplated, both in originally establishing the Corporation and in recapitalizing it in 1987, that the industry would be able to provide the funds needed to resolve its problems, the deteriorated capital position and poor operating results of a large segment of the industry seriously impair the industry's ability to do so. In this regard, the deterioration has continued up to the present—in the first quarter of 1988, the industry reported further capital losses of $3.3 billion.

GAO OPINION

As a result of the above conditions, namely,

—the magnitude of the resolution costs for currently insolvent institutions,

—the uncertainties about the Corporation's future revenue streams,

—the Corporation's current $13.7 billion deficit, and

—the industry's deteriorated financial condition,

we believe that further congressional action, beyond that already taken under the Competitive Equality Banking Act of 1987 to recapitalize the Corporation, may well be needed to enable the Corporation to continue to meet its obligations and provide the deposit insurance it is mandated to provide.

In our opinion, subject to the potential need for further congressional action to enable the Corporation to resolve the industry's problems and meet its obligations, the financial statements referred to above present fairly the financial position of the Federal Savings and Loan Insurance Corporation as of December 31, 1987 and 1986, and the results of its operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Charles A. Bowsher

Charles A. Bowsher
Comptroller General
of the United States

May 17, 1988

Federal Savings and Loan Insurance Corporation: Consolidated Statement of Financial Condition, December 31, 1987 and 1986
(in thousands)

	1987	1986
Assets		
Cash	$ 12,415	$ 42,209
Investments (Note 3)	3,357,173	3,986,515
Interest receivable on investments	1,000	19,035
Insurance premiums and accounts receivable	506	913
Contributions subject to repayment	18,544	27,423
Subrogated accounts from receivers (Note 4)	3,988,495	2,827,489
Collateralized advances from receivers (Note 4)	814,047	824,484
Loans to receivers (Note 5)	113,573	117,274
Interest receivable on loans to receivers	3,767	2,016
Collateralized loans to insured institutions (Note 6)	900,000	900,000
Other loans to insured institutions (Note 6)	214,181	113,502
Interest receivable on other loans to insured institutions	10,533	2,778
Real estate, mortgage loans and other assets in process of liquidation (Note 7)	173,437	293,056
Income capital certificates (Notes 8 and 10)	656,742	1,436,781
Net worth certificates (Notes 9 and 10)	225,025	272,650
Other assets	19,009	6,885
Total assets	**10,508,447**	**10,873,010**
Liabilities		
Accounts payable and other liabilities	102,230	61,138
Notes payable and other liabilities to insured institutions (Note 10)	4,947,463	4,872,750
Accrued interest on notes payable to insured institutions	99,905	97,941
Notes payable to Federal Home Loan Banks (Note 6)	900,000	900,000
Allowance for loss—assistance agreements (Note 11)	749,069	774,072
Allowance for loss—unresolved cases (Note 15)	17,400,000	10,500,000
Total liabilities	**24,198,667**	**17,205,901**
Insurance Fund Reserves		
Capital stock	129,500	0
Capital certificates	1,070,500	0
Reserves	(14,890,220)	(6,332,891)
Total primary reserve (Note 13)	(13,690,220)	(6,332,891)
Total liabilities and reserves	**$10,508,447**	**$10,873,010**

The accompanying notes are an integral part of these financial statements.

Federal Savings and Loan Insurance Corporation: Consolidated Statement of Income and Expense and Reserves for the Years Ended December 31, 1987 and 1986
(in thousands)

	1987	1986
Income		
Insurance premiums (Note 1)	$ 734,021	$ 750,678
Special assessment premiums (Note 1)	1,119,582	1,078,774
Interest on investments	112,552	368,005
Interest on collateralized advances	8,814	7,458
Interest on NWCs & ICCs	60,607	24,236
Interest on other loans to insured institutions	28,010	6,446
Interest on collateralized loans to insured institutions	101,240	48,572
Interest on advances to insured institutions	47,051	0
Interest on mortgage loans and other assets in process of liquidation	17,159	13,236
Gain on sale of assets	32,299	620
Gain on transfer of insured accounts	31,710	64,871
Other income	102,084	44,700
Total income	**2,395,129**	**2,407,596**
Expenses		
Insurance settlement and administrative expenses for FSLIC	192,593	63,504
Services rendered to FSLIC by the Federal Home Loan Bank Board (Note 2)	25,604	24,820
Interest applied to the secondary reserve (Note 13)	0	52,793
Interest on notes payable to Federal Home Loan Banks	78,928	45,653
Interest on notes payable to insured institutions	237,789	217,979
Provision for loss on:		
Subrogated accounts from receivers (Note 4)	1,623,060	3,195,274
Collateralized advances from receivers (Note 4)	145,313	(254,174)
Real estate, mortgage loans and other assets in process of liquidation (Note 7)	106,943	40,509
Loans to receivers (Note 5)	24,225	0
Income capital certificates (Notes 8 and 10)	281,793	127,599
Assistance agreements (Note 11)	1,334,730	889,404
Unresolved cases (Note 15)	6,900,000	8,944,000
Total expenses	**10,950,978**	**13,347,361**
Net income (loss) from operations	**(8,555,849)**	**(10,939,765)**

Primary reserve at beginning of period	(6,332,891)	3,783,169
Net income (loss)	(8,555,849)	(10,939,765)
Add transfer of secondary reserve at 12/31/86	0	823,705
Secondary reserve adjustments after transfer	(1,480)	0
Capital stock	129,500	0
Capital certificates	1,070,500	0
Primary reserve at end of period (Note 13)	**($13,690,220)**	**($6,332,891)**

The accompanying notes are an integral part of these financial statements.

Federal Savings and Loan Insurance Corporation: Consolidated Statement of Changes in Financial Position for the Years Ended December 31, 1987 and 1986

(in thousands)

	1987	1986
Source of Funds:		
Net income (loss)	$ (8,555,849)	$(10,939,765)
Add (deduct) items not requiring, or generating cash:		
Depreciation of FF&E	3,227	332
Accretion and amortization of investments	1,972	6,224
Interest applied to the secondary reserve	0	52,793
Transfer from the secondary reserve	0	(91)
Gain on transfer of insured accounts	(31,710)	0
Provision for loss on:		
Subrogated accounts (Note 4)	1,623,060	3,195,274
Collateralized advances from receiver (Note 4)	145,313	(254,174)
Real estate, mortgage loans and other assets (Note 7)	106,943	40,509
Income capital certificates (Notes 8 and 10)	281,793	127,599
Assistance agreements (Note 11)	1,334,730	889,404
Unresolved cases (Note 15)	6,900,000	8,944,000
Loans to receivers	24,225	0
Funds provided from operations	1,833,704	2,062,105
Sale of capital stock	129,500	0
Sale of capital certificates	1,070,500	0
Increase in:		
Accounts payable and other liabilities	41,092	11,822
Notes payable and other liabilities to insured institutions (Note 10)	74,713	2,271,870
Accrued interest on notes payable to insured institutions	1,964	36,542
Decrease in:		
Insurance premiums and accounts receivable	407	6,358
Investments and interest receivable	644,945	2,162,790
Real estate, mortgage loans & other assets in process of liquidation	13,136	(106,144)
Contributions subject to repayment	8,879	1,667
Income capital certificates	498,247	(29,621)
Net worth certificates	47,625	1,850
Total funds provided	**4,364,712**	**6,419,239**
Application of Funds:		
Amount paid under assistance agreements	1,359,733	889,336
Secondary reserve refund	1,480	3,230
Increase in:		
Subrogated accounts	2,752,355	5,186,607
Loans to insured institutions and interest receivable	108,434	(18,684)
Collateralized advances from receiver	134,876	287,755
Loans to receivers and interest receivable	22,275	33,014
Other assets	15,353	5,215
Total funds applied	4,394,506	6,386,473
Increase (Decrease) in cash	**$ (29,794)**	**$ 32,766**

The accompanying notes are an integral part of these financial statements.

Federal Savings and Loan Insurance Corporation: Notes to Financial Statements, December 31, 1987 and 1986

1. Summary of Significant Accounting Policies:

a) Principles of consolidation—The FSLIC began accounting for its investment in the Federal Asset Disposition Association (FADA), a wholly owned subsidiary, through consolidation effective December 31, 1986. However, these consolidated statements do not include accountability for assets and liabilities of closed insured institutions for which the Corporation acts as receiver or liquidating agent. The Corporation furnishes periodic and final accountability reports of its Receivership or liquidating agent activities to courts, supervisory authorities, and other interested parties as requested.

b) Premium income recognition—Insurance premium income is recognized as earned when member institutions are assessed. These premiums are assessed annually and semi-annually based on an institution's insured anniversary date. On August 10, 1987 the Congress passed the Competitive Equality Banking Act of 1987 (CEBA), PL 100-86. Title III, Section 305 of this act limits FSLIC's authority to collect premiums by reducing them by the amount the newly created Financing Corporation assesses. The rate of assessment may not exceed 1/12 of one percent of the insured institution's total savings capital, whether the premiums are paid to the FSLIC, the Financing Corporation, or a combination of both. As of result of CEBA, $31.2 million of insurance premiums were assessed and collected by the Financing Corporation during 1987.

c) Special assessment recognition—In addition to the regular insurance premiums, the Corporation has the authority under Section 404(c) of the National Housing Act to assess each insured member a special assessment premium not to exceed 1/8 of one percent of their total savings capital. The special assessment is billed quarterly and income is recognized as earned when member institutions are billed. Title III, Section 306(c) of the Competitive Equality Banking Act of 1987 also placed limitations on the amount of special assessments for the years 1987 through 1991. The 1987 limitation was 5/48 of one percent. However, the Act allowed the Board to postpone the reduction in the special assessment until 1988 if the Board determined that such postponement would improve the financing environment for selling obligations of the Financing Corporation. The Board approved a postponement of the reduction on December 14, 1987.

d) Allowance for loss—The Corporation's policy is to establish an estimated allowance for loss at the time the Bank Board approves financial assistance to an insured institution. The type of financial assistance provided may be in several forms (Notes 4 thru 11). The estimated allowance for the assistance given, represents the purchase price of the assets of a failed or troubled institution less the estimated recovery value, including all liquidation costs. These allowances are reviewed at least annually and are adjusted to reflect projected interest rates, recent appraisals, and historical experience, etc.

The allowance for loss on unresolved cases includes bid prices received by FSLIC and the estimable and probable resolution costs of the remaining thrifts in the FSLIC caseload; plus an additional allowance for institutions located in the Southwest that were not part of the FSLIC caseload as of December 31, 1987. The $17.4 billion allowance for loss on unresolved cases only includes future assistance that is probable and can be reasonably estimated and is not a projection of the cost of resolving all future problems in the savings and loan industry which present projections indicate could amount to $22.7 billion or more. The allowance for unresolved cases is reviewed at least annually and is adjusted to reflect changes in FSLIC's financial assistance caseload or as institutions are solved. The Corporation believes that adequate resources exist to provide needed assistance to troubled or failed thrifts.

e) Furniture fixtures, and equipment (FF&E)—The FF&E cost at December 31, 1987 was zero. The cost at December 31, 1986 was $2,769,864 less accumulated depreciation of $434,696. Depreciation was computed on the straight-line method based on an 11-year useful life. Beginning on October 1, 1986, the FSLIC changed its FF&E policy to expense all new FF&E purchases below $250,000 and to capitalize and depreciate only those purchases that exceeded this limit or were made in a prior year. The prior year capitalized purchases were depreciated through September 30, 1987 at which time a further review of the FF&E policy was made. It was determined that for the purpose of consistency all FF&E should be expensed. This new policy change resulted in a one time 1987 FF&E reduction of $2,128,626 and an increase to depreciation expense. The FF&E of FADA, however, is capitalized and stated at cost less accumulated depreciation, with depreciation computed on a straight line basis over the estimated useful lives of the assets. The net balance is insignificant and is included in other assets.

f) Reclassification—Reclassifications have been made in the 1986 Financial Statements to conform to the presentation used in 1987.

2. Related Parties—The Federal Savings and Loan Insurance Corporation, a government agency created by the National Housing Act of 1934, is governed by the Federal Home Loan Bank Board. Bank Board expenses are met through assessments to the FSLIC and the FHLBanks. The FSLIC's share of the Bank Board assessment is charged to operating expenses during the year in which the assessment is levied. In addition to Bank Board, FSLIC interacts with FHLBanks, FADA and the Financing Corporation which are also under the Bank Board's direction.

FHLBanks—The FSLIC, as part of its default prevention activities, may guarantee repayment of FHLBank advances that have been made to certain insured institutions. These guarantees generally cover advances that are secured. As of December 31, 1987, the FSLIC had guaranteed commitments of $7.3 billion, of which $2.3 billion had been advanced to member associations. By comparison, as of December 31, 1986, guaranteed commitments totaled $8.7 billion, of which $3.6 billion had been advanced. In the event that FSLIC is called upon to honor these guarantees, they are recorded as an asset. The FSLIC also has a claim against any assets pledged as collateral to secure such advances.

The FHLBanks are also authorized, as directed by the Bank Board, to make loans to the FSLIC. All such loans must be in accordance with the provisions of section 402(d) of the National Housing Act. Loans from FHLBanks were $900 million as of December 31, 1987 and 1986 and have been passed through to member institutions as Collateralized Loans (Note 6).

FADA—In November 1985, the Bank Board approved the formation of the Federal Asset Disposition Association, or FADA. The FADA, which is a wholly owned subsidiary of the FSLIC, manages and disposes of certain assets received by the FSLIC in case resolution actions. As of December 31, 1986, the FSLIC had purchased 25,000 shares of FADA common stock for $25 million. At December 31, 1987, FADA reported assets of $26.8 million, liabilities of $12.4 million, and a retained deficit of $10.6 million.

Under a contract with the Federal Home Loan Bank of Topeka, the FSLIC has guaranteed repayment of up to $50 million in Bank advances to the FADA. As of December 31, 1987, and 1986, the FADA borrowed $7.0 million, and $800,000, respectively, against this open line of credit.

Financing Corporation—Title III, Section 302 of the Competitive Equality Banking Act of 1987 establishes a newly created Financing Corporation. The Financing Corporation (FICO) is funded by the FHLBanks investment and its issuance of public debt offerings which are limited to $10.8 billion. The net proceeds of obligations issued by the Financing Corporation are required to be used to purchase capital stock or capital certificates issued by the FSLIC (Note 13). Through December 31, 1987, the FICO has purchased $1.2 billion in FSLIC capital stock and capital certificates.

3. Investments—Investment securities are stated at cost, adjusted for amortization of premiums and accretion of discounts. Such amortization and accretion are computed by the interest method at rates based upon the maturity dates of the related securities. Both amortization and accretion are recognized as an adjustment to Interest on Investments.

All cash received by the Corporation which is not used to defray operating expenses or for outlays related to assistance to insured institutions and liquidation activities, is invested in U.S. Treasury securities. Other Investments are mostly S&L stock and GNMAs issued by Federal Government Agencies other than the U.S. Treasury which were obtained through the Corporation's default prevention activities.

As of December 31, 1987 and 1986, the Corporation's investment portfolio consisted of the following:

	1987		1986	
	Book Value	Market Value	Book Value	Market Value
	(in thousands)		(in thousands)	
U.S. Treasury Securities:				
Overnight Funds	$2,910,410	$2,910,410	$3,154,595	$3,154,595
Maturities up to One Year	0	0	446,695	447,976
Maturities Over One Year	0	0	242,952	246,659
Subtotal:	2,910,410	2,910,410	3,844,242	3,849,230
Other Investments:				
Maturities up to One Year	51,985	51,801	2,500	2,497
Maturities Over One Year	5,017	4,857	74,083	73,690
Total Securities	2,967,412	2,967,068	3,920,825	3,925,417
Preferred Stock	389,761	389,761	65,690	65,690
Total Investments:	**$3,357,173**	**$3,356,829**	**$3,986,515**	**$3,991,107**

4. Subrogated accounts and collateralized advances—As required by Statute, an institution is closed only when there is no default prevention measure that would be less costly than liquidation. In these cases, FSLIC settles insurance claims either by cash payout of insured accounts or by transferring insured accounts to another insured institution. The FSLIC's claims on the receivership of the liquidated institution are equal to the amount of the insured accounts transferred and/or the collateralized advances paid.

In most cases, a receivership does not have sufficient assets to pay all of its claims; therefore, FSLIC must estimate how much of each claim will be recovered over the life of the receivership and record the difference as an allowance for loss against the claim.

The changes in Subrogated Accounts and Collateralized Advances for the years ended December 31, 1987 and 1986, are:

	Subrogated Accounts		Collateralized Advances	
	1987	1986	1987	1986
	(in thousands)		(in thousands)	
Balance: Beginning of Year	$7,711,976	$2,525,370	$855,951	$569,293
Add: Increase	2,784,065	5,186,606	134,876	287,755
Less: Actual Losses Incurred	(767)	0	0	(1,097)
Balance: End of Year	10,495,274	7,711,976	990,827	855,951
Less: Allowance for Loss (Cumulative)	(6,506,779)	(4,884,487)	(176,780)	(31,467)
Net: End of Year	**$3,988,495**	**$2,827,489**	**$814,047**	**$824,484**

5. Loans to receivers—The FSLIC makes loans available to meet the administrative and operating expense requirements of certain receiverships. These loans are to be repaid from the liquidation of unencumbered assets of the receivership.

The changes in Loans to Receivers for the years ended December 31, 1987 and 1986, are:

	Loans to Receivers	
	1987	1986
Balance: Beginning of Year	$117,274	$ 86,276
Add: Increase (Decrease)	20,524	30,998
Balance: End of Year	137,798	117,274
Less: Allowance for Loss (Cumulative)	(24,225)	0
Net: End of Year	**$113,573**	**$117,274**

6. Loans to insured institutions—The FSLIC makes both collateralized and other types of loans in assistance cases. The collateralized loans have been funded by pass-through loans from FHLBanks. In these transactions, FSLIC issues a note payable to the FHLBank and loans the proceeds to an insured institution. The FSLIC has two loans of this type, one for $200 million and one for $700 million, totaling $900 million. Interest rates on the $200 million loan and the corresponding note to the FHLBank are the same and averaged 6.6% in 1987. The interest rate on the remaining $700 million loan is based on the monthly weighted-average cost of funds charged to members of the FHLBank in which the institution is located and ranged from 7.2% to 7.6% in 1987. Interest on the corresponding note to the FHLBank is based on the cost of FHLBank funds plus 20 basis points. This rate varied between 6.0% and 7.5% during 1987. Annual principal payments on the collateralized loans begin in 1988 and end in 1995.

