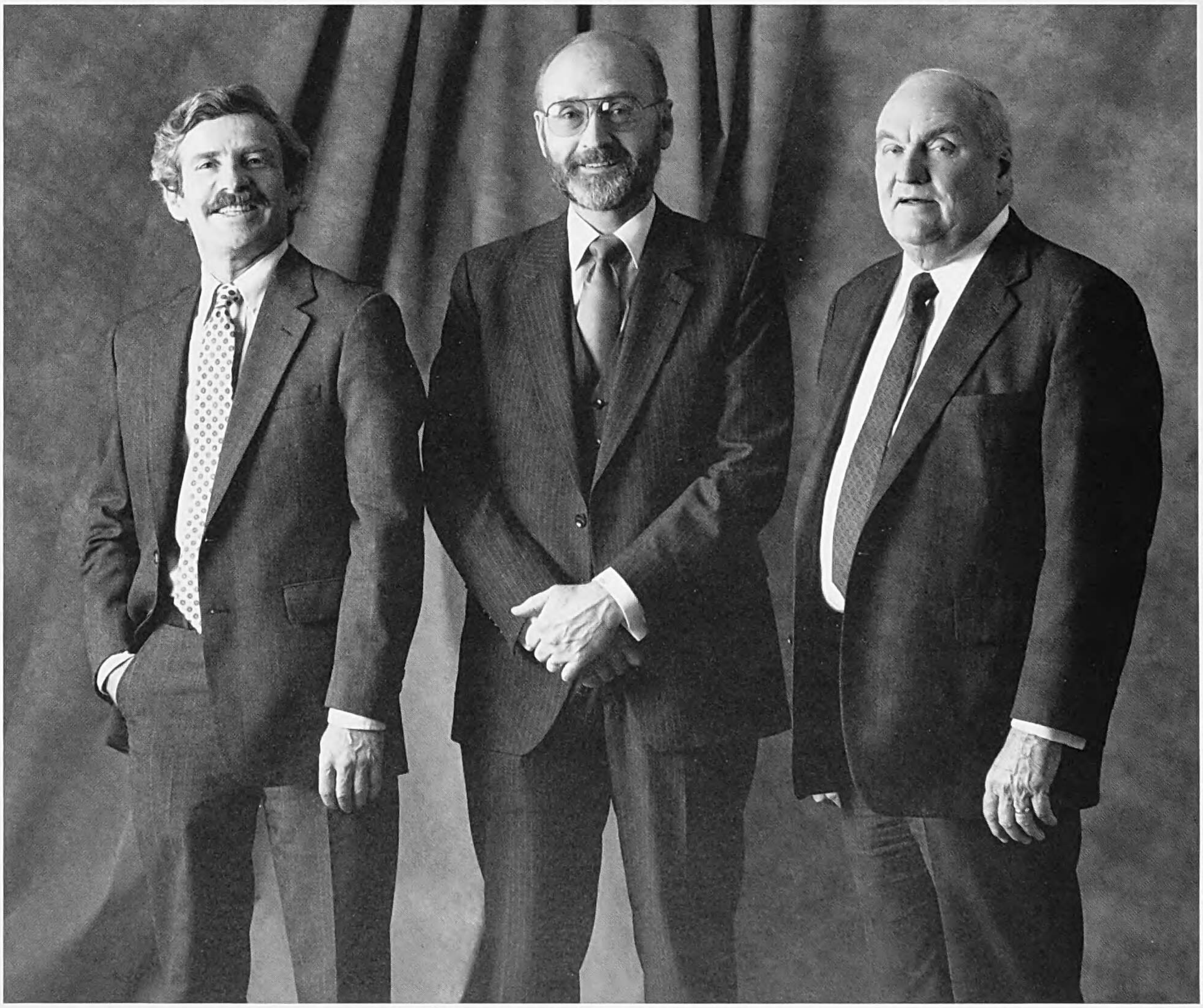
Federal Home Loan Bank Board
1988 Annual Report



Federal Home Loan Bank Board Chairman M. Danny Wall (center), flanked by Member Lawrence J. White (left) and Member Roger F. Martin.