The $214.2 million in Other Loans to Insured Institutions is shown net of a $5.4 million allowance which was established in 1985. The interest rate on these loans varies with each note.

7. Real estate, mortgage loans, and other assets—The FSLIC makes direct acquisitions of troubled assets from problem associations in its attempt to merge a failing institution. The vast majority of these assets consists of real estate and mortgage loans. An allowance for loss has been established to reduce these assets to their net realizable value.

The changes in Real Estate, Mortgage Loans and Other Assets in Process of Liquidation for the years ended December 31, 1987 and 1986, are:

	December 1987	December 1986
	(in thousands)	
Balance: Beginning of Year	$337,479	$257,749
Add: Increase (Decrease)	(49,560)	79,730
Balance: End of Year	287,919	337,479
Less: Allowance for Loss (Cumulative)	(114,482)	(44,423)
Net: End of Year	**$173,437**	**$293,056**

8. Income capital certificates—Since 1981 the FSLIC has purchased Income Capital Certificates (ICCs) from insured institutions as part of its default prevention activities. The FSLIC usually purchases an ICC by issuing a note payable and records the ICC at cost (Note 10). The ICCs earn annual income payments based on the United States Treasury Bill rates. The annual income payments and principal are redeemable upon the issuing institution having profitable operations and attaining a specified net worth level.

The changes in the ICCs for the years ended December 31, 1987 and 1986, are:

	1987	1986
	(in thousands)	
Balance: Beginning of Year	$2,219,544	$2,330,923
Add: Net Purchases or (Cancellations)	(573,661)	(111,379)
Balance: End of Year	1,645,883	2,219,544
Less: Allowance for Loss (Cumulative)	(989,141)	(782,763)
Net: End of Year	**$ 656,742**	**$1,436,781**

9. Net worth certificates—Since 1982 the FSLIC has purchased Net Worth Certificates (NWCs) from insured institutions as part of its default prevention activities. The FSLIC purchases an NWC by issuing a note payable and records the NWC at cost (Note 10). NWCs earn annual income payments based on the cost of Federal Home Loan Bank System Obligations plus ¼ of one percent. Annual income and principal payments are due upon the issuing institution having profitable operations and attaining a specified net worth level. The legislation authorizing the issuance of net worth certificates expired in October 1986 and was reinstated with the passage of the Competitive Equality Banking Act of 1987 on August 10, 1987.

The changes in the NWCs for the years ended December 31, 1987 and 1986, are:

	1987	1986
	(in thousands)	
Balance: Beginning of Year	$272,650	$292,000
Add: Net Purchases or (Cancellations)	(47,625)	(19,350)
Balance: End of Year	225,025	272,650
Less: Allowance for Loss (Cumulative)	0	0
Net: End of Year	**$225,025**	**$272,650**

10. Notes payable and other liabilities to insured institutions—The FSLIC has outstanding negotiable notes to purchase ICCs and promissory notes to purchase ICCs and NWCs. Variable interest is paid semiannually based on the cost of Federal Home Loan Bank System Obligations or the average auction yield for United States Treasury Notes with maturities from 5-10 years. In addition to issuing notes to purchase ICCs and NWCs, the FSLIC has also issued notes to insured institutions who have acquired the deposits of defaulted S&Ls. The principal on these notes may be paid through the transfer of cash and/or assets to the acquirer. The interest on these notes is paid semiannually based on an average auction yield of U.S. Treasury Bills with maturities from 13-26 weeks plus 15 basis points. In addition to these notes, FSLIC has other liabilities to acquiring institutions of $302 million.

The aggregate amount of the Notes Payable to Insured Institutions and their maturity dates as of December 31, 1987, are as follows:

	ICCs	NWCs	Acquirers	Other	Total
			(in thousands)		
1988	$ 0	$ 0	$1,161,128	$ 21,894	$1,183,022
1989	0	0	0	0	0
1990	839,587	0	809,544	0	1,649,131
1991	160,919	0	939,487	0	1,100,406
1992	0	26,825	0	15,000	41,825
Later	27,000	178,200	0	465,578	670,778
Total	**$1,027,506**	**$205,025**	**$2,910,159**	**$502,472**	**$4,645,162**

11. Allowance for loss-assistance agreement—The FSLIC enters into assistance agreements, which are usually associated with mergers, to prevent the default of an insured institution. Under these agreements the Corporation agrees to give financial assistance over time. All future cash outlays are discounted to their present value. The changes in the allowance for loss on Assistance Agreements for the years ended December 31, 1987 and 1986, are:

	1987	1986
	(in thousands)	
Balance: Beginning of Year	$ 774,072	$ 774,004
Add: Provisions	1,334,730	889,404
Less: Assistance Paid	(1,359,733)	(889,336)
Balance: End of Year	**$ 749,069**	**$ 774,072**

12. Retirement Plan—Approximately 36% of the FSLIC's employees are covered by the Civil Service Retirement System (CSRS), which is currently two-tiered. For employees hired prior to January 1, 1984, the FSLIC withholds approximately 7 percent of their gross earnings. This contribution is then matched by the FSLIC and the sum is transferred to the Civil Service Retirement Fund, from which this group will receive retirement benefits. For employees hired on or after January 1, 1984, with more than five years of service (not necessarily continuous), the FSLIC withholds, in addition to Social Security withholdings, approximately 1.3 percent of their gross earnings, but matches such withholdings with a 7 percent contribution. At the point such earnings exceed the FICA maximum wages of $43,800 for 1987, employees covered under this tier of CSRS are required to have 7 percent of their earnings withheld while the agency expense remains a 7 percent contribution. This second employee group will receive retirement benefits from the CSRS along with the Social Security System, to which they concurrently contribute. Beginning in January 1987, all employees hired since January 1, 1984, either as new employees or as having less than 5 years of accumulated service (with a break in service over one year) are included in the new Federal Employee Retirement System (FERS). For such employees the FSLIC withholds 1.3% of their gross earnings and matches those withholdings with a 14.8 percent contribution (through 10/10/87) and a 12.5% contribution effective 10/11/87. This group of employees will receive benefits from the FERS as well as the Social Security System to which they concurrently contribute. The retirement expenses incurred for all plans during calendar years 1987 and 1986 were $1,353,587 and $733,715, respectively.

Although the FSLIC funds a portion of pension benefits under both of the above retirement systems relating to its employees and makes the necessary payroll withholdings from them, the FSLIC does not account for the assets of either retirement plan nor does it have actuarial data with respect to accumulated plan benefits or the unfunded pension liability relative to its employees. These amounts are reported by the Office of Personnel Management for both retirement systems and are not allocated to the individual employers. The Office of Personnel Management accounts for all health and life insurance programs for retired federal employees.

13. Reserves—The FSLIC's total reserves available for losses in 1986 consisted of a Primary and Secondary Reserve. The Primary Reserve was the cumulative net income (loss) of the FSLIC since its inception. The Secondary Reserve was the equity of certain institutions in FSLIC based on premium prepayments and related interest not yet paid to these institutions.

Because the FSLIC suffered losses during calendar year 1986 in excess of all of its reserves, the secondary reserve was eliminated in order to further reduce losses in the primary reserve. However, Title III, Section 307 of the Competitive Equality Banking Act of 1987 (CEBA) authorizes insured institutions to offset against future special assessment premiums the amounts that were previously part of the "secondary reserve." This amount is currently $818.7 million but will decrease each year, beginning in 1988, by 20 percent of the declining balance.

Title III, Section 304 of CEBA also authorizes the FSLIC to issue equity in the form of redeemable non-voting capital stock and non-redeemable capital certificates. The non-voting capital stock is issued in an amount equal to the aggregate investment by the FHLBanks in the Financing Corporation. The Financing Corporation is the sole purchaser of both the capital stock and capital certificates and proceeds paid to the FSLIC from that purchase are included as part of its primary reserve. The FSLIC is prohibited from paying any dividends to the Financing Corporation on the capital stock or certificates.

As of December 31, 1987 and 1986, the Corporation's primary reserve consisted of the following:

	1987	1986
	(in thousands)	
Primary Reserve		
Balance: Beginning of Year	$ (6,332,891)	$ 3,783,169
Transfer of Secondary Reserve	0	823,705
Adjusted Beginning Balance	(6,332,891)	4,606,874
Net Income (loss)	(8,555,849)	(10,939,765)
Secondary Reserve Adjustments after transfer	(1,480)	0
Capital Stock	129,500	0
Capital Certificates	1,070,500	0
Balance: End of Year	**$(13,690,220)**	**$(6,332,891)**

14. Lease commitments—The FSLIC is currently leasing office space in three Washington, D.C. locations in order to accommodate its increased staffing levels. The minimum yearly rental expenses for each location are as follows:

	1735 Eye St. N.W.	801 17th St. N.W.	1776 G St. N.W.
1986	$410,230	$ —	$ —
1987	670,332	1,979,112	348,898
1988	279,305	5,937,336	380,554
1989	—	5,937,336	380,554
1990	—	5,937,336	380,554
1991	—	5,937,336	380,554
1992	—	6,088,336	380,554
Later	—	$65,170,748	$634,250

15. Allowance for loss—unresolved cases—The Corporation has established a contingent liability for future assistance to troubled (unresolved) institutions that is probable and estimable. The liability includes bid prices received by FSLIC and the estimable and probable resolution costs of the remaining thrifts in the FSLIC caseload; plus an additional allowance for institutions located in the Southwest that were not part of the FSLIC caseload as of December 31, 1987. Changes in the Allowance for Loss on Unresolved Cases for the years ended December 31, 1987, and 1986, are:

	1987	1986
	(in thousands)	
Balance: Beginning of Year	$10,500,000	$ 1,556,000
Add: Provisions	6,900,000	8,944,000
Balance: End of Year	**$17,400,000**	**$10,500,000**

16. Litigation—At the end of 1987, FSLIC was named in 45 legal or administrative actions, while its receiverships were involved in 481 cases. FSLIC in its capacity as conservator was also involved in 35 cases. Currently, it is not possible to predict the eventual outcome of the various actions. However, it is management's opinion that these claims will not result in liabilities to such an extent that they will materially affect the FSLIC's financial position.

Deloitte
Haskins+Sells

Suite 350
1001 Pennsylvania Avenue, N.W.
Washington, D.C. 20004-2505
(202) 879-5600
ITT Telex: 4995732

OPINION OF INDEPENDENT PUBLIC ACCOUNTANTS

The Financing Corporation:

We have examined the balance sheet of the Financing Corporation as of December 31, 1987 and the related statements of operations and of changes in cash and short-term investments for the period from August 28, 1987 (date of inception) through December 31, 1987. Our examination was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the *Standards for Audit of Governmental Organizations, Programs, Activities, and Functions* as promulgated by the Comptroller General of the United States and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of the Financing Corporation at December 31, 1987 and the results of its operations and the changes in its cash and short-term investments for the period from August 28, 1987 through December 31, 1987, in conformity with generally accepted accounting principles.

Deloitte Haskins + Sells

January 15, 1988

Financing Corporation Balance Sheet, December 31, 1987

ASSETS		
Cash and Short-Term Investments		
General operating account	$ 26,959,947	
Issuance and custodial account	77,255	
General administrative account	48,198	
Total cash and short-term investments		$ 27,085,400
Accounts receivable—administrative costs		5,988
Segregated Account Investments (Notes 2 and 3)		
Noninterest bearing securities	$1,908,054,000	
Noninterest bearing securities collateralized/receivable	85,000,000	
Total noninterest bearing securities	1,993,054,000	
Unaccreted discount on noninterest bearing securities	(1,838,629,880)	
Net investment in noninterest bearing securities (approximate market value $172,849,000)		154,424,120
Concession fees paid on Obligations (Notes 2 and 4)		7,461,223
Total Assets		**$ 188,976,731**
LIABILITIES AND CAPITAL (DEFICIT)		
Liabilities		
Obligations (Note 4)	$1,200,000,000	
Discount on Obligations (Notes 2 and 4)	(1,240,403)	
Net Obligations		$1,198,759,597
Accrued interest payable on Obligations		19,156,944
Accounts payable—bond issuance costs		24,389
Deferred assessments collected from FSLIC-insured institutions for:		
Interest and related costs (Note 2)		4,466,238
Discount on Obligations (Note 2)		1,240,403
Concession fees (Note 2)		7,461,223
Deferred assessments collected from FHLBanks for general administrative costs (Note 2)		54,187
Total Liabilities		**1,231,162,981**
Capital (Deficit)		
Nonvoting FICO capital stock issued to FHLBanks (Note 5)		155,500,000
Accumulated excess of assessments and investment income over costs		2,313,750
FSLIC redeemable nonvoting capital stock (Notes 2 and 6)		(129,500,000)
FSLIC nonredeemable capital certificates (Notes 2 and 6)		(1,070,500,000)
Total Capital (Deficit)		**(1,042,186,250)**
Total Liabilities and Capital (Deficit)		**$ 188,976,731**

See Notes to Financial Statements

Financing Corporation Statement of Operations For the Period August 28, 1987 (Date of Inception) through December 31, 1987

ASSESSMENTS AND INVESTMENT INCOME	
Assessments (Note 2)	
Thrift industry assessments received for interest, issuance and custodial costs	$32,185,035
Less:	
Amounts deferred in the current period:	
Assessments for interest, issuance and custodial costs	(4,466,238)
Discount on Obligations	(1,240,403)
Concession fees on Obligations	(7,461,223)
Returns of thrift industry assessments	(117,861)
Net thrift industry assessments applicable to the current period	18,899,310
FHLBanks assessments received for general administrative costs	139,046
Less amount deferred in the current period	(54,187)
Net FHLBanks assessments applicable to the current period	84,859
Total Assessments	**18,984,169**
Investment Income (Note 2)	
Investment income earned from assessments received for interest, issuance and custodial costs	609,560
Investment income earned from assessments received for general administrative costs	1,144
Accretion of discount on noninterest bearing securities	2,313,750
Total Investment Income	2,924,454
Total Assessments and Investment Income	**21,908,623**

COSTS		
Costs of Servicing Obligations		
Interest		19,156,944
Amortization of concession fees (Note 2)		38,777
Amortization of discount (Note 2)		9,597
Total Costs of Servicing Obligations		19,205,318
Operating Costs (Note 7)		
Issuance and custodial costs:		
Legal fees	$148,609	
Printing	82,891	
Advertising	63,737	
Professional fees	9,087	
Custodial	60	
Securities processing	31	
Miscellaneous	280	
Total		304,695
General administrative costs:		
Legal fees	35,934	
Service contracts	10,977	
Printing	10,787	
Postage and delivery	9,599	
Advertising	7,893	
Professional fees	5,957	
Miscellaneous	3,713	
Total		84,860
Total Operating Costs		389,555
Total Costs		19,594,873
Excess of assessments and investment income over costs		**$ 2,313,750**

See Notes to Financial Statements

Financing Corporation Statement of Changes in Cash and Short-Term Investments
For the Period August 28, 1987 (Date of Inception) through December 31, 1987

Funds provided (used) by:	
Excess of assessments and investment income over costs	$ 2,313,750
Add (deduct) items not requiring (providing) cash and short-term investments during the current period:	
Accretion of discount on noninterest bearing securities	(2,313,750)
Amortization of concession fees on Obligations	38,777
Amortization of discount on Obligations	9,597
Increases in:	
Accounts receivable—administrative costs	(5,988)
Accounts payable	24,389
Deferred assessments collected	13,222,051
Accrued interest payable on Obligations	19,156,944
Assessments received from FHLBanks for FICO capital stock	155,500,000
Net proceeds of Obligations issued	1,191,250,000
Total funds provided	1,379,195,770
Funds applied to:	
Purchase of noninterest bearing securities	152,110,370
Directed cash transfers to FSLIC for:	
FSLIC redeemable nonvoting capital stock	129,500,000
FSLIC nonredeemable capital certificates	1,070,500,000
Total funds applied	1,352,110,370
Increase in cash and short-term investments	27,085,400
CASH AND SHORT-TERM INVESTMENTS, BEGINNING OF PERIOD	—
CASH AND SHORT-TERM INVESTMENTS, END OF PERIOD	**$ 27,085,400**

See Notes to Financial Statements

Financing Corporation
Notes to Financial Statements
For the Period August 28, 1987 (Date of Inception) through December 31, 1987

1. **Organization and Related Entities**—The Financing Corporation ("FICO") is a mixed-ownership government corporation, chartered by the Federal Home Loan Bank Board (the "Bank Board") as of August 28, 1987, pursuant to the Federal Savings and Loan Insurance Corporation Recapitalization Act of 1987 (the "Act"). FICO's sole purpose is to function as a financing vehicle for recapitalizing the Federal Savings and Loan Insurance Corporation ("FSLIC"). Pursuant to the Act, FICO is authorized to issue debentures, bonds and other obligations ("Obligations") subject to limitations contained in the Act, the net proceeds of which are to be transferred to FSLIC for redeemable nonvoting capital stock ("FSLIC capital stock") and nonredeemable capital certificates ("FSLIC capital certificates") issued by FSLIC, or to refund any previously issued Obligations.

The Act provides formulas pursuant to which the twelve Federal Home Loan Banks (the "FHLBanks") make capital contributions to FICO from time to time at the direction of the Bank Board for FICO capital stock. FICO uses the proceeds received from the issuance of such capital stock to purchase noninterest bearing securities for deposit in a segregated account (the "Segregated Account") as required by the Act. The noninterest bearing securities held in the Segregated Account will be the primary source of repayment of the principal of the obligations. Securities in the Segregated Account are segregated from other FICO accounts and funds but are not specifically pledged as collateral for the payment of obligations. The primary source of payment of interest on the obligations will be the receipt of assessments imposed on and collected from federal and state chartered savings and loan institutions, and other types of thrift institutions, whose deposit accounts are insured by FSLIC.

2. **Summary of Significant Accounting Policies**—*Segregated Account Investments*—Investments in noninterest bearing securities held in the Segregated Account are accounted for as of the trade date and are carried at cost, adjusted for accretion of discounts. Accretion is computed using the level yield method. Noninterest bearing securities collateralized/receivable comprises securities purchased for deposit in the Segregated Account but not yet received, for which substitute securities have been received and which are held in the Segregated Account at the Federal Reserve Bank of New York awaiting delivery of noninterest bearing securities.

Concession Fees and Discount on Obligations—Concession fees paid and discount on Obligations are amortized using the level yield method over the lives of the Obligations.

Deferred Concession Fees and Discount on Obligations—Deferred discount on Obligations and deferred concession fees comprise assessments received for such costs from FSLIC-insured institutions applicable to future periods.

FSLIC Redeemable Nonvoting Capital Stock and Nonredeemable Capital Certificates—Inasmuch as the FSLIC capital certificates are nonredeemable and the FSLIC capital stock is only contingently recoverable at present, cash transfers to FSLIC for such capital stock and capital certificates, as directed by the Act, are considered nonreciprocal distributions of equity to a related entity for the ultimate benefit of the thrift industry. Accordingly, such transfers have been recorded as direct charges to Capital (Deficit).

The United States General Accounting Office (GAO) is reviewing this accounting treatment. The effects, if any, of GAO's considerations on the financial statements is not determinable at present.

FICO Assessments—All interest, issuance and custodial costs related to Obligations and incurred by FICO are assessed to FSLIC- insured institutions. General administrative costs are assessed to the FHLBanks. Interest earned on such assessments deferred to future periods is used to reduce subsequent assessments made by FICO to the thrift industry.

3. Segregated Account Investments—As of December 31, 1987, the following noninterest bearing securities were held in the Segregated Account:

	Purchase Price	Face Amount	Bond Equivalent Yields	Maturity Date
	(Dollar Amounts in Thousands)			
U.S. Treasury:				
Principal Strips	$100,674	$1,358,300	8.350%-10.000%	5/15/17
Interest Strips	6,221	85,920	8.550%-10.000%	5/15/17
Principal Strips	21,723	260,000	8.510%- 9.756%	11/15/16
Interest Strips	10,070	136,608	8.720%- 9.890%	11/15/16
Principal Strips	7,532	80,000	8.450%- 8.470%	5/15/16
Interest Strips	5,890	72,226	8.850%- 9.130%	5/15/16
TOTAL	$152,110	$1,993,054		

Net investment in noninterest bearing securities comprises the purchase price of the securities and accretion of discount of $2,313,750 for the period August 28, 1987, through December 31, 1987.

4. Obligations—Through December 31, 1987, the following series of Obligations have been issued by FICO:

	Principal Amount	Interest Rate	Maturity Date
Series A-2017	$ 500,000,000	10.70%	October 6, 2017
Series B-2017	100,000,000	10.65%	October 20, 2017
Series C-2017	600,000,000	9.80%	November 30, 2017
TOTAL	$1,200,000,000		

None of the Obligations are subject to redemption prior to maturity. The Act currently limits the aggregate amount of all Obligations which may be outstanding at any time to the lesser of (i) $10.825 billion or (ii) an amount equal to the greater of (a) five times the aggregate purchase price of FICO capital stock then outstanding or (b) the aggregate face amount of investments then held in the Segregated Account. Net new borrowing by FICO may not exceed $3.75 billion in any annual period (measured from the date of enactment of the Act). No Obligations may be issued with a maturity greater than 30 years from their date of issuance or with a maturity date beyond December 31, 2026.

At December 31, 1987, the remaining balances of concession fees paid and discount on Obligations amounted to $7,461,223 and $1,240,403, respectively.

5. Nonvoting FICO Capital Stock Issued to FHLBanks—FICO is capitalized through the issuance of nonvoting capital stock to the FHLBanks. The total amount of FICO capital stock, up to the maximum $3 billion aggregate amount authorized by the Act, is to be issued to the FHLBanks at such times and in such amounts as the Bank Board may prescribe. Each share of stock shall have par value in an amount determined by the Bank Board and is transferable only among the FHLBanks in the manner and extent prescribed by the Bank Board, at not less than par value. On August 28, 1987, the Bank Board authorized the issuance of up to 1 billion shares at a purchase price of $1.00 par value per share. At December 31, 1987, 155,500,000 shares of FICO capital stock had been issued to the FHLBanks for $155,500,000.

6. FSLIC Redeemable Nonvoting Capital Stock and Nonredeemable Capital Certificates—Subject to any terms or conditions which may be approved by the Bank Board, the net proceeds of any Obligations issued by FICO are to be used principally to acquire FSLIC capital certificates or FSLIC capital stock, or to refund any previously issued Obligations.

At December 31, 1987, FICO held 129,500,000 shares of FSLIC capital stock and $1,070,500,000 aggregate principal amount of FSLIC capital certificates.

Pursuant to the Act, the aggregate dollar amount of capital stock issued by FSLIC to FICO must be equal to the aggregate dollar amount of capital stock issued by FICO to the FHLBanks. At December 31, 1987, the dollar amount of FICO capital stock outstanding exceeded the dollar amount of FSLIC capital stock held by FICO. This temporary imbalance resulted from FICO's need to acquire noninterest bearing securities in anticipation of the issuance of a fourth series of Obligations in January 1988. It is FICO's intention to use the proceeds of the bond offering to acquire FSLIC capital stock and thereby eliminate the temporary imbalance. In the opinion of the Bank Board's Office of General Counsel, an imbalance due solely to good faith preparations for an upcoming bond offering does not constitute a violation of the Act.

The Act provides that beginning in 1997, FSLIC is to establish and maintain, until all FSLIC capital stock has been redeemed, an equity return account to consist of contributions in amounts which are to be determined, generally based on specified FSLIC ratios of reserves-to-accounts. No dividends are to be paid by FSLIC on its capital stock or certificates issued, in accordance with the Act.

7. Operating Costs—In accordance with the Act, FICO has no paid employees. Certain employees of the FHLBanks and the Office of Finance of the FHLBanks have been authorized to act for and on behalf of FICO as may be necessary to carry out its functions. Such employee-related expenses are nonreimbursable and, accordingly, are not reported in the accompanying financial statements.

The Federal Reserve Bank of New York provides custodial and securities processing services to FICO on a cost reimbursement basis. Costs for these services have not yet been determined by the Federal Reserve Bank and, accordingly, are not included in the financial statements. Once determined, such costs will be assessed to the thrift industry by FICO.

Effective August 28, 1987, FICO entered into a services agreement whereby the Office of Finance is to provide various administrative services on behalf of FICO on a cost reimbursement basis. During the period August 28, 1987 through December 31, 1987, these expenses approximated $11,000.

Effective October 16, 1987, FICO and the FHLBank of Des Moines entered into an agreement whereby that FHLBank serves as the collection agent for assessments from FSLIC-insured institutions and is compensated on a cost reimbursement basis.

Deloitte
Haskins+Sells

Suite 350
1001 Pennsylvania Avenue, N.W.
Washington, D.C. 20004-2505
(202) 879-5600
ITT Telex: 4995732

INDEPENDENT AUDITORS' REPORT

To the Chairman
Federal Home Loan Bank Board:

We have audited the combined statements of condition of the twelve Federal Home Loan Banks (the "Banks") as of December 31, 1987, 1986, and 1985 and the related combined statements of income, capital and changes in financial position for each of the three years then ended. These combined financial statements are the responsibility of management of the Federal Home Loan Banks and the FHLBB. Our responsibility is to express an opinion on these combined financial statements based on our audits. We did not audit the financial statements of the Federal Home Loan Banks of Boston, New York, Pittsburgh, Indianapolis and Seattle for the year ended December 31, 1985, which statements show assets constituting 28% of combined assets at December 31, 1985 and net income constituting 32% of combined net income for the year then ended. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion on the 1985 financial statements expressed herein, insofar as it relates to the amounts included for the Banks examined by other auditors, is based solely upon the reports of such other auditors.

We performed our audits in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the *Standards for Audit of Governmental Organizations, Programs, Activities, and Functions,* issued by the U.S. General Accounting Office. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures included in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based upon our audits and the reports of other auditors referred to above, such combined financial statements of the twelve Federal Home Loan Banks present fairly, in all material respects, the combined financial position of the Banks at December 31, 1987, 1986, and 1985 and the results of their combined operations and the changes in their combined financial position for each of the three years then ended, in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The supplemental combining information is presented for purposes of additional analysis of the basic combined financial statements. The supplemental combining information, derived from the financial statements of the individual Banks does not, as presented, include all relevant disclosures to the individual financial statements. Accordingly, it is not intended to present the financial position, results of operations and the changes in financial position of the individual Banks. In our opinion, based on our examinations and (as to the 1985 amounts included for the Federal Home Loan Banks of Boston, New York, Pittsburgh, Indianapolis and Seattle) the reports of other auditors referred to above, such supplemental combining information is fairly stated in all material respects when considered in relation to the combined financial statements taken as a whole.

Deloitte Haskins + Sells

July 15, 1988

Federal Home Loan Banks

Combined Statement of Condition with Supplemental Combining Information December 31, 1987

(In thousands of dollars)	Notes	Combined	Combining Entries	Boston	New York	Pittsburgh
ASSETS						
Cash and due from banks	2	$ 1,593,505		$ 4,435	$ 150,500	$ 156,820
Investments	1,3	16,538,089		687,696	1,349,496	601,570
Advances to members	4	133,057,921		10,348,069	16,243,741	5,229,501
Loans guaranteed by Agency for International Development, net	5	75,217		24,792	50,425	
Loans to other Federal Home Loan Banks	7		$(633,000)	8,000	150,000	65,000
Loans to Federal Savings and Loan Insurance Corporation	6	900,000			700,000	
Accrued interest receivable		868,684		79,219	144,147	35,399
Bank premises and equipment, net	1	153,928		2,774	7,794	3,816
Investment in and advances to Federal Home Loan Mortgage Corporation	8	800,000	700,000	4,900	11,700	6,100
Concessions on consolidated obligations—bonds	1	127,848		6,409	15,661	3,355
Deferred charges—Federal Home Loan Bank Board assessments	1	25,975		963	2,925	1,254
Other assets		44,323	(5,234)	486	7,997	1,229
Total assets		**$154,185,490**	**$ 61,766**	**$11,167,743**	**$18,834,386**	**$6,104,044**
LIABILITIES AND CAPITAL						
Liabilities:						
Deposits:						
Members—time		$ 12,153,008		$ 1,033,035	$ 747,334	$ 26,750
Members—demand		8,209,112			471,430	1,100,737
Total deposits		20,362,120		1,033,035	1,218,764	1,127,487
Borrowings:						
Other FHLBanks	7		$(633,000)	410,000		
Other borrowings	3	639,332				
Total borrowings		639,332	(633,000)	410,000		
Accrued interest payable		2,179,078		113,382	228,297	60,180
Consolidated obligations:	1,9					
Bonds		96,536,542	(44,454)	5,770,752	12,062,269	2,994,887
Discount notes		19,849,121		3,004,705	4,266,842	1,389,119
Less: Pass-throughs to FHLMC			700,000		(700,000)	
FHLBanks' Participations		116,385,663	655,546	8,775,457	15,629,111	4,384,006
Other liabilities	2,12	874,301		24,299	191,284	18,172
Total liabilities		**140,440,494**	**22,546**	**10,356,173**	**17,267,456**	**5,589,845**
CONTINGENCIES AND COMMITMENTS	13,14					
Capital:	11					
Capital stock outstanding ($100 par value)		11,281,479		716,494	1,309,283	406,940
Retained earnings:						
Legal reserve		1,969,718		68,250	230,868	81,342
Dividend stabilization reserve		462,513		26,765	29,417	25,622
Undivided profits		186,786	39,220	2,958	11,513	6,935
Total retained earnings		2,619,017	39,220	97,973	271,798	113,899
Capital distribution to Financing Corporation	1	(155,500)		(2,897)	(14,151)	(6,640)
Total capital		**13,744,996**	**39,220**	**811,570**	**1,566,930**	**514,199**
Total liabilities and capital		**$154,185,490**	**$ 61,766**	**$11,167,743**	**$18,834,386**	**$6,104,044**

The accompanying notes are an integral part of these financial statements.

Supplemental Combining Information

Atlanta	Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$ 75,258	$ 25,122	$ 124,642	$ 38,261	$ 107,174	$ 308,240	$ 57,956	$ 478,820	$ 66,277
1,733,396	1,493,860	620,311	2,083,272	448,891	2,172,514	1,246,615	2,824,559	1,275,909
16,885,564	4,308,292	7,439,756	3,869,476	5,990,586	13,745,910	7,777,534	32,498,769	8,720,723
	100,000				100,000		60,000	150,000
	200,000							
11,917	37,987	43,482	52,926	37,028	190,247	102,917	41,665	91,750
53,597	5,973	4,534	5,246	14,440	31,970	3,724	16,287	3,773
14,200	9,300	4,900	10,300	6,100	6,800	3,900	17,900	3,900
13,783	4,249	10,439	2,868	4,589	12,239	8,353	38,451	7,452
4,689	2,239	1,039	2,649	1,453	1,832	1,151	4,762	1,019
9,367	1,756	2,932	2,832	925	3,775	8,530	7,203	2,525
$18,801,771	**$6,188,778**	**$8,252,035**	**$6,067,830**	**$6,611,186**	**$16,573,527**	**$9,210,680**	**$35,988,416**	**$10,323,328**
$ 2,378,076	$ 934,475	$ 627,634	$2,776,664	$ 422,194	$ 721,713	$ 864,049	$ 887,462	$ 733,622
15,005	476,955	236,068		426,942	3,223,233	86,795	2,054,850	117,097
2,393,081	1,411,430	863,702	2,776,664	849,136	3,944,946	950,844	2,942,312	850,719
		50,000		5,000	50,000	100,000	18,000	
302,121		16,718		10,025		310,468		
302,121		66,718		15,025	50,000	410,468	18,000	
212,857	85,209	142,186	86,276	103,190	246,377	208,447	532,237	160,440
10,685,036	3,433,422	5,955,731	2,104,145	4,171,095	8,827,247	6,426,615	27,514,427	6,635,370
3,423,298	528,785	513,916	324,719	764,376	1,902,354	478,675	1,427,006	1,825,326
14,108,334	3,962,207	6,469,647	2,428,864	4,935,471	10,729,601	6,905,290	28,941,433	8,460,696
70,110	9,894	17,283	7,413	48,102	223,039	41,524	179,483	43,698
17,086,503	**5,468,740**	**7,559,536**	**5,299,217**	**5,950,924**	**15,193,963**	**8,516,573**	**32,613,465**	**9,515,553**
1,405,064	547,365	539,922	608,896	485,047	1,156,869	562,200	2,904,837	638,562
268,731	134,864	108,675	160,994	124,264	171,539	97,105	398,062	125,024
47,266	30,449	47,872	1,655	51,727	54,868	33,800	68,443	44,629
16,600	20,213	4,250	12,134	10,000	10,000	9,198	34,654	9,111
332,597	185,526	160,797	174,783	185,991	236,407	140,103	501,159	178,764
(22,393)	(12,853)	(8,220)	(15,066)	(10,776)	(13,712)	(8,196)	(31,045)	(9,551)
1,715,268	**720,038**	**692,499**	**768,613**	**660,262**	**1,379,564**	**694,107**	**3,374,951**	**807,775**
$18,801,771	**$6,188,778**	**$8,252,035**	**$6,067,830**	**$6,611,186**	**$16,573,527**	**$9,210,680**	**$35,988,416**	**$10,323,328**

Federal Home Loan Banks

Combined Statement of Condition with Supplemental Combining Information December 31, 1986

(In thousands of dollars)	Notes	Combined	Combining Entries	Boston	New York	Pittsburgh
ASSETS						
Cash and due from banks	2	$ 2,616,210		$ 41,426	$ 295,523	$ 120,254
Investments	1,3	17,437,784		790,929	1,093,803	802,741
Advances to members	4	108,644,706		5,728,364	10,547,172	3,543,834
Loans guaranteed by Agency for International Development, net	5	77,436		26,059	51,377	
Loans to other Federal Home Loan Banks	7		$(708,000)	8,000		110,000
Loans to Federal Savings and Loan Insurance Corporation	6	900,000			700,000	
Accrued interest receivable		676,671		40,914	77,181	28,557
Bank premises and equipment, net	1	133,261		2,613	8,116	3,954
Investment in and advances to Federal Home Loan Mortgage Corporation	8	1,000,000	900,000	4,900	11,700	6,100
Concessions on consolidated obligations—bonds	1	109,128	462	5,064	10,758	2,853
Deferred charges—Federal Home Loan Bank Board assessments	1	26,396		1,027	2,975	1,207
Other assets		57,342	(10,503)	1,058	3,983	1,382
Total assets		**$131,678,934**	**$ 181,959**	**$6,650,354**	**$12,802,588**	**$4,620,882**
LIABILITIES AND CAPITAL						
Liabilities:						
Deposits:						
Members—time		$ 15,266,088		$1,345,139	$ 986,700	$ 2,400
Members—demand		11,685,534			676,896	1,479,416
Total deposits		26,951,622		1,345,139	1,663,596	1,481,816
Borrowings:						
Other FHLBanks	7		$(708,000)	25,000	10,000	
Other borrowings	3	417,213			66,793	
Total borrowings		417,213	(708,000)	25,000	76,793	
Accrued interest payable		1,937,188		73,710	149,811	51,987
Consolidated obligations:	1,9					
Bonds		76,115,966	(72,070)	3,330,611	7,708,745	2,298,217
Discount notes		13,474,528		1,323,169	2,764,705	345,624
Less: Pass-throughs to FHLMC			900,000		(900,000)	
FHLBanks' Participations		89,590,494	827,930	4,653,780	9,573,450	2,643,841
Other liabilities	2,12	974,833		15,774	31,347	16,315
Total liabilities		**119,871,350**	**119,930**	**6,113,403**	**11,494,997**	**4,193,959**
CONTINGENCIES AND COMMITMENTS	13,14					
Capital:	11					
Capital stock outstanding ($100 par value)		9,484,685		466,434	1,093,317	336,202
Retained earnings:						
Legal reserve		1,699,486		53,360	193,975	68,653
Dividend stabilization reserve		413,818		14,199	8,786	15,133
Undivided profits		209,595	62,029	2,958	11,513	6,935
Total retained earnings		2,322,899	62,029	70,517	214,274	90,721
Total capital		**11,807,584**	**62,029**	**536,951**	**1,307,591**	**426,923**
Total liabilities and capital		**$131,678,934**	**$ 181,959**	**$6,650,354**	**$12,802,588**	**$4,620,882**

The accompanying notes are an integral part of these financial statements.