Federal Home Loan Bank Board
1988 Annual Report

Washington, DC: 1989

A MESSAGE FROM THE CHAIRMAN

Without question, 1988 was an eventful year for the Federal Home Loan Bank Board and the thrift industry. The highlight of the year from the Board's perspective was the aggressive resolution of insolvent thrifts.

With the clear directive from Congress to get on with reducing the number of insolvents, and newly armed with bonding authority to fund the actions, the Bank Board and the Federal Savings and Loan Insurance Corporation (FSLIC) finally were able to begin shutting down the most egregiously insolvent thrift institutions.

The Board, well aware that thrift problems were concentrated in Texas, developed the Southwest Plan to deal with the situation while also proceeding to resolve the worst cases elsewhere. The Southwest Plan, formally introduced in February 1988, combined consolidation of an overbuilt thrift industry with attracting acquirers who would bring in strong management, new capital, and carry out a business plan aimed at cutting operating costs and ultimately reducing the high interest rates being paid on deposits. The higher-than-national-average rates then being paid by insolvent Texas thrifts, known as the Texas premium, were driving up costs for solvent Texas institutions and other thrifts throughout the country.

The first consolidation-acquisition in Texas came on May 13, 1988, and by year-end, we had dealt with 87 insolvent Texas thrifts with $45.2 billion in assets in 16 transactions. The acquirers pumped in $1.1 billion of new capital out of a total of $3 billion invested nationally. By the end of 1988, one of the achievements of the Southwest Plan was virtual elimination of the Texas premium. Nationwide, the Bank Board disposed of 205 insolvent thrifts and stabilized 18 others.

The agency accomplished significantly more than was possible under its bonding authority, however, by supplementing bond receipts with FSLIC notes and long-term assistance agreements to attract acquirers of insolvent institutions. We did not have the additional billions in cash up front to liquidate institutions and pay off depositors. Furthermore, our analyses showed that in virtually every instance, selling an insolvent thrift was less costly to the FSLIC than liquidating it. By law, the Bank Board was obliged to select the alternative solution of least cost to the FSLIC.

In each 1988 resolution, the Bank Board acted after a thorough assessment of each case by the staff of FSLIC as well as the Board, the appropriate federal home loan bank, and the Office of Regulatory Activities. In addition, outside financial experts and negotiators often provided assistance. The work was arduous, and many employees of the Bank Board and the Bank System dedicated long days for many weeks to accomplish their assignments. They deserve our thanks for a job well done. When

President Bush introduced his thrift recovery plan in early February 1989 and ordered a moratorium on most case resolutions until Congress had acted on his proposal, the hectic days at the Bank Board of finding buyers and negotiating acquisitions halted.

The 1988 resolutions significantly moderated losses in the industry that would have driven up the eventual cost of resolution even higher than current estimates simply because of the effect of these additional cumulative losses. As it was, our own estimates of the cost to clean up the industry were adjusted upward periodically as new financial data were reported by institutions and as we learned first-hand the costs of resolving cases. As of year-end 1988, our cost estimate of $75 billion to $80 billion--including approximately $31 billion dollars committed in 1988 resolutions--was approximately the same as that of the U.S. Treasury. The estimated total funding needed to cover existing and anticipated future commitments is $90 billion net present value. This total includes funds to recapitalize the thrift insurance fund.

In addition to disposing of sick thrifts in 1988, the Bank Board continued to toughen its regulatory and examination functions. Probably the most significant move in this regard was the proposed risk-based capital regulation that would require an average of 8 percent capital against risk-weighted assets, including explicit recognition of interest rate risk.

Proposed in December, this rule presaged congressional and Presidential action raising capital requirements for thrifts that became a cornerstone of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). FIRREA became law on August 9, 1989.