Supplemental Combining Information

Atlanta	Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$ 78,353	$ 60,749	$ 133,875	$ 36,827	$ 165,032	$ 715,040	$ 19,462	$ 771,863	$ 177,806
2,959,068	2,100,892	707,232	2,285,946	710,026	2,079,280	576,115	2,327,067	1,004 ,685
13,309,830	3,659,446	6,220,405	3,349,623	5,288,378	11,111,208	6,043,679	32,583, 301	7,259,466
		25,000	15,000	30,000	180,000		320,000	20,000
	200,000							
2,902	31,036	36,190	40,159	35,326	149,798	98,864	60,669	75,075
52,771	5,817	2,964	3,723	8,382	23,354	1,696	16,025	3,846
14,200	9,300	4,900	10,300	6,100	6,800	3,900	17,900	3,900
13,194	4,406	8,884	3,023	4,930	7,496	5,826	36,998	5,234
4,570	2,351	1,108	2,671	1,562	1,909	1,235	4,675	1,106
22,366	1,667	5,533	7,857	1,165	3,585	5,064	13,070	1,115
$16,457,254	**$6,075,664**	**$7,146,091**	**$5,755,129**	**$6,250,901**	**$14,278,470**	**$6,755,841**	**$36,151,568**	**$8,552,233**
$ 3,928,281	$1,250,275	$ 768,226	$3,024,974	$1,008,355	$ 301,406	$ 675,617	$ 928,298	$1,046,417
9,867	825,334	235,440		451,592	4,167,764	196,642	3,499,675	142,908
3,938,148	2,075,609	1,003,666	3,024,974	1,459,947	4,469,170	872,259	4,427,973	1 ,189,325
		100,000		55,000	160,000	125,000	113,000	120,000
122,172	38,995		10,150			129,148		49,955
122,172	38,995	100,000	10,150	55,000	160,000	254,148	113,000	169,955
194,888	70,211	123,793	76,740	111,011	198,204	179,641	572,902	134,290
9,478,596	2,900,326	4,761,099	1,918,395	3,951,919	5,880,159	4,382,479	24,952,111	4,625,379
1,060,906	322,218	555,338			2,151,174	454,675	2,806,048	1,690,671
10,539,502	3,222,544	5,316,437	1,918,395	3,951,919	8,031,333	4,837,154	27,758,159	6,316,050
103,136	18,126	8,198	5,105	44,373	225,241	65,552	391,180	50,486
14,897,846	**5,425,485**	**6,552,094**	**5,035,364**	**5,622,250**	**13,083,948**	**6,208,754**	**33,263, 214**	**7,860,106**
1,254,858	477,034	451,966	553,927	458,386	987,636	435,982	2,433,289	535,654
239,376	122,279	91,762	148,637	110,465	146,011	81,308	336,872	106,788
48,574	30,653	46,019	5,067	49,800	50,875	20,599	83,539	40,574
16,600	20,213	4,250	12,134	10,000	10,000	9,198	34,654	9,111
304,550	173,145	142,031	165,838	170,265	206,886	111,105	455,065	156,473
1,559,408	**650,179**	**593,997**	**719,765**	**628,651**	**1,194,522**	**547,087**	**2,888,354**	**692,127**
$16,457,254	**$6,075,664**	**$7,146,091**	**$5,755,129**	**$6,250,901**	**$14,278,470**	**$6,755,841**	**$36,151,568**	**$8,552,233**

Federal Home Loan Banks

Combined Statement of Condition with Supplemental Combining Information
December 31, 1985

(In thousands of dollars)	Notes	Combined	Combining Entries	Boston	New York	Pittsburgh
ASSETS						
Cash and due from banks	2	$ 865,292		$ 15,216	$ 130,480	$ 61,010
Investments	1,3	19,242,687		442,426	730,967	766,843
Advances to members	4	88,834,601		3,560,731	7,095,677	2,515,175
Loans guaranteed by Agency for International Development, net	5	79,311		27,230	52,081	
Loans to other Federal Home Loan Banks	7		$(1,276,000)	8,000	210,000	158,000
Loans to Federal Savings and Loan Insurance Corporation	6	900,000			700,000	
Accrued interest receivable		636,564		33,652	70,372	24,525
Bank premises and equipment, net	1	57,798		1,378	5,648	2,815
Investment in and advances to Federal Home Loan Mortgage Corporation	8	1,300,000	1,150,000	7,350	17,550	9,150
Concessions on consolidated obligations—bonds	1	68,934		2,785	6,396	1,745
Deferred charges—Federal Home Loan Bank Board assessments	1	29,951		1,194	3,346	1,415
Other assets		40,842		609	2,228	978
Total assets		**$112,055,980**	**$ (126,000)**	**$4,100,571**	**$9,024,745**	**$3,541,656**
LIABILITIES AND CAPITAL						
Liabilities						
Deposits:						
Members—time		$ 15,076,554		$ 629,815	$1,088,013	$ 42,450
Members—demand		8,238,195			312,444	1,170,447
Total deposits		23,314,749		629,815	1,400,457	1,212,897
Borrowings:						
Other FHLBanks	7		$(1,276,000)	20,000	10,000	
Other borrowings	3	594,382				
Total borrowings		594,382	(1,276,000)	20,000	10,000	
Accrued interest payable		1,821,318		57,867	123,158	44,032
Consolidated obligations:	1,9					
Bonds		62,450,506		2,344,472	5,937,192	1,634,262
Discount notes		13,159,642		612,216	1,520,746	300,760
Less: Pass-throughs to FHLMC			1,150,000		(1,150,000)	
FHLBanks' Participations		75,610,148	1,150,000	2,956,688	6,307,938	1,935,022
Other liabilities	2,12	610,501		10,966	34,990	4,139
Total liabilities		**101,951,098**	**(126,000)**	**3,675,336**	**7,876,543**	**3,196,090**
CONTINGENCIES AND COMMITMENTS	13,14					
Capital:	11					
Capital stock outstanding ($100 par value)		8,313,247		377,541	964,592	275,128
Retained earnings:						
Legal reserve		1,419,440		41,561	164,399	58,327
Dividend stabilization reserve		224,629		3,175	7,698	5,176
Undivided profits		147,566		2,958	11,513	6,935
Total retained earnings		1,791,635		47,694	183,610	70,438
Total capital		**10,104,882**		**425,235**	**1,148,202**	**345,566**
Total liabilities and capital		**$112,055,980**	**$ (126,000)**	**$4,100,571**	**$9,024,745**	**$3,541,656**

The accompanying notes are an integral part of these financial statements.

Supplemental Combining Information

Atlanta	Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$ 88,557	$ 41,256	$ 57,329	$ 47,469	$ 99,893	$ 123,761	$ 38,305	$ 136,827	$ 25,189
2,932,186	1,894,601	928,568	2,409,115	734,859	2,600,153	502,066	3,814,753	1,486,150
11,620,990	3,215,158	5,021,524	2,780,791	4,201,401	8,788,981	4,479,740	28,860,656	6,693,777
75,000				75,000	280,000		420,000	50,000
	200,000							
2,541	32,151	35,211	28,214	16,032	149,595	76,464	87,746	80,061
3,407	3,444	1,595	1,385	7,397	11,814	1,252	14,991	2,672
21,300	13,950	7,350	15,450	9,150	10,200	5,850	26,850	5,850
7,600	3,075	6,232	1,514	3,052	5,611	3,661	21,815	5,448
4,750	2,479	1,302	2,888	1,859	1,960	1,423	6,145	1,190
5,663	1,228	4,530	2,888	1,831	4,815	1,453	14,256	363
$14,761,994	**$5,407,342**	**$6,063,641**	**$5,289,714**	**$5,150,474**	**$11,976,890**	**$5,110,214**	**$33,404,039**	**$8,350,700**
$ 3,873,737	$1,276,700	$ 636,253	$2,919,409	$ 679,623	$ 84,826	$ 562,554	$ 3,106,875	$ 169,986
6,313	567,165	179,492		398,760	3,440,230	157,379	637,709	1,374,569
3,880,050	1,843,865	815,745	2,919,409	1,078,383	3,525,056	719,933	3,744,584	1,544,555
		208,000	30,000	235,000	175,000	235,000	243,000	120,000
63,803	5,002	27,006					498,571	
63,803	5,002	235,006	30,000	235,000	175,000	235,000	741,571	120,000
176,436	65,863	117,260	57,374	85,691	220,780	136,978	579,397	156,482
7,205,166	2,270,719	4,067,548	1,479,353	2,839,279	5,474,002	3,283,380	21,263,512	4,651,621
1,965,551	617,150	301,271	109,724	326,531	1,466,845	241,316	4,412,972	1,284,560
9,170,717	2,887,869	4,368,819	1,589,077	3,165,810	6,940,847	3,524,696	25,676,484	5,936,181
96,219	22,610	6,238	11,022	17,283	171,287	40,770	164,851	30,126
13,387,225	**4,825,209**	**5,543,068**	**4,606,882**	**4,582,167**	**11,032,970**	**4,657,377**	**30,906,887**	**7,787,344**
1,146,136	452,103	403,694	531,319	431,520	766,765	359,945	2,175,427	429,077
199,706	103,943	75,255	133,381	94,084	122,091	69,962	265,204	91,527
12,327	5,874	37,374	5,998	32,703	45,064	13,732	21,867	33,641
16,600	20,213	4,250	12,134	10,000	10,000	9,198	34,654	9,111
228,633	130,030	116,879	151,513	136,787	177,155	92,892	321,725	134,279
1,374,769	**582,133**	**520,573**	**682,832**	**568,307**	**943,920**	**452,837**	**2,497,152**	**563,356**
$14,761,994	**$5,407,342**	**$6,063,641**	**$5,289,714**	**$5,150,474**	**$11,976,890**	**$5,110,214**	**$33,404,039**	**$8,350,700**

Federal Home Loan Banks

Combined Statement of Income with Supplemental Combining Information for the Year Ended December 31, 1987

(In thousands of dollars)	Notes	Combined	Combining Entries	Boston	New York	Pittsburgh
INCOME:						
Interest on advances to members	1,4	$ 9,876,160		$612,555	$1,095,127	$354,604
Income from investments		1,314,297		43,044	69,473	64,436
Interest and fees on Agency for International Development loans	5	6,367		1,977	4,390	
Income from Examination Division		97,094		2,780	7,298	3,538
Earned commitment fees		32,226			3,615	520
Income from services to members		103,325		1,032	12,178	11,589
Income from services to other Federal Home Loan Banks			$ (5,086)	1	1,197	
Interest on loans to other Federal Home Loan Banks			(42,664)	927	30	8,571
Interest on loans to the Federal Savings and Loan Insurance Corporation		60,827			47,535	
Income from Federal Home Loan Mortgage Corporation	8	62,962	57,238	245	728	305
Income from prepayment fees—advances		147,309		8,641	27,268	1,438
Other income		27,219	131	348	892	31
Total income		**11,727,786**	**9,619**	**671,550**	**1,269,731**	**445,032**
EXPENSES:						
Interest and concessions on consolidated obligations		8,548,273	86,750	509,869	971,102	274,987
Assessments:	1					
Federal Home Loan Bank Board		8,969		487	994	365
Federal Home Loan Bank Offices		17,319		1,011	1,926	614
Financing Corporation		136		2	13	6
Interest on deposits		1,388,471		69,040	72,513	89,646
Interest on interbank borrowings			(42,533)	4,458	1,029	
Other interest		49,204			1,007	
Other operating expense	12,13	376,673	(11,789)	12,233	36,686	15,970
Total expenses		**10,389,045**	**32,428**	**597,100**	**1,085,270**	**381,588**
INCOME BEFORE EXTRAORDINARY ITEM		1,338,741	(22,809)	74,450	184,461	63,444
Extraordinary item: Gain (loss) from early retirement of debt	15	(10,408)				
NET INCOME		**$ 1,328,333**	**$(22,809)**	**$ 74,450**	**$ 184,461**	**$ 63,444**

The accompanying notes are an integral part of these financial statements.

Supplemental Combining Information

Atlanta	Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$1,168,773	$352,512	$627,528	$300,714	$418,047	$ 988,100	$584,062	$2,691,432	$682,706
188,312	132,302	59,269	173,249	54,433	193,204	62,023	169,729	104,823
14,543	9,029	4,240	9,138	6,388	19,086	4,958	11,388	4,708
	1,559	5,505	90	3,771		5,596	7,035	4,535
7,551	7,847	7,593	6,041		14,021	7,252	25,576	2,645
			1,794	2,091				3
	347	1,389	203	3,330	14,482		13,212	173
	13,292							
883	465	245	640	379	310	195	1,113	216
22,314	6,823	15,119	1,479	13,845	1,514	8,532	21,886	18,450
229	371	55	626	1,084	521	11,188	11,586	157
1,402,605	**524,547**	**720,943**	**493,974**	**503,368**	**1,231,238**	**683,806**	**2,952,957**	**818,416**
982,704	320,589	542,110	196,428	347,223	760,864	500,007	2,410,412	645,228
872	505	421	571	501	931	458	2,339	525
1,990	966	801	1,047	837	1,784	794	4,570	979
20	11	7	13	9	12	6	28	9
214,904	102,145	56,680	210,333	57,214	274,840	62,617	121,717	56,822
		7,449	31	909	6,372	13,481	5,179	3,625
11,283	5,374	735	323	537	689	9,533	18,453	1,270
44,060	32,032	17,403	23,443	27,143	58,110	17,926	84,308	19,148
1,255,833	**461,622**	**625,606**	**432,189**	**434,373**	**1,103,602**	**604,822**	**2,647,006**	**727,606**
146,772	62,925	95,337	61,785	68,995	127,636	78,984	305,951	90,810
		(10,775)						367
$ 146,772	**$ 62,925**	**$ 84,562**	**$ 61,785**	**$ 68,995**	**$ 127,636**	**$ 78,984**	**$ 305,951**	**$ 91,177**

Federal Home Loan Banks

Combined Statement of Income with Supplemental Combining Information for the Year Ended December 31, 1986

(In thousands of dollars)	Notes	Combined	Combining Entries	Boston	New York	Pittsburgh
INCOME:						
Interest on advances to members	1,4	$ 9,042,272		$418,907	$813,245	$263,958
Income from investments		1,518,916		49,744	66,618	89,007
Interest and fees on Agency for International Development loans	5	6,542		2,074	4,468	
Income from Examination Division		82,209		2,664	5,936	2,349
Earned commitment fees		46,185			3,943	306
Income from services to members		91,643		348	11,936	11,461
Income from services to other Federal Home Loan Banks			$ (5,488)		1,488	
Interest on loans to other Federal Home Loan Banks			(115,752)	927	16,498	17,783
Interest on loans to the Federal Savings and Loan Insurance Corporation		62,945			48,873	
Income from Federal Home Loan Mortgage Corporation	8	87,845	80,858	353	864	401
Income from prepayment fees—advances		403,215		18,000	7,198	4,405
Other income		31,062		668	1,776	728
Total income		**11,372,834**	**(40,382)**	**493,685**	**982,843**	**390,398**
EXPENSES:						
Interest and concessions on consolidated obligations		7,856,969	86,534	353,060	721,418	224,767
Assessments:	1					
Federal Home Loan Bank Board		9,524		478	1,067	362
Federal Home Loan Bank Offices		10,459		591	1,233	450
Interest on deposits		1,617,338		62,172	80,713	97,936
Interest on interbank borrowings			(115,752)	1,694	1,142	
Other interest		50,556			66	
Other operating expense	12,13	350,114	(10,911)	16,693	29,323	15,250
Total expenses		**9,894,960**	**(40,129)**	**434,688**	**834,962**	**338,765**
INCOME BEFORE EXTRAORDINARY ITEM		1,477,874	(253)	58,997	147,881	51,633
Extraordinary item:						
Gain (loss) from early retirement of debt	15	(15,604)	62,282			
NET INCOME		**$ 1,462,270**	**$ 62,029**	**$ 58,997**	**$147,881**	**$ 51,633**

The accompanying notes are an integral part of these financial statements.

Supplemental Combining Information

Atlanta	Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$1,118,268	$344,162	$574,613	$296,697	$416,762	$ 870,374	$490,585	$2,762,271	$672,430
297,630	153,125	68,102	179,509	66,157	223,945	49,427	182,859	92,793
			6,251	4,581				
9,859	6,019	3,456	336	4,591	20,103	3,728	13,634	3,629
		5,922	6,083			9,145	19,133	2,809
6,980	7,153	6,958			11,763	6,117	20,118	2,726
			1,775	1,877			60	288
7,218		1,531	253	5,173	22,437		39,767	4,165
	14,072							
1,026	614	362	743	439	490	257	1,179	259
51,782	26,222	51,971	10,803	29,342	15,005	9,969	115,891	62,627
4,363	763	628	1,173	1,201	1,333	10,962	7,024	443
1,497,126	**552,130**	**713,543**	**503,623**	**530,123**	**1,165,450**	**580,190**	**3,161,936**	**842,169**
950,616	295,662	489,807	188,979	336,859	680,981	419,978	2,494,858	613,450
1,091	578	478	661	540	887	454	2,421	507
1,389	620	517	743	625	952	553	2,183	603
303,962	132,216	56,075	212,794	66,633	288,782	57,234	183,463	75,358
		18,875	3,242	18,995	17,823	23,904	17,295	12,782
6,231	3,081	1,507	359	47	590	8,174	30,491	10
35,486	28,296	16,272	20,567	24,517	55,839	13,159	72,884	32,739
1,298,775	**460,453**	**583,531**	**427,345**	**448,216**	**1,045,854**	**523,456**	**2,803,595**	**735,449**
198,351	91,677	130,012	76,278	81,907	119,596	56,734	358,341	106,720
		(47,474)						(30,412)
$ 198,351	**$ 91,677**	**$ 82,538**	**$ 76,278**	**$ 81,907**	**$ 119,596**	**$ 56,734**	**$ 358,341**	**$ 76,308**

Federal Home Loan Banks

Combined Statement of Income with Supplemental Combining Information for the Year Ended December 31, 1985

(In thousands of dollars)	Notes	Combined	Combining Entries	Boston	New York	Pittsburgh
INCOME:						
Interest on advances to members	1,4	$ 8,690,244		$279,641	$688,164	$224,631
Income from investments		1,478,223		53,331	58,006	71,002
Interest and fees on Agency for International Development loans	5	6,700		2,161	4,539	
Income from Examination Division		20,604		557	1,666	1,053
Earned commitment fees		30,025		251	1,902	149
Income from services to members		79,473			10,996	9,344
Income from services to other Federal Home Loan Banks			$ (4,000)		1,018	
Interest on loans to other Federal Home Loan Banks			(169,144)	927	24,428	21,949
Interest on loans to Federal Savings and Loan Insurance Corporation		59,099			59,099	
Income from Federal Home Loan Mortgage Corporation	8	125,962	117,723	404	964	502
Income from prepayment fees advances		124,067		4,297	4,620	2,244
Other income		11,654		195	635	10
Total income		**10,626,051**	**(55,421)**	**341,764**	**856,037**	**330,884**
EXPENSES:						
Interest and concessions on consolidated obligations		7,757,794	117,723	247,987	631,265	206,404
Assessments:	1					
Federal Home Loan Bank Board		11,779		533	1,589	439
Federal Home Loan Bank Offices		7,186		348	822	284
Interest on deposits		1,492,097		44,270	75,402	77,553
Interest on interbank borrowings			(169,144)	4,262	1,143	
Other interest		57,278				88
Other operating expense	12,13	216,651	(4,000)	7,600	24,322	11,574
Total expenses		**9,542,785**	**(55,421)**	**305,000**	**734,543**	**296,342**
INCOME BEFORE EXTRAORDINARY ITEM		1,083,266		36,764	121,494	34,542
Extraordinary item:						
Gain (loss) from early retirement of debt	15					
NET INCOME		**$ 1,083,266**		**$ 36,764**	**$121,494**	**$ 34,542**

The accompanying notes are an integral part of these financial statements.

Supplemental Combining Information								
Atlanta	Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$1,132,898	$353,818	$532,305	$308,381	$433,540	$ 778,380	$474,113	$2,779,833	$704,540
207,260	149,080	70,286	189,789	55,971	188,677	39,079	269,323	126,419
3,367	1,861	994	1,928	1,240	3,651	1,012	2,247	1,028
		3,180	556	1,846		3,641	15,443	2,427
6,825	6,142	6,904	5,421		8,625	4,270	18,091	2,855
			1,447	1,535				
8,240	6,086		1,329	8,665	31,064		60,804	5,652
1,170	766	404	849	503	560	321	1,475	321
6,069	3,878	4,749	5,393	31,708	3,871	7,874	27,700	21,664
227	519	59	128	508	826	5,691	2,502	354
1,366,056	**522,150**	**619,511**	**515,221**	**535,516**	**1,015,654**	**536,001**	**3,177,418**	**865,260**
885,540	318,673	456,592	237,250	327,659	620,817	404,946	2,626,865	676,072
1,474	705	582	900	666	966	554	2,702	669
915	497	396	542	380	606	313	1,638	445
285,290	123,351	48,499	183,823	68,139	228,384	44,137	226,781	86,468
		26,119	5,667	26,855	32,728	27,260	32,326	12,784
5,417	2,872	3,549	52	1,110	1,777	235	41,594	584
20,299	21,505	11,181	14,770	19,421	28,082	8,541	42,699	10,657
1,198,935	**467,603**	**546,918**	**443,004**	**444,230**	**913,360**	**485,986**	**2,974,605**	**787,679**
167,121	54,547	72,593	72,217	91,286	102,294	50,015	202,813	77,581
$ 167,121	**$ 54,547**	**$ 72,593**	**$ 72,217**	**$ 91,286**	**$ 102,294**	**$ 50,015**	**$ 202,813**	**$ 77,581**

Federal Home Loan Banks

Combined and Districts 1 through 5
Combined Statements of Capital with Supplemental
Combining Information
for the Years Ended December 31, 1987, 1986, and 1985

(In thousands of dollars)	Combined Shares	Combined Amount	Combining Entries Amount	Boston Shares	Boston Amount
CAPITAL STOCK					
BALANCE, JANUARY 1, 1985	72,003	$ 7,200,185		3,135	$313,484
Proceeds from sale of capital stock	11,865	1,186,599		860	85,996
Redemption of capital stock	(2,480)	(247,927)		(220)	(21,939)
Dividends on capital stock—Stock issued	1,744	174,390			
BALANCE, DECEMBER 31, 1985	83,132	8,313,247		3,775	377,541
Proceeds from sale of capital stock	10,848	1,084,734		1,079	107,855
Redemption of capital stock	(2,604)	(260,535)		(190)	(18,962)
Dividends on capital stock—Stock issued	3,472	347,239			
BALANCE, DECEMBER 31, 1986	94,848	9,484,685		4,664	466,434
Proceeds from sale of capital stock	14,877	1,488,023		2,962	296,180
Redemption of capital stock	(3,745)	(374,721)		(461)	(46,120)
Dividends on capital stock—Stock issued	6,835	683,492			
BALANCE, DECEMBER 31, 1987	112,815	$11,281,479		7,165	$716,494
RETAINED EARNINGS					
LEGAL RESERVE:					
BALANCE, JANUARY 1, 1985		$ 1,202,786			$ 34,208
Statutory transfer of net income		216,654			7,353
BALANCE, DECEMBER 31, 1985		1,419,440			41,561
Statutory transfer of net income		280,046			11,799
BALANCE, DECEMBER 31, 1986		1,699,486			53,360
Statutory transfer of net income		270,232			14,890
BALANCE, DECEMBER 31, 1987		$ 1,969,718			$ 68,250
DIVIDEND STABILIZATION RESERVE:					
BALANCE, JANUARY 1, 1985		$ 153,412			$ 1,695
Transfer from net income		221,042			1,480
Dividends on capital stock:					
Cash payment		(34)			
Stock issued		(149,791)			
BALANCE, DECEMBER 31, 1985		224,629			3,175
Transfer from (to) net income		414,190			11,024
Dividends on capital stock:					
Cash payment		(47)			
Stock issued		(224,954)			
BALANCE, DECEMBER 31, 1986		413,818			14,199
Transfer from (to) net income		327,300			12,566
Dividends on capital stock:					
Cash payment		(47)			
Stock issued		(278,558)			
BALANCE, DECEMBER 31, 1987		$ 462,513			$ 26,765

The accompanying notes are an integral part of these financial statements.

Supplemental Combining Information							
New York		Pittsburgh		Atlanta		Cincinnati	
Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
8,762	$ 876,156	2,413	$241,361	9,916	$ 991,612	4,255	$425,485
1,125	112,517	372	37,252	1,697	169,703	418	41,805
(241)	(24,081)	(34)	(3,485)	(152)	(15,179)	(152)	(15,187)
9,646	964,592	2,751	275,128	11,461	1,146,136	4,521	452,103
1,356	135,595	698	69,800	1,323	132,252	383	38,323
(69)	(6,870)	(87)	(8,726)	(235)	(23,530)	(257)	(25,652)
						123	12,260
10,933	1,093,317	3,362	336,202	12,549	1,254,858	4,770	477,034
2,291	229,112	714	71,491	1,278	127,833	246	24,586
(131)	(13,146)	(7)	(753)	(962)	(96,229)	(47)	(4,727)
				1,186	118,602	505	50,472
13,093	$1,309,283	4,069	$406,940	14,051	$1,405,064	5,474	$547,365
	$ 140,100		$ 51,418		$ 166,282		$ 93,034
	24,299		6,909		33,424		10,909
	164,399		58,327		199,706		103,943
	29,576		10,326		39,670		18,336
	193,975		68,653		239,376		122,279
	36,893		12,689		29,355		12,585
	$ 230,868		$ 81,342		$ 268,731		$134,864
	$ 6,094		$ 4,152		$ 9,505		$ 3,487
	1,604		1,024		2,822		2,387
	7,698		5,176		12,327		5,874
	1,088		9,957		36,247		24,779
	8,786		15,133		48,574		30,653
	20,631		10,489		(1,308)		(204)
	$ 29,417		$ 25,622		$ 47,266		$ 30,449

These statements are continued on the next page.

Federal Home Loan Banks

Combined and Districts 1 through 5
Combined Statements of Capital with Supplemental Combining Information
for the Years Ended December 31, 1987, 1986, and 1985
(Continued)

	Combined		Combining Entries	Boston	
(In thousands of dollars)	Shares	Amount	Amount	Shares	Amount
UNDIVIDED PROFITS:					
BALANCE, JANUARY 1, 1985		$ 147,566			$ 2,958
Net income		1,083,267			36,764
Statutory transfer of net income		(216,654)			(7,353)
Transfer to dividend stabilization reserve		(221,042)			(1,480)
Dividends on capital stock					
Cash payment		(620,964)			(27,931)
Stock issued		(24,607)			
BALANCE, DECEMBER 31, 1985		147,566			2,958
Net income		1,462,270	$62,029		58,997
Statutory transfer of net income		(280,046)			(11,799)
Transfer to dividend stabilization reserve		(414,190)			(11,024)
Dividends on capital stock:					
Cash payment		(583,720)			(36,174)
Stock issued		(122,285)			
BALANCE, DECEMBER 31, 1986		209,595	62,029		2,958
Net income		1,328,333	(22,809)		74,450
Statutory transfer of net income		(270,232)			(14,890)
Transfer to dividend stabilization reserve		(327,300)			(12,566)
Dividends on capital stock:					
Cash payment		(348,676)			(46,994)
Stock issued		(404,934)			
BALANCE, DECEMBER 31, 1987		$ 186,786	$39,220		$ 2,958
CAPITAL DISTRIBUTION TO FINANCING CORPORATION					
BALANCE, JANUARY 1, 1987					
Capital distribution to Financing Corporation		$ (155,500)			$ (2,897)
BALANCE, DECEMBER 31, 1987		$ (155,500)			$ (2,897)

The accompanying notes are an integral part of these financial statements.

Supplemental Combining Information

New York		Pittsburgh		Atlanta		Cincinnati	
Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
	$ 11,513		$ 6,935		$ 16,600		$ 20,213
	121,494		34,542		167,121		54,547
	(24,299)		(6,909)		(33,424)		(10,909)
	(1,604)		(1,024)		(2,822)		(2,387)
	(95,591)		(26,609)		(130,875)		(41,251)
	11,513		6,935		16,600		20,213
	147,881		51,633		198,351		91,677
	(29,576)		(10,326)		(39,670)		(18,336)
	(1,088)		(9,957)		(36,247)		(24,779)
	(117,217)		(31,350)		(122,434)		(36,302)
							(12,260)
	11,513		6,935		16,600		20,213
	184,461		63,444		146,772		62,925
	(36,893)		(12,689)		(29,355)		(12,585)
	(20,631)		(10,489)		1,308		204
	(126,937)		(40,266)		(123)		(72)
					(118,602)		(50,472)
	$ 11,513		$ 6,935		$ 16,600		$ 20,213
	$ (14,151)		$ (6,640)		$ (22,393)		$(12,853)
	$ (14,151)		$ (6,640)		$ (22,393)		$(12,853)

These statements are continued on the next page.

Federal Home Loan Banks

Districts 6 through 12
Combined Statements of Capital with Supplemental Combining Information
for the Years Ended December 31, 1987, 1986, and 1985
(Continued)

	Indianapolis		Chicago		Des Moines	
(In thousands of dollars)	Shares	Amount	Shares	Amount	Shares	Amount
CAPITAL STOCK						
BALANCE, JANUARY 1, 1985	3,616	$361,558	5,077	$507,717	3,927	$392,680
Proceeds from sale of capital stock	286	28,564	250	24,995	416	41,683
Redemption of capital stock	(110)	(11,027)	(14)	(1,393)	(28)	(2,843)
Dividends on capital stock—Stock issued	246	24,599				
BALANCE, DECEMBER 31, 1985	4,038	403,694	5,313	531,319	4,315	431,520
Proceeds from sale of capital stock	570	57,002	242	24,217	347	34,726
Redemption of capital stock	(87)	(8,730)	(16)	(1,609)	(78)	(7,860)
Dividends on capital stock—Stock issued						
BALANCE, DECEMBER 31, 1986	4,521	451,966	5,539	553,927	4,584	458,386
Proceeds from sale of capital stock	556	55,648	554	55,359	364	36,485
Redemption of capital stock	(55)	(5,470)	(4)	(390)	(98)	(9,824)
Dividends on capital stock—Stock issued	377	37,778				
BALANCE, DECEMBER 31, 1987	5,399	$539,922	6,089	$608,896	4,850	$485,047
RETAINED EARNINGS						
LEGAL RESERVE:						
BALANCE, JANUARY 1, 1985		$ 60,736		$118,938		$ 75,826
Statutory transfer of net income		14,519		14,443		18,258
BALANCE, DECEMBER 31, 1985		75,255		133,381		94,084
Statutory transfer of net income		16,507		15,256		16,381
BALANCE, DECEMBER 31, 1986		91,762		148,637		110,465
Statutory transfer of net income		16,913		12,357		13,799
BALANCE, DECEMBER 31, 1987		$108,675		$160,994		$124,264
DIVIDEND STABILIZATION RESERVE:						
BALANCE, JANUARY 1, 1985		$ 25,290		$ 4,802		$ 9,483
Transfer from net income		12,084		1,196		23,220
Dividends on capital stock:						
Cash payment						
Stock issued						
BALANCE, DECEMBER 31, 1985		37,374		5,998		32,703
Transfer from (to) net income		8,645		(931)		17,097
Dividends on capital stock:						
Cash payment						
Stock issued						
BALANCE, DECEMBER 31, 1986		46,019		5,067		49,800
Transfer from (to) net income		1,853		(3,412)		1,927
Dividends on capital stock:						
Cash payment						
Stock issued						
BALANCE, DECEMBER 31, 1987		$ 47,872		$ 1,655		$ 51,727

The accompanying notes are an integral part of these financial statements.

Supplemental Combining Information

Dallas		Topeka		San Francisco		Seattle	
Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
5,638	$ 563,778	3,246	$324,588	18,020	$1,801,963	3,998	$399,803
2,281	228,069	497	49,708	3,159	315,951	504	50,356
(251)	(25,082)	(144)	(14,351)	(923)	(92,278)	(211)	(21,082)
				1,498	149,791		
7,668	766,765	3,599	359,945	21,754	2,175,427	4,291	429,077
2,070	207,011	669	66,912	1,425	142,493	686	68,548
(315)	(31,512)	(14)	(1,441)	(1,095)	(109,585)	(161)	(16,058)
453	45,372	106	10,566	2,249	224,954	541	54,087
9,876	987,636	4,360	435,982	24,333	2,433,289	5,357	535,654
1,556	155,639	811	81,142	2,906	290,686	639	63,862
(844)	(84,421)	(49)	(4,874)	(789)	(78,948)	(298)	(29,819)
981	98,015	500	49,950	2,598	259,810	688	68,865
11,569	$1,156,869	5,622	$562,200	29,048	$2,904,837	6,386	$638,562
	$ 101,633		$ 59,959		$ 224,641		$ 76,011
	20,458		10,003		40,563		15,516
	122,091		69,962		265,204		91,527
	23,920		11,346		71,668		15,261
	146,011		81,308		336,872		106,788
	25,528		15,797		61,190		18,236
	$ 171,539		$ 97,105		$ 398,062		$125,024
	$ 45,826		$ 10,247		$ 9,442		$ 23,389
	(762)		3,485		162,250		10,252
					(34)		
					(149,791)		
	45,064		13,732		21,867		33,641
	5,811		6,867		286,673		6,933
					(47)		
					(224,954)		
	50,875		20,599		83,539		40,574
	22,741		13,201		244,761		4,055
					(47)		
	(18,748)				(259,810)		
	$ 54,868		$33,800		$ 68,443		$ 44,629

These statements are continued on the next page.

Federal Home Loan Banks

Districts 6 through 12
Combined Statements of Capital with Supplemental Combining Information
for the Years Ended December 31, 1987, 1986, and 1985
(Continued)

	Indianapolis		Chicago		Des Moines	
(In thousands of dollars)	Shares	Amount	Shares	Amount	Shares	Amount
UNDIVIDED PROFITS:						
BALANCE, JANUARY 1, 1985		$ 4,250		$ 12,134		$ 10,000
Net income		72,593		72,217		91,286
Statutory transfer of net income		(14,519)		(14,443)		(18,258)
Transfer to dividend stabilization reserve		(12,084)		(1,196)		(23,220)
Dividends on capital stock						
Cash payment		(21,383)		(56,578)		(49,808)
Stock issued		(24,607)				
BALANCE, DECEMBER 31, 1985		4,250		12,134		10,000
Net income		82,538		76,278		81,907
Statutory transfer of net income		(16,507)		(15,256)		(16,381)
Transfer to dividend stabilization reserve		(8,645)		931		(17,097)
Dividends on capital stock:						
Cash payment		(57,386)		(61,953)		(48,429)
Stock issued						
BALANCE, DECEMBER 31, 1986		4,250		12,134		10,000
Net income		84,562		61,785		68,995
Statutory transfer of net income		(16,913)		(12,357)		(13,799)
Transfer to dividend stabilization reserve		(1,853)		3,412		(1,927)
Dividends on capital stock:						
Cash payment		(28,018)		(52,840)		(53,269)
Stock issued		(37,778)				
BALANCE, DECEMBER 31, 1987		$ 4,250		$ 12,134		$ 10,000
CAPITAL DISTRIBUTION TO FINANCING CORPORATION						
BALANCE, JANUARY 1, 1987						
Capital distribution to Financing Corporation		$ (8,220)		$ (15,066)		$ (10,776)
BALANCE, DECEMBER 31, 1987		$ (8,220)		$ (15,066)		$ (10,776)

The accompanying notes are an integral part of these financial statements.