The thrift industry also began preparing for the shift to reporting financial results on the basis of generally accepted accounting principles (GAAP) from regulatory accounting practices (RAP). The more stringent GAAP measure becomes effective on January 1, 1993.

Again, even before FIRREA was introduced, the Bank Board proposed in January 1989 an early intervention procedure that would allow the regulatory staff to act when an institution does not maintain a minimum level of capital--1.5 percent GAAP. FIRREA, as enacted, incorporates this provision.

Since July 1985 when the examination staff was decentralized and shifted to the district banks, the regulatory staff has doubled in size, and examiners have greater experience, training and more advanced degrees. Their job-related training has been enhanced and expanded to include a mandatory core training curriculum and a national accreditation program for examiners and supervisory agents. A peer review program was instituted with quarterly reviews of district operations, providing additional incentive to improve performance.

Completion of the revised regulatory handbooks series was a milestone. The new series emphasizes safety and soundness and focuses on evaluating risk in institutions, holding companies, and service corporations. These were by no means all of the improvements made in 1988, but they are indicative of the conscientious effort to strengthen these important functions and help prevent a thrift crisis from recurring.

As required by law, the Bank Board continued in 1988 to review the performance of all institutions filing applications that are subject to the Community Reinvestment Act (CRA). The Bank Board processed approximately 690 such applications during 1988. It received five substantive CRA-related protests connected with applications approved in 1988. Each of these applications had CRA-related conditions attached to them.

Throughout the year, the Bank Board's Office of Community Investment (OCI) continued to provide technical assistance on the CRA. Of the 1,942 savings institutions examined in 1988, 126 had good or excellent performance in meeting the credit needs of their communities, 1,763 earned satisfactory ratings, and 53 received unsatisfactory ratings.

Now that FIRREA has restructured the thrift regulatory apparatus, the responsibilities of the Bank Board's successor, the Office of Thrift Supervision, will be different from those of the Bank Board. We will concentrate on chartering federal thrifts and regulating federally chartered and state-chartered thrifts. The insurance function that was formerly part of the Bank Board is now under the Federal Deposit Insurance Corporation (FDIC).

The Office of Thrift Supervision will be guided in its operations by a strategic plan whose components may be grouped into two categories. For the nation's thrifts, OTS seeks to:

o Facilitate the recapitalization of the industry;

o Pursue earlier and more forceful detection and correction of problem cases, and more timely and vigorous enforcement of safety and soundness standards;

o Take control of problem institutions quicker to minimize the cost of resolution;

o Foster education and standard setting for thrift management, particularly oversight by boards of directors of such matters as interest rate risk and asset-liability management; and

o Ensure the continued viability of institutions created or restructured as part of problem case resolutions.

For itself, OTS seeks to:

o Become the authoritative voice for issues affecting the provision of community financial services in America;

o Develop and implement the highest quality national examination, supervisory, and enforcement standards;

o Provide accurate and consistent information to the public, Congress, and the industry;

o Strengthen the agency through the implementation of effective decision-making systems and budget discipline;

o Assure a high-quality and stable professional career staff to carry out the agency's programs with minimum disruption;

o Develop efficiency and effectiveness in dealing with the supervisory challenges of the future required by the rapidly changing operating environment;

o Foster effective operating relationships with the other related financial services regulatory agencies; and

o Design and implement training programs to enable the staff to respond to the rapidly changing supervisory and financial environment.

This is an ambitious set of strategies, but for OTS it is a necessary one because the agency aims to become the best financial services regulator in the business. ●

Federal Home Loan Bank Board
1988 Annual Report

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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 audited the accompanying statements of financial condition of the Federal Home Loan Bank Board as of December 31, 1988 and 1987, and the related statements of income and expenses and retained earnings and statements of cash flows for the years then ended. These financial statements are the responsibility of the Bank Board's management. Our responsibility is to express an opinion on these financial statements based on our audits. In addition to this report on our audits of the Bank Board's 1988 and 1987 financial statements, we are also reporting on our consideration of its system of internal accounting controls and compliance with laws and regulations.