Supplemental Combining Information

Dallas		Topeka		San Francisco		Seattle	
Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
	$ 10,000		$ 9,198		$ 34,654		$ 9,111
	102,294		50,015		202,813		77,581
	(20,458)		(10,003)		(40,563)		(15,516)
	762		(3,485)		(162,250)		(10,252)
	(82,598)		(36,527)				(51,813)
	10,000		9,198		34,654		9,111
	119,596		56,734		358,341		76,308
	(23,920)		(11,346)		(71,668)		(15,261)
	(5,811)		(6,867)		(286,673)		(6,933)
	(44,493)		(27,955)				(27)
	(45,372)		(10,566)				(54,087)
	10,000		9,198		34,654		9,111
	127,636		78,984		305,951		91,177
	(25,528)		(15,797)		(61,190)		(18,236)
	(22,741)		(13,201)		(244,761)		(4,055)
	(100)		(36)				(21)
	(79,267)		(49,950)				(68,865)
	$ 10,000		$ 9,198		$ 34,654		$ 9,111
	$ (13,712)		$ (8,196)		$ (31,045)		$ (9,551)
	$ (13,712)		$ (8,196)		$ (31,045)		$ (9,551)

Federal Home Loan Banks

Combined Statement of Changes in Financial Position with Supplemental Combining Information for the Year Ended December 31, 1987

(In thousands of dollars)	Combined	Combining Entries	Boston	New York	Pittsburgh
FINANCIAL RESOURCES WERE PROVIDED FROM:					
Operations:					
Income before extraordinary item	$ 1,338,741	$(22,809)	$ 74,450	$ 184,461	$ 63,444
Noncash charges (credits) to income:					
Depreciation and amortization of bank premises and equipment	18,589		590	1,500	925
Amortization of concessions on consolidated obligation bonds	39,245		2,230	2,913	1,431
Amortization of premium on consolidated obligation bonds and forward exchange contracts	(28,281)				(330)
Amortization of discount on consolidated obligation bonds and forward exchange contracts	313,430				52,896
Amortization of discount on consolidated obligation discount notes	714,513		141,229	221,263	
Amortization of Federal Home Loan Bank Board assessments	1,379		64	226	75
Amortization of deferred (gain) loss on hedges	(7,025)		608	(2,115)	(14)
Other resources	1,177		500		(2)
Total from operations (exclusive of extraordinary item)	2,391,768	(22,809)	219,671	408,248	118,425
Extraordinary item	(10,408)				
Total	**2,381,360**	**(22,809)**	**219,671**	**408,248**	**118,425**
Net proceeds from issuance of consolidated obligations:					
Bonds	35,643,626	22,809	2,870,767	5,344,808	1,246,125
Discount notes	34,971,288		4,921,447	9,508,338	2,672,234
Advances repaid	169,967,795		14,508,644	6,533,920	5,851,552
Proceeds from sale of capital stock	1,488,023		296,180	229,112	71,491
Increase (decrease) in loans guaranteed by the Agency for International Development—net	2,219		1,267	952	
Net change in interbank loans and borrowings			385,000	(160,000)	45,000
Increase (decrease) in dividends payable	(27,374)		3,930		
Net increase (decrease) in members' deposits	(6,589,501)		(312,104)	(444,832)	(354,329)
Decrease in investment in FHLMC	200,000			200,000	
Increase (decrease) in securities sold under agreements to repurchase	222,119			(66,793)	
Increase (decrease) in accrued interest payable	241,890		39,672	78,486	8,193
Increase (decrease) in other liabilities	(74,492)		4,595	159,937	1,857
Total	**$238,426,953**		**$22,939,069**	**$21,792,176**	**$9,660,548**
FINANCIAL RESOURCES WERE USED FOR:					
Payments on maturing consolidated obligations:					
Bonds	$ 15,257,836		$ 434,700	$ 999,100	$ 551,058
Discount notes	29,623,580		3,381,140	8,227,000	1,681,635
Advances made	194,371,942		19,128,944	12,228,838	7,537,205
Capital distribution to Financing Corporation	155,500		2,897	14,151	6,640
Redemption of capital stock	374,721		46,120	13,146	753
Cash dividends paid on capital stock	348,723		46,994	126,937	40,266
Net additions to bank premises and equipment	39,278		749	1,178	785
Increase (decrease) in investments	(899,695)		(103,233)	255,693	(201,171)
Increase (decrease) in accrued interest receivable	192,013		38,305	66,966	6,842
Increase (decrease) in deferred charges and other assets	(14,240)		(556)	4,190	(31)
Increase (decrease) in cash	(1,022,705)		(36,991)	(145,023)	36,566
Total	**$238,426,953**		**$22,939,069**	**$21,792,176**	**$9,660,548**

The accompanying notes are an integral part of these financial statements.

Supplemental Combining Information

Atlanta	Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$ 146,772	$ 62,925	$ 95,337	$ 61,785	$ 68,995	$ 127,636	$ 78,984	$ 305,951	$ 90,810
3,236	1,101	902	1,318	2,075	1,949	602	2,127	2,264
5,050	1,504	2,613	876	2,173	3,620	2,471	11,746	2,618
(462)		34	(160)	(13)	(32)	(1,080)	(26,238)	
		(62)	13	2	147,583	306		112,692
133,685	24,900	39,286	7,474	8,929	(25)	31,866	105,906	
		96	219	109	115	84	391	
1,305	(254)	(297)	(570)	773	(8,288)	140	(46)	1,733
392	186		3	16	(5)			87
289,978	90,362	137,909	70,958	83,059	272,553	113,373	399,837	210,204
		(10,775)						367
289,978	**90,362**	**127,134**	**70,958**	**83,059**	**272,553**	**113,373**	**399,387**	**210,571**
3,394,269	853,646	2,001,725	502,999	1,193,168	4,786,454	2,965,015	7,346,116	3,115,725
5,720,341	1,281,667	1,350,290	540,180	830,448	2,834,769	597,529	2,194,777	2,519,268
7,746,129	1,292,733	2,493,365	2,753,398	9,298,691	88,581,300	3,018,168	24,327,545	3,562,350
127,833	24,586	55,648	55,359	36,485	155,639	81,142	290,686	63,862
		(25,000)	15,000	(20,000)	(30,000)	(25,000)	165,000	(250,000)
	(100,000)							
(31,304)								
(1,545,067)	(664,179)	(139,964)	(248,310)	(610,810)	(524,224)	78,585	(1,485,661)	(338,606)
179,949	(38,995)	16,718	(10,150)	10,025		181,320		(49,955)
17,969	14,998	18,393	9,536	(7,821)	48,173	28,806	(40,665)	26,150
(1,681)	(8,232)	7,523	2,308	3,729	(2,015)	(24,028)	(211,697)	(6,788)
$15,898,416	**$2,746,586**	**$5,905,832**	**$3,691,278**	**$10,816,974**	**$96,122,649**	**$7,014,910**	**$32,985,938**	**$8,852,577**
$ 2,194,014	$ 322,000	$ 809,561	$ 313,000	$ 975,500	$ 1,846,500	$ 928,000	$ 4,772,100	$1,112,303
3,491,635	1,100,000	1,431,000	222,935	75,000	3,230,810	605,395	3,679,725	2,497, 305
11,322,219	1,941,222	3,712,527	3,272,803	10,001,656	91,209,435	4,751,860	24,241,626	5,023,607
22,393	12,853	8,220	15,066	10,776	13,712	8,196	31,045	9,551
96,229	4,727	5,470	390	9,824	84,421	4,874	78,948	29,819
123	72	28,018	52,840	53,269	100	36	47	21
4,074	1,257	2,472	2,844	8,149	10,560	2,630	2,389	2,191
(1,225,672)	(607,032)	(86,921)	(202,674)	(261,135)	93,234	670,500	497,492	271,224
9,015	6,951	7,292	12,767	1,702	40,449	4,053	(19,004)	16,675
(12,519)	163	(2,574)	(127)	91	228	872	(5,387)	1,410
(3,095)	(35,627)	(9,233)	1,434	(57,858)	(406,800)	38,494	(293,043)	(111,529)
$15,898,416	**$2,746,586**	**$5,905,832**	**$3,691,278**	**$10,816,974**	**$96,122,649**	**$7,014,910**	**$32,985,938**	**$8,852,577**

Federal Home Loan Banks

Combined Statement of Changes in Financial Position with Supplemental Combining Information for the Year Ended December 31, 1986

(In thousands of dollars)	Combined	Combining Entries	Boston	New York	Pittsburgh
FINANCIAL RESOURCES WERE PROVIDED FROM:					
Operations:					
Income before extraordinary item	$ 1,477,874	$ (253)	$ 58,997	$ 147,881	$ 51,633
Noncash charges (credits) to income:					
Depreciation and amortization of bank premises and equipment	11,637		309	976	655
Amortization of concessions on consolidated obligation bonds	34,642		1,470	2,492	1,140
Amortization of premium on consolidated obligation bonds and forward exchange contracts	(6,517)				(328)
Amortization of discount on consolidated obligation bonds and forward exchange contracts	19				
Amortization of discount on consolidated obligation discount notes	909,989		72,963	148,963	26,468
Amortization of Federal Home Loan Bank Board assessments	1,338		69	186	81
Amortization of deferred (gain) loss on hedges	(11,272)		(631)	166	(14)
Other resources	1,608		298		
Total from operations (exclusive of extraordinary item)	2,419,318	(253)	133,475	300,664	79,635
Extraordinary item	(15,604)	62,282			
Total	**2,403,714**	**62,029**	**133,475**	**300,664**	**79,635**
Net proceeds from issuance of consolidated obligations:					
Bonds	33,811,602	(61,369)	1,732,417	3,103,699	1,131,831
Discount notes	24,402,776		1,692,250	6,710,196	1,233,958
Advances repaid	161,833,388		7,370,935	6,334,312	2,985,074
Proceeds from sale of capital stock	1,084,734		107,855	135,595	69,800
Increase (decrease) in loans guaranteed by the Agency for International Development—net	1,875		1,171	704	
Net change in interbank loans and borrowings			5,000	210,000	48,000
Increase (decrease) in dividends payable	(1,419)		1,444		
Net increase (decrease) in members' deposits	3,636,873		715,324	263,139	268,919
Decrease in investment in FHLMC	13,550		2,450		
Increase in pass-through reserves	75,568				
Increase (decrease) in securities sold under agreements to repurchase	(177,169)			66,793	
Increase (decrease) in accrued interest payable	115,869		15,843	26,653	7,955
Increase (decrease) in other liabilities	308,792		3,243	(3,643)	12,176
Total	**$227,510,153**	**$ 660**	**$11,781,407**	**$17,148,112**	**$5,837,348**
FINANCIAL RESOURCES WERE USED FOR:					
Payments on maturing consolidated obligations:					
Bonds	$ 20,826,984		$ 749,900	$ 1,089,000	$ 469,797
Discount notes	24,138,940		1,054,260	5,615,200	1,215,562
Advances made	181,631,331		9,538,947	9,785,973	4,013,719
Redemption of capital stock	260,535		18,962	6,870	8,726
Cash dividends paid on capital stock	583,766		36,174	117,217	31,350
Net additions to bank premises and equipment	87,206		1,842	3,444	1,794
Increase (decrease) in investments	(1,328,117)		348,503	362,836	35,898
Increase (decrease) in accrued interest receivable	(438,322)		7,262	6,809	4,032
Increase (decrease) in deferred charges and other assets	(3,087)	660	(653)	(4,280)	(2,774)
Increase (decrease) in cash	1,750,917		26,210	165,043	59,244
Total	**$227,510,153**	**$ 660**	**$11,781,407**	**$17,148,112**	**$5,837,348**

The accompanying notes are an integral part of these financial statements.

Supplemental Combining Information								
Atlanta	Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$ 198,351	$ 91,677	$ 130,012	$ 76,278	$ 81,907	$ 119,596	$ 56,734	$ 358,341	$ 106,720
1,401	678	695	340	1,819	1,111	277	1,408	1,968
4,385	1,166	2,677	764	1,841	3,083	1,814	11,530	2,280
(650)		168	(138)	(9)	(41)	(43)	(5,476)	
		(50)	9	7	10	43		
139,709	40,804	26,667	10,668	6,469	112,364	21,891	216,765	86,258
		77	172	109	115	84	361	84
1,606	(472)	(2,987)	(683)	(1,749)	(892)	580	(8,577)	2,381
345	150		41	(500)	199		1,126	(51)
345,147	134,003	157,259	87,451	89,894	235,545	81,380	575,478	199,640
		(47,474)						(30,412)
345,147	**134,003**	**109,785**	**87,451**	**89,894**	**235,545**	**81,380**	**575,478**	**169,228**
4,489,324	1,075,898	1,755,630	873,042	1,843,652	2,249,478	1,802,827	12,711,625	1,103,548
3,165,996	974,624	1,512,627	179,807		2,624,518	463,968	3,644,506	2,200,326
6,154,332	1,479,556	1,604,171	2,809,780	8,052,563	86,127,513	2,609,423	32,753,780	3,551,949
132,252	38,323	57,002	24,217	34,726	207,011	66,912	142,493	68,548
75,000		(133,000)	(45,000)	(135,000)	85,000	(110,000)	(30,000)	30,000
(2,863)								
58,098	231,744	187,921	105,565	381,564	944,114	152,326	683,389	(355,230)
	4,650			3,050	3,400			
10,563					54,105	1,950	8,950	
58,369	33,993	(27,006)	10,150			129,148	(498,571)	49,955
18,452	4,348	6,533	19,366	25,320	(22,576)	42,663	(6,495)	(22,193)
(774)	(4,484)	9,782	(5,917)	27,090	(151)	24,781	226,329	20,360
$14,503,896	**$3,972,655**	**$5,083,445**	**$4,058,461**	**$10,322,859**	**$92,507,957**	**$5,265,378**	**$50,211,484**	**$6,816,491**
$ 2,227,000	$1,310,360	$1,070,927	$ 440,000	$ 735,000	$ 1,850,000	$ 711,000	$ 9,040,000	$1,134,000
4,210,350	449,000	1,285,225	300,200	333,000	2,054,790	272,500	5,468,195	1,880,658
7,843,026	1,923,160	2,802,924	3,378,053	9,137,520	88,444,318	4,173,942	36,472,111	4,117,638
23,530	25,652	8,730	1,609	7,860	31,512	1,441	109,585	16,058
122,434	36,302	57,386	61,953	48,429	44,493	27,954	47	27
50,834	3,051	2,064	2,718	2,304	12,850	721	2,442	3,142
26,882	206,291	(221,336)	(123,413)	(24,833)	(520,322)	74,049	(1,487,686)	(4,986)
361	(1,115)	979	11,945	19,294	203	22,400	(27,077)	(483,415)
9,683	461		(3,962)	(854)	(1,166)	215	(1,169)	752
(10,204)	19,493	76,546	(10,642)	65,139	591,279	(18,844)	635,036	152,617
$14,503,896	**$3,972,655**	**$5,083,445**	**$4,058,461**	**$10,322,859**	**$92,507,957**	**$5,265,378**	**$50,211,484**	**$6,816,491**

Federal Home Loan Banks

Combined Statement of Changes in Financial Position with Supplemental Combining Information for the Year Ended December 31, 1985

(In thousands of dollars)	Combined	Combining Entries	Boston	New York	Pittsburgh
FINANCIAL RESOURCES WERE PROVIDED FROM:					
Operations:					
Net income	$ 1,083,267		$ 36,764	$ 121,494	$ 34,542
Noncash charges (credits) to income:					
Depreciation and amortization of bank premises and equipment	5,790		218	617	497
Amortization of concessions on consolidated obligation bonds	31,425		1,135	2,326	849
Amortization of premium on consolidated obligation bonds and forward exchange contracts	(447)				
Amortization of discount on consolidated obligation bonds and forward exchange contracts	357				
Amortization of discount on consolidated obligation discount notes	1,149,247		21,232	143,257	39,505
Amortization of Federal Home Loan Bank Board assessments	1,467		65	199	85
Amortization of deferred (gain) loss on hedges	(13,064)		(403)	(372)	(7)
Other resources	463		33		(27)
Total from operations	2,258,505		59,044	267,521	75,444
Net proceeds from issuance of consolidated obligations:					
Bonds	27,219,777		1,192,270	2,657,138	884,905
Discount notes	25,135,609		666,125	4,053,344	934,124
Advances repaid	119,880,662		4,379,443	5,243,845	3,008,475
Proceeds from sale of capital stock	1,186,599		85,996	112,517	37,252
Increase (decrease) in loans guaranteed by the Agency for International Development—net	1,695		1,088	607	
Net change in interbank loans and borrowings			(68,000)	25,000	43,000
Net increase (decrease) in members' deposits	4,467,758		79,025	260,021	154,751
Decrease (increase) in investment in FHLMC					
Increase in pass-through reserves	106,086				
Increase (decrease) in securities sold under agreements to repurchase	384,118				
Increase (decrease) in dividends payable	(26,394)		8,275		
Increase (decrease) in accrued interest payable	135,567		11,162	21,535	3,663
Increase (decrease) in other liabilities	40,683		2,361	18,446	3,170
Total	**$180,790,665**		**$6,416,789**	**$12,659,974**	**$5,144,784**
FINANCIAL RESOURCES WERE USED FOR:					
Payments on maturing consolidated obligations:					
Bonds	$ 17,780,264		$ 534,000	$ 1,334,000	$ 481,000
Discount notes	26,385,707		214,540	5,064,900	1,332,290
Advances made	134,100,042		5,630,173	6,414,724	3,572,946
Loans made to FSLIC	200,000				
Redemption of capital stock	247,927		21,939	24,081	3,485
Cash dividends paid on capital stock	621,006		27,931	95,591	26,609
Net additions to bank premises and equipment	25,133		1,190	2,102	1,953
Increase (decrease) in investments	1,658,858		(30,873)	(275,339)	(195,761)
Increase (decrease) in accrued interest receivable	28,843		10,022	(2,936)	(1,025)
Increase (decrease) in deferred charges and other assets	6,085		(2,347)	(800)	672
Increase (decrease) in cash	(263,200)		10,214	3,651	(77,385)
Total	**$180,790,665**		**$6,416,789**	**$12,659,974**	**$5,144,784**

The accompanying notes are an integral part of these financial statements.

Supplemental Combining Information

Atlanta	Cincinnati	Indianapolis	Chicago	Des Moines	Dallas	Topeka	San Francisco	Seattle
$ 167,121	$ 54,547	$ 72,593	$ 72,217	$ 91,286	$ 102,294	$ 50,015	$ 202,813	$ 77,581
675	486	289	346	817	649	129	580	487
3,704	1,115	1,707	915	1,473	2,789	1,618	11,704	2,090
(330)			(113)		(4)			
		177	8	7	160	5		
164,814	52,720	35,319	22,969	32,460	102,226	18,398	391,056	125,291
		78	172	109	115	85	468	91
3,574	(826)	(1,406)	(476)	63	3,727	764	(18,445)	743
293	147		2	4	11			
339,851	108,189	108,757	96,040	126,219	211,967	71,014	588,176	206,283
3,575,974	861,277	1,437,102	129,551	1,507,117	3,072,690	882,645	10,122,852	896,256
3,318,415	1,107,497	984,928	295,338	599,033	2,567,145	360,170	8,039,142	2,210,348
4,029,375	1,642,586	1,048,864	1,635,030	7,782,370	27,844,444	2,183,491	58,314,438	2,768,301
169,703	41,805	28,564	24,995	41,683	228,069	49,708	315,951	50,356
		(100,000)	155,000	(200,000)	(220,000)		365,000	
787,241	329,428	144,114	1,254,415	23,492	478,401	224,764	500,127	231,979
39,310					66,776			
(73,323)	5,002	27,006	(73,138)				498,571	
(34,669)								
28,270	(7,504)	10,128	(18,863)	22,940	45,973	32,013	(29,742)	15,992
1,924	10,761		974	12,196	4,603	16,114	(35,032)	5,166
$12,182,071	**$4,099,041**	**$3,689,463**	**$3,499,342**	**$9,915,050**	**$34,300,068**	**$3,819,919**	**$78,679,483**	**$6,384,681**
$ 1,788,000	$ 867,000	$ 776,000	$ 795,999	$ 916,000	$ 1,049,000	$ 810,000	$ 7,756,265	$ 673,000
3,571,050	1,103,640	1,034,425	479,400	896,250	2,192,615	253,700	7,512,770	2,730,127
5,705,852	1,611,149	1,690,548	1,519,664	7,792,120	30,752,522	2,642,903	63,271,401	3,496,040
	200,000							
15,179	15,187	11,027	1,393	2,843	25,082	14,351	92,278	21,082
130,875	41,251	21,391	56,578	49,808	82,598	36,527	34	51,813
2,187	522	983	169	6,480	1,711	902	5,097	1,837
918,931	275,437	176,539	626,133	219,787	302,997	6,491	177,199	(542,683)
(5,132)	451	6,329	(4,191)	11,585	31,255	31,558	(52,017)	2,944
(1,297)	(1,897)	2,864	1,042	(83)	(528)	(122)	8,321	260
56,426	(13,699)	(30,643)	23,155	20,260	(137,184)	23,609	(91,865)	(49,739)
$12,182,071	**$4,099,041**	**$3,689,463**	**$3,499,342**	**$9,915,050**	**$34,300,068**	**$3,819,919**	**$78,679,483**	**$6,384,681**

Federal Home Loan Banks

Notes to Combined Financial Statements For the Years Ended December 31, 1987, 1986, and 1985

Organization and Related Agencies

The accompanying financial statements present the combined financial position and results of operations of the twelve District Federal Home Loan Banks (FHLBanks), which together with their member institutions, comprise the FHLBank System. The FHLBank System is designed to promote home ownership through the extension of credit to savings and home financing institutions. Member institutions include all federally chartered savings and loan associations, all federally chartered savings banks, and all institutions insured by the Federal Savings and Loan Insurance Corporation (FSLIC). Membership is also available to qualifying institutions, such as state chartered, non-FSLIC insured savings associations and savings banks.

The FHLBanks are instrumentalities of the federal government; they are owned by, and serve as central credit banks for, member institutions. A principal source of funds for the FHLBanks is sales to the public of debt instruments (consolidated obligations) which are the joint and several obligations of all FHLBanks. Other funds are provided by issuance of capital stock, all of which is owned by the FHLBanks' members, and by member deposits.

The FHLBank System is supervised and regulated by the Federal Home Loan Bank Board (Bank Board) which is an independent federal agency in the executive branch of government. The Bank Board is the chartering and regulatory authority for federal savings and loan associations and federal savings banks. The Bank Board governs the Federal Home Loan Mortgage Corporation (Mortgage Corporation) which is a secondary mortgage market facility. The principal function of the Mortgage Corporation is to promote the flow of capital into the housing markets by establishing an active secondary market in residential mortgages. Further, the Bank Board is the operating head of the FSLIC which insures the accounts of savers in federally insured savings and loan associations and federal savings banks. Bank Board expenses are met through assessments to the FHLBanks and the FSLIC.

In accordance with the provisions of the Competitive Equality Banking Act of 1987, the Bank Board chartered the Financing Corporation (FICO) in August 1987. FICO's sole purpose is to obtain financing in the capital markets for the purpose of recapitalizing the FSLIC. As discussed more fully in Note 11, the FHLBanks will provide the capitalization for FICO.

NOTE 1—Summary of Significant Accounting Policies

Significant accounting policies not described elsewhere in the notes to the financial statements are as follows:

Investments

Investment securities are carried at cost, adjusted for amortization of premiums, accretion of discounts, and deferred gains and losses from hedging activities. Gains and losses on sales of securities are included in income from investments.

The FHLBanks enter into purchases of securities under agreements to resell (reverse repurchase agreements). Securities purchased under agreements to resell are held in safekeeping in the name of the FHLBanks by a Federal Reserve Bank.

Sales of securities under agreements to repurchase (repurchase agreements) are treated as financings. Securities pledged as collateral for the underlying agreements remain in investments. The obligation to repurchase securities sold is recorded as a liability in Other Borrowings in the combined statements of condition.

Bank Premises and Equipment

Bank premises, furniture, equipment and leasehold improvements are stated at cost less accumulated depreciation and amortization of $41,779,000, $28,082,000 and $20,559,000 at December 31, 1987, 1986, and 1985, respectively. Depreciation of bank premises, furniture and equipment is computed using the straight-line method over estimated service lives ranging from 2 to 50 years. Leasehold improvements are amortized over the estimated service life of the improvement or the remaining term of the lease, whichever is shorter.

Improvements and major renewals are capitalized; ordinary maintenance and repairs are expensed as incurred. Gain or loss on disposal is included in other income.

Assessments—Federal Home Loan Bank Board

The FHLBanks expense their pro rata share of the Bank Board assessment for operating expenses during the year in which the assessment is levied.

The Bank Board also assesses the FHLBanks for the cost of the Bank Board's office building in Washington, D.C. and for the cost of capital expenditures for furniture and equipment for the building. The payments are recorded as deferred charges and are amortized using the straight-line method over 25 years and 5 years, respectively.

Assessments—Federal Home Loan Bank Offices

The FHLBanks' Office of Finance manages the Consolidated Securities Fund (Note 3), the sale of consolidated obligations and certain accounting functions for the twelve FHLBanks as a group. Assessments for the Office of Finance's operating costs are charged directly to expense when billed.

The FHLBanks' Office of Publication was organized for the purpose of disseminating to the members of the FHLBanks and to the public certain studies, information and other material which may be of value to the Banks, their members and the public. Assessments for the Office of Publication's operating costs are charged directly to expense when billed.

The FHLBanks' Office of Education was established to identify, coordinate, and develop independent education and training programs in all areas and levels of the Federal Home Loan Bank System. Assessments for the Office of Education's operating costs are charged directly to expense when billed.

The FHLBanks' Office of Regulatory Policy, Oversight and Supervision (ORPOS) was established in September 1986 to succeed the Bank Board's Office of Examination and Supervision. Assessments for ORPOS' operating costs are charged to expense except for capital expenditures which are amortized using the straight-line method over a five-year period.

Assessments—Financing Corporation

The administrative expenses of FICO, which are billed to the FHLBanks by the Office of Finance on behalf of FICO, are charged directly to expense when billed.

Concessions on Consolidated Obligations

The amounts allowed dealers in connection with the sale of consolidated obligation bonds are deferred and amortized on the straight-line method to the maturity of the obligations. The amounts applicable to the sale of consolidated obligation discount notes are charged to expense as incurred because of their short-term maturities.

Premiums and Discounts on Consolidated Obligations

The discounts on consolidated obligation discount notes are amortized to expense using the straight-line method to the maturity of the related notes. The premiums and discounts on consolidated obligation bonds are amortized to expense using the level yield method over the term to maturity of the bond issue.

Hedging

The FHLBanks are engaged in an asset/liability management program that includes the use of hedges in the currency and financial futures markets. Gains and losses on hedge transactions using financial futures are deferred. Gains and losses on hedge transactions using cash market securities entered into prior to March 1987 are deferred. Deferred gains and losses on hedge transactions are amortized using the level yield method over the term to maturity of the related hedged assets or liabilities and are included as an adjustment of the carrying value of the hedged assets or liabilities.

Subsequent to February 1987, the FHLBanks, generally, have included gains and losses on hedge transactions using cash market securities in income from investments in accordance with the majority view of the Emerging Issues Task Force of the Financial Accounting Standards Board. This change in accounting resulted in a reduction of net income of approximately $1,588,000 for the year ended December 31, 1987.

Prepayment, Commitment and Service Fees

Prepayment Fees—A prepayment fee is charged by the FHLBanks when an advance with an original term of one year or more is paid prior to its original maturity. Such fees are credited to income when received.

Commitment Fees—Commitment fees for advances and letters of credit are recorded as deferred credits when received. Nonrefundable fees of less than $5,000 are recognized as income immediately. Fees of $5,000 or more are amortized to income over the period of the commitment on the straight-line basis. Refundable fees are deferred until the commitment expires, the advance is made, or the letter of credit is issued.

In December 1986, the Financial Accounting Standards Board issued Statement No. 91, "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases." This statement will be effective for the 1988 fiscal year of the FHLBanks. The effect of adopting the statement has not yet been determined.

Agency for International Development (AID) Service Fees—FHLBanks receive service fees from borrowers for AID guaranteed loans against which the direct expenses associated with the financing arrangements are charged. The balance is deferred and amortized to income at 1% of the unamortized balance per month.

Capital Distribution to the Financing Corporation

Amounts distributed by the FHLBanks for FICO's redeemable capital stock are accounted for as capital distributions within an affiliated group and are recorded as a subtractive component of capital in the accompanying combined statement of condition.

Interbank Transactions

Transactions among the FHLBanks and related interbank balances have been eliminated in arriving at combined amounts in the financial statements.

Reclassification—Certain amounts in the 1985 and 1986 financial statements have been reclassified to conform with the 1987 presentation.

NOTE 2—Cash Balances

Compensating Balances

The FHLBanks have agreed to maintain compensating average collected cash balances with various commercial banks in consideration for certain services. There are no legal restrictions as to the withdrawal of funds under these agreements. The average compensating balances were approximately $129,842,000, $139,312,000 and $89,976,000 for the years ended December 31, 1987, 1986, and 1985, respectively.

Further, the FHLBanks maintained average collected balances with various Federal Reserve Banks and branches of approximately $45,448,000, $83,143,000 and $40,468,000 for the years ended December 31, 1987, 1986, and 1985, respectively. These average balances are required clearing balances and may not be withdrawn; however, earnings credits on these balances may be used to pay for services received from the Federal Reserve.

Pass-through Deposit Reserves

The Depository Institutions Deregulation and Monetary Control Act of 1980 authorized FHLBanks to act as pass-through correspondents for member institutions required to deposit reserves with the Federal Reserve. Cash and due from banks shown in the combined statements of condition include pass-through reserves deposited with Federal Reserve offices of $635,699,000, $848,984,000 and $418,616,000 as of December 31, 1987, 1986, and 1985, respectively. Member reserve balances are included in other liabilities.

NOTE 3—Investments

Investments at December 31, 1987, 1986, and 1985 are as follows:

	1987	
	Book Value	Market Value
	(In thousands)	
U.S. Treasury obligations	$ 796,696	$ 787,036
U.S. Government agencies	86,984	87,340
Federal funds sold	11,471,100	11,471,100
Term funds sold	306,000	306,000
Bankers' acceptances	36,346	36,355
Certificates of deposit—domestic	4,000	3,999
Certificates of deposit—Eurodollars	277,967	277,883
Participation in the FHLBanks' Consolidated Securities Fund	3,315,897	3,312,223
Other	243,099	243,099
Total	**$16,538,089**	**$16,525,035**

	1986	
	Book Value	Market Value
	(In thousands)	
U.S. Treasury obligations	$ 959,643	$ 964,316
U.S. Government agencies	83,028	83,447
Federal funds sold	9,926,500	9,926,500
Term funds sold	1,681,000	1,681,000
Bankers' acceptances	82,986	82,923
Certificates of deposit—domestic	11,002	10,991
Certificates of deposit—Eurodollars	291,991	291,822
Participation in the FHLBanks' Consolidated Securities Fund	4,219,762	4,218,774
Other	181,872	182,043
Total	**$17,437,784**	**$17,441,816**

	1985	
	Book Value	Market Value
	(In thousands)	
U.S. Treasury obligations	$ 1,054,397	$ 1,073,049
U.S. Government agencies	59,925	63,125
Federal funds sold	14,180,300	14,180,300
Term funds sold	415,400	415,400
Bankers' acceptances	71,340	71,330
Certificates of deposit—domestic	26,053	26,036
Certificates of deposit—Eurodollars	161,190	161,287
Participation in the FHLBanks' Consolidated Securities Fund	3,268,078	3,268,102
Other	6,004	6,015
Total	**$19,242,687**	**$19,264,644**

The FHLBanks' Consolidated Securities Fund (Fund) was established by the Bank Board to offer a centralized portfolio management system for securities owned by the FHLBanks. The Fund is managed by the Office of Finance of the FHLBanks and invests primarily in short-term money market instruments.

Obligations to repurchase securities sold, included in Other Borrowings in the combined statements of condition, were $396,083,000, $238,110,000 and $594,382,000 at December 31, 1987, 1986, and 1985, respectively.

Securities pledged as collateral for the underlying repurchase agreements, included in Investments at December 31, 1987, had approximate carrying values of $394,500,000 and approximate market values of $392,327,000.

NOTE 4—Advances to Members

At December 31, 1987, 1986, and 1985, the FHLBanks had advances outstanding to members at interest rates ranging from 5.75% to 16.25%, from 5.75% to 21.53% and from 7.50% to 17.30%, respectively, as summarized below:

	December 31, 1987	
Year of Maturity	Amount (In thousands)	Weighted Average Interest Rate
1988	$ 50,802,779	8.45%
1989	20,235,390	8.85
1990	15,057,140	8.96
1991	14,187,052	8.56
1992	10,597,109	9.24
1993-2007	22,175,339	9.08
	133,054,809	
Deferred net loss from hedging transactions	3,112	
Total	**$133,057,921**	

	December 31, 1986	
Year of Maturity	Amount (In thousands)	Weighted Average Interest Rate
1987	$ 36,762,203	9.48%
1988	13,430,753	9.80
1989	13,355,228	9.27
1990	8,990,940	9.47
1991	11,979,424	8.71
1992-2006	24,149,256	9.52
	108,667,804	9.37
Deferred net gain from hedging transactions	(23,098)	
Total	**$108,644,706**	

Year of Maturity	December 31, 1985 Amount (In thousands)	Weighted Average Interest Rate
1986	$ 40,686,686	9.74%
1987	13,777,507	10.88
1988	11,189,378	10.74
1989	5,629,821	11.39
1990	5,797,401	10.93
1991-2005	11,770,832	11.50
	88,851,625	10.45
Deferred net gain from hedging transactions	(17,024)	
Total	**$ 88,834,601**	

Outstanding advances at December 31, 1987, 1986, and 1985 generally were collateralized pursuant to a written security agreement by property that is defined as eligible collateral under Section 525.7 and/or additional collateral accepted pursuant to Section 525.9 of the rules and regulations of the FHLBank System (Regulations) and the FHLBanks' credit programs.

Outstanding advances of $2,312,610,000, $3,594,835,000, and $1,303,016,000 at December 31, 1987, 1986, and 1985, respectively were guaranteed by the FSLIC including advances of $542,089,000 at December 31, 1987 that were collateralized only by the guarantee of FSLIC (see Note 14). The capital stock of the FHLBanks owned by borrowing members that is pledged as additional collateral for outstanding advances also is additional collateral for overdrawn deposit accounts. Generally, the FHLBanks require members to specifically assign or place physical possession of eligible collateral with the Bank or its safekeeping agent. The FHLBanks may, however, permit a borrowing member to physically retain collateral assigned to the FHLBanks provided the member agrees to hold such collateral for the benefit and subject to the direction and control of the FHLBanks.

NOTE 5—Loans Guaranteed by the Agency for International Development

The Agency for International Development (AID) was established by the Foreign Assistance Act of 1961, as amended. Under Sections 221 and 222 of the Act, AID issues guarantees backed by the full faith and credit of the United States of America to eligible U.S. investors insuring against loss of investments, including unpaid accrued interest, in self-liquidating housing projects. The FHLBanks qualify as eligible investors.

Under contracts of guaranty, the FHLBanks may, without the approval of AID, sell participating interests to members of any FHLBank. The outstanding loan balances are reported net of participations sold totaling $308,493,000, $319,765,000, and $332,441,000 at December 31, 1987, 1986, and 1985, respectively, and mature between 1990 and 2008.

NOTE 6—Loans to Federal Savings and Loan Insurance Corporation

The proceeds of certain consolidated obligations have been loaned to the FSLIC by two FHLBanks, as follows:

New York	$700,000,000
Cincinnati	200,000,000
Total	**$900,000,000**

The loans, collateralized principally by first mortgage loans, have been made in accordance with the Federal Home Loan Bank Act.

The New York FHLBank loan is payable in installments of $70 million each year from 1988 through 1993. The remaining principal balance of $280 million is payable January 1, 1995. Interest on the loan accrues at 0.20% above the FHLBanks' cost of funds.

The Cincinnati FHLBank loan is payable in installments of $20 million each year from 1989 through 1994. The remaining principal balance of $80 million is payable August 15, 1995. Interest on the loan accrues at 0.25% above the interest cost of consolidated obligations.

NOTE 7—Loans to and Borrowings from other Federal Home Loan Banks

The outstanding balance of borrowings among FHLBanks was $633,000,000 at December 31, 1987, $708,000,000 at December 31, 1986, and $1,276,000,000 at December 31, 1985. Interest rates ranged from 6.50% to 12.15%, from 6.0% to 12.15%, and from 9.57% to 12.15%, respectively, with loan maturities ranging from 1988 through 1994, from 1987 through 1994 and from 1986 through 1994, respectively.

NOTE 8—Investment in and Advances to Federal Home Loan Mortgage Corporation

The investment in the Mortgage Corporation is stated at cost and consists of 100,000 shares of $1,000 par value non-voting common stock redeemable at par by the Mortgage Corporation, which represents all of the common stock outstanding. The Mortgage Corporation paid a cash dividend of $5,724,248 in 1987, $5,302,094 in 1986, and $2,490,570 in 1985 to the FHLBanks on their investments in the Mortgage Corporation common stock. A $50,000,000 subordinated capital debenture issued on June 20, 1980, was redeemed on March 20, 1986 at a redemption price of 101.25% of the principal amount thereof plus accrued interest to the date of redemption. Earnings on the debenture were $1,684,796 in 1986, and $5,748,250 in 1985.

Proceeds from certain consolidated obligations have been advanced to the Mortgage Corporation by the FHLBank of New York. These advances are evidenced by notes receivable from the Mortgage Corporation. The following are summaries of these advances:

Year of Maturity	December 31, 1987 Bonds Weighted Average Interest Rate	Amount Outstanding
1993-1997	7.59%	$700,000,000

Year of Maturity	December 31, 1986 Bonds Weighted Average Interest Rate	Amount Outstanding
1987	11.10%	$200,000,000
1993-1997	7.59	700,000,000
Total		**$900,000,000**

Year of Maturity	December 31, 1985 Bonds Weighted Average Interest Rate	Amount Outstanding
1986	9.90%	$ 250,000,000
1987	11.10	200,000,000
1991-1997	7.59	700,000,000
Total		**$1,150,000,000**

As provided for in Section 306(c) of the Federal Home Loan Mortgage Corporation Act, the Bank Board has provided for the guarantee by the other FHLBanks of the above borrowings of the Mortgage Corporation from the FHLBank of New York. Each of the other FHLBanks participates in the guarantee in proportion to its investment in the common stock of the Mortgage Corporation.

NOTE 9—Consolidated Obligations

The par values of the outstanding consolidated obligations of the FHLBanks (see "Organization and Related Agencies," at page 66) were $116,777,804,000, $89,857,068,000 and $75,987,690,000 at December 31, 1987, 1986, and 1985, respectively. Regulations require the FHLBanks to maintain in the aggregate, unpledged qualifying assets in an amount equal to the consolidated obligations outstanding. Qualifying assets are defined as cash, obligations of or fully guaranteed by the United States, collateralized advances, and federally insured or guaranteed mortgages. The FHLBanks were in compliance with this requirement as of December 31, 1987, 1986, and 1985.

The following is a summary of the FHLBanks' net consolidated obligations (in thousands):

December 31, 1987

Year of Maturity	Bonds: Weighted Average Interest Rate	Bonds: Amount Outstanding
1988	8.94%	$20,917,800
1989	8.83	19,221,400
1990	8.60	15,373,600
1991	8.21	12,779,000
1992	9.10	9,590,000
1993-2000	8.83	18,658,220
		96,540,020
Bond premium		24,624
Bond discount		(8,188)
Forward exchange contract		(8,131)
Deferred net loss from hedging transactions		(11,783)
Total		**$96,536,542**

	Discount Notes: Book Value	Discount Notes: Par Value
All due within one year	$19,849,121	$20,245,915

December 31, 1986

Year of Maturity	Bonds: Weighted Average Interest Rate	Bonds: Amount Outstanding
1987	10.27%	$14,635,000
1988	9.60	12,952,000
1989	9.32	11,105,000
1990	9.37	7,475,000
1991	8.31	10,204,000
1992-2006	9.33	19,757,917
		76,128,917
Bond premium		4,550
Bond discount		(2,801)
Forward exchange contract		(15,969)
Deferred net gain from hedging transactions		1,269
Total		**$76,115,966**

	Discount Notes: Book Value	Discount Notes: Par Value
All due within one year	$13,474,528	$13,744,120

December 31, 1985

Year of Maturity	Bonds: Weighted Average Interest Rate	Bonds: Amount Outstanding
1986	11.84%	$18,543,000
1987	10.34	14,635,000
1988	10.34	10,022,000
1989	12.24	4,044,970
1990	10.68	4,790,000
1991-1995	11.13	10,425,000
		62,459,970
Bond premium		2,895
Bond discount		(4,313)
Deferred net loss from hedging transactions		(8,046)
Total		**$62,450,506**

	Discount Notes: Book Value	Discount Notes: Par Value
All due within one year	$13,159,642	$13,527,720

In 1986, the FHLBanks issued bonds denominated in European Currency Units (ECU) of 100 million at 8.75% maturing in 1996 and in Japanese YEN of 25 billion at 7.5% maturing in 1996. Concurrent with the issuance, the FHLBanks exchanged the interest and principal ECU and YEN payment obligations related to the issues for equivalent amounts denominated in U.S. dollars. The ECU and YEN exchanges resulted in effective interest rates to the FHLBanks of 9.159% and 7.852%, respectively. These bonds and the related foreign exchange contracts are translated into U.S. dollars at the exchange rates in effect at December 31, 1987 and 1986.

NOTE 10—Credit Available from the U.S. Treasury

Section 11(i) of the Federal Home Loan Bank Act authorizes the Secretary of the Treasury, at his discretion, to extend credit to the FHLBanks aggregating not more than $4 billion, the terms, conditions, and interest rate to be determined by the Secretary of the Treasury. There were no borrowings from the U.S. Treasury during the three-year period ended December 31, 1987.

NOTE 11—Capital

The capital stock of the FHLBanks has a par value of $100 per share. Member institutions are required to purchase capital stock in relation to their holdings of mortgage loans or outstanding borrowings from the respective FHLBank. Capital stock held by members in excess of their statutory requirement may be redeemed at par value by a FHLBank or sold to other FHLBank members at par value.

Retained earnings consist of undivided profits, a legal reserve, and a dividend stabilization reserve (DSR). The FHLBanks must transfer 20% of their net income to the legal reserve until the reserve equals the capital stock amount. Thereafter, 5% of the FHLBanks' net income must be allocated for this purpose. In addition, the Bank Board has required that the FHLBanks retain in the DSR that portion of income from prepayment fees which, if allocated on a pro rata basis over the maturity of the advances prepaid, would be allocated to future dividend periods. Dividends may be paid in the form of cash or capital stock, if authorized by the Boards of Directors.

In 1987, 1986, and 1985 dividends were permitted only to the extent of current year's net income, after the legal reserve transfer, plus the unrestricted balance of the DSR, and were authorized to be paid either quarterly, semiannually, or annually.

The Competitive Equality Banking Act of 1987 (Act) was enacted in August, 1987 providing for, among other things, the recapitalization of the FSLIC. The Act empowered the Bank Board to charter FICO to obtain financing in the capital markets for the purpose of investing in redeemable nonvoting capital stock and nonredeemable capital certificates of the FSLIC.

The capitalization of FICO is provided by capital distributions from the FHLBanks to FICO in exchange for FICO nonvoting capital stock. Such distributions, to be made at such times and in such amounts as the Bank Board may prescribe, are not to exceed $3,000,000,000 in the aggregate. Each FHLBank's cumulative distribution limitation in the capital stock of FICO is limited to the sum of its Legal Reserve, Undivided Profits, and the increase in the Dividend Stabilization Reserve balance from December 31, 1985. Capital distributions made by the FHLBanks to FICO totaled $155,500,000 during 1987 and at December 31, 1987, the FHLBanks' cumulative distribution limitation was $2,359,509,000.

If a FHLBank has reached its cumulative distribution limitation, the Act provides that all other FHLBanks not at their distribution limitations, share in the capital distributions to FICO equivalent to that FHLBank's shortfall. FHLBanks with shortfalls are required to purchase capital of FICO from the other applicable FHLBanks as their distribution limitation allows and until the shortfall is corrected. During the period of any shortfall, the affected FHLBank may pay dividends equal to one-half the maximum amount otherwise allowed. There were no such shortfalls by any FHLBanks during 1987.

The redeemable nonvoting and non-dividend-bearing capital stock of the FSLIC purchased by FICO is to be redeemed by the year 2026 with funds accumulated in an equity return account maintained by the FSLIC. The FSLIC will make determinations of its required contributions to the equity return account, if any, beginning in 1997 using statutorily prescribed formulae related to its financial strength. The Act provides that the FSLIC capital stock may be redeemed at a price equal to its original purchase price together with certain investment return amounts. However, the Act provides no assurance that contributions accumulated in the equity return account will be adequate to fund the redemption of all the FSLIC capital stock at its original purchase price. There can be no assurance that there will not be further legislative action that would impact the FSLIC, FICO, or the FHLBanks' investment in FICO. Upon the earlier of redemption of the capital stock of the FSLIC purchased by FICO, or December 31, 2026, FICO will be dissolved and all remaining net assets applied to the redemption of the capital stock of FICO held by the FHLBanks.

NOTE 12—Employee Retirement Plan

The FHLBanks are participants in multiemployer plans, the Financial Institutions Retirement Fund (FIRF) and the Financial Institutions Thrift Plan (FITP); substantially all of the FHLBanks' officers and employees are covered by both plans. The FIRF is a defined benefit pension plan and the FITP is a defined contribution pension plan.

The FHLBanks' contributions to FIRF through June 30, 1987, represented, generally, the normal cost of the plan. The plan reached the full-funding limitation, as defined by the Employee Retirement Income Security Act, for the plan year beginning July 1, 1987, because of favorable investment and other actuarial experience during the past several years. As a result, FIRF suspended employer contributions for the plan year ending June 30, 1988. Contributions to the plan will resume when the plan is no longer in full-funding status based on annual determinations by FIRF.

Pension costs of the plan charged to other operating expenses were approximately $5,423,000 in 1987, $8,185,000 in 1986 and $6,880,000 in 1985. FIRF does not segregate its assets, liabilities, or costs by participating employer. As a result, disclosure of the accumulated benefit obligation, plan assets, and the components of annual pension expense attributable to the FHLBanks cannot be made.

The FHLBanks' contributions to the FITP consist of a basic contribution equal to a percentage of participants' compensation and a matching contribution equal to a percentage of voluntary employee contributions, subject to certain limitations. The FHLBanks contributed approximately $3,740,000, $3,200,000, and $3,636,000 to the FITP in 1987, 1986, and 1985, respectively.

In November 1986, certain of the FHLBanks adopted deferred compensation plans available to all officers which, in substance, are unfunded supplemental retirement plans. The related pension liability consists of the accumulated compensation deferrals and accrued interest on the deferrals, as provided in Statement No. 87 of the Financial Accounting Standards Board.

NOTE 13—Commitments

Rental expense of approximately $34,127,000 in 1987, $30,118,000 in 1986, and $25,735,000 in 1985 for premises and equipment has been charged to other operating expense. Future minimum rentals are as follows:

	Premises	Equipment	Total
		(In thousands)	
1988	$ 17,191	$ 7,668	$ 24,859
1989	16,465	5,128	21,593
1990	14,109	2,802	16,911
1991	12,151	1,086	13,237
1992	11,088	546	11,634
1993-2007	35,234	36	35,270
Total	**$106,238**	**$17,266**	**$123,504**

The lease agreements for the FHLBanks' premises provide for increases in the basic rentals resulting from increased property taxes and maintenance expense.

Commitments for advances to members totaled $3,722,380,015 at December 31, 1987, $3,722,131,000 at December 31, 1986 and $3,224,981,000 at December 31, 1985.

The FHLBanks had outstanding, $14,240,564,000, $12,178,188,000, and $6,906,800,000 in underlying notional principal of interest rate swap agreements at December 31, 1987, 1986, and 1985, respectively. For interest rate swaps outstanding at December 31, 1987, the fixed rates to be paid by the FHLBanks' range from 6.06% to 14.27% and the FHLBanks are to receive interest at fixed rates ranging from 6.20% to 14.37%. The variable rates to be paid by the FHLBanks range from 5.68% to 9.44% and the FHLBanks are to receive variable rates ranging from 5.68% to 9.25%. The agreements have expiration dates between February 1988 and September 1998. The net interest expense related to these agreements amounted to $5,208,000, $3,647,000 and $3,889,000 for 1987, 1986, and 1985, respectively.

NOTE 14—Contingencies

FSLIC Guarantees

The ultimate collectibility of under- or uncollateralized advances to members guaranteed by FSLIC (see Note 4) is dependent upon the ability of these members to repay the advances as they become due and, in the event of default, the ability of FSLIC to perform under its guarantees. For the year ended December 31, 1986, FSLIC reported a loss from operations of $10.9 billion and a deficit of $6.3 billion. In the audit report, dated May 1, 1987, on the 1986 FSLIC financial statements, the Comptroller General of the United States concludes "these factors indicate that the Corporation may be unable to continue to fulfill its mission and meet its financial obligations."

In August 1987, the Congress enacted legislation that will enable FSLIC to obtain up to $10.8 billion of capital through the end of 1989 in addition to income streams generated from regular and special deposit insurance assessments, investment income, and asset disposition income. Whether such capital and additional income streams will be adequate to enable FSLIC to meet its obligations as they become due is not presently determinable. Included in the under- or uncollateralized advances of $542,089,000 at December 31, 1987 (see Note 4) is approximately $510,000,000 of advances to certain members of the Dallas FHLBank. Because of the deteriorated financial condition of these members, their ultimate ability to repay is uncertain. Management of the Dallas FHLBank believes, however, that FSLIC, if required to do so, will be able to perform, as Federal agencies have traditionally performed, under its guarantees of these advances to members. Accordingly, the financial statements include no provision for loss relating to this contingency (see Note 16).

Mortgage Corporation

In accordance with Section 306(c) of the Federal Home Loan Mortgage Corporation Act, the Bank Board has provided for the guarantee by the FHLBanks of certain borrowings of the Mortgage Corporation from the FHLBank of New York. Each FHLBank participates in the guarantee in proportion to its investment in the common stock of the Mortgage Corporation (see Note 8). At December 31, 1987, 1986, and 1985 the FHLBanks had guaranteed $700,000,000, $900,000,000, and $1,150,000,000, respectively, of the Mortgage Corporation's borrowings from the FHLBank of New York in the form of pass-throughs of the proceeds of certain consolidated obligations.

Letters of Credit

Outstanding standby letters of credit totaled $2,550,903,000, $1,667,082,000, and $877,948,000 at December 31, 1987, 1986, and 1985, respectively. The letters of credit are collateralized fully at the time of issuance.

NOTE 15—Extraordinary Item—Early Retirement of Debt

During 1987, the Indianapolis and Seattle FHLBanks retired $224,000,000 and $100,000,000, respectively, of their consolidated obligation bonds prior to scheduled maturities. The original coupons ranged from 7.0% to 14.55% resulting in a current loss on early retirement of $10,408,000.

During 1986, the Seattle FHLBank retired $75,000,000 of its consolidated obligation bonds prior to scheduled maturity, with original coupons ranging from 13.7% to 15.1% resulting in a current loss on early retirement of $15,604,000.

NOTE 16—Subsequent Event

In its consolidated statement of financial condition for the year ended December 31, 1987, the FSLIC reported a net loss from operations of $8.6 billion and a reserve deficit of $13.7 billion. In its report dated May 17, 1988, and issued on July 5, 1988, the Comptroller General of the United States issued the following opinion with respect to the aforementioned statement of condition and related matters:

"As a result of the above conditions, namely,

—the magnitude of the resolution costs for currently insolvent institutions,

—the uncertainties about the Corporation's future revenue streams,

—the Corporation's current $13.7 billion deficit, and

—the industry's deteriorated financial condition,

we believe that further congressional action, beyond that already taken under the Competitive Equality Banking Act of 1987 to recapitalize the Corporation, may well be needed to enable the Corporation to continue to meet its obligations and provide the deposit insurance it is mandated to provide.

In our opinion, subject to the potential need for further congressional action to enable the Corporation to resolve the industry's problems and meet its obligations, the financial statements referred to above present fairly the financial position of the Federal Savings and Loan Insurance Corporation as of December 31, 1987 and 1986, and the results of its operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis."

Management of the FHLBank of Dallas continues to believe that FSLIC, if required to do so, will be able to perform, as Federal agencies have traditionally performed, under its guarantees of advances to members (See Note 14).

At July 15, 1988, advances by the FHLBank of Dallas collateralized only by the guarantee of FSLIC totalled $738 million. In addition, at July 15, 1988, there were $394 million of advances to members by the FHLBank of Dallas secured solely by FSLIC promissory notes. All amounts in this paragraph are unaudited.

Federal Home Loan Bank Board
Washington, D.C.