We conducted our audits in accordance with generally accepted government auditing standards. Those 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 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, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank Board as of December 31, 1988 and 1987, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Bank Board will continue as a going concern. As discussed in Note 6 to the financial statements, on February 22, 1989, the Secretary of the Treasury submitted to the Congress the Financial

Institutions Reform, Recovery and Enforcement Act of 1989. The legislation, which was signed into law by the President on August 9, 1989, abolishes the Bank Board and, on the date of enactment, provides regulatory and examination authority and functions for federally insured savings and loan associations to the new Office of Thrift Supervision within the Department of the Treasury. The Bank Board's responsibilities to oversee and supervise the Federal Home Loan Banks are transferred to a new, independent agency, the Federal Housing Finance Board. The legislation also dissolves the Federal Savings and Loan Insurance Corporation and transfers its insurance function to a newly-created savings and loan industry insurance fund administered by the Federal Deposit Insurance Corporation. These financial statements do not include any adjustments that might result from this legislation.

This opinion applies only to the Bank Board's financial statements. The Bank Board formulated policies for and supervised the operations of several related organizations, including the Federal Savings and Loan Insurance Corporation. We will be issuing our opinion on the Corporation's financial statements as a separate report.

Brian P. Crowley

Charles A. Bowsher for
Comptroller General
of the United States

May 31, 1989

FEDERAL HOME LOAN BANK BOARD
COMPARATIVE STATEMENT OF FINANCIAL CONDITION
DECEMBER 31, 1988 AND 1987
(in thousands)

Assets	1988	1987
Cash with U.S. Treasury	$ 2,601	$ 524
Accounts receivable	10,774	8,420
Land and building (Note 1)	44,729	43,919
Furniture, fixtures and equipment (Note 1)	1,058	3,058
Other assets	24	0
Total assets	59,186	55,921
Liabilities		
Accounts payable and accrued liabilities (Note 1)	3,479	844
Employees' accrued annual leave	1,524	1,372
Total liabilities	5,003	2,216
Capital		
Retained earnings	13,153	12,675
Paid in capital	41,030	41,030
Total capital (Note 4)	54,183	53,705
Total liabilities and capital	$59,186	$55,921

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, 1988 AND 1987
(in thousands)

Income	1988	1987
Assessments:		
Federal Home Loan Banks	$10,777	$ 8,071
Federal Savings and Loan Insurance Corporation	30,563	25,603
Rent and miscellaneous other	864	1,487
Total income	42,204	35,161
Expenses		
Personnel compensation	17,739	17,752
Personnel benefits (Note 3)	3,297	2,830
Travel and transportation	1,175	901
Rent, communication, and utilities	4,285	3,057
Depreciation:		
Furniture, fixtures, and equipment	2,000	2,816
Building	999	939
Building maintenance and other services	12,231	7,048
Total expenses	41,726	35,343
Net income	478	(182)
Retained earnings at beginning of year (Note 4)	12,675	12,857
Retained earnings at end of year (Note 4)	$13,153	$12,675

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

FEDERAL HOME LOAN BANK BOARD
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 1988 AND 1987
(in thousands)

Operating Activities	1988	1987
Net income (loss)	$ 478	$ (182)
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation	2,999	3,755
Changes in operating assets and liabilities:		
Increase in accounts receivable	(2,354)	274
Increase in other assets	(24)	39
Increase in accrued annual leave	152	250
Increase in accounts payable and accrued liabilities	2,635	(2,068)
Net cash provided by operating activities	3,886	2,068
Investing Activities		
Acquisition of capital assets	(1,809)	(2,293)
Net cash used in investing activities	(1,809)	(2,293)
Financing Activities		
Net cash provided by financing activities	0	0
Net increase in cash	2,077	(225)
Cash at January 1	524	749
Cash at December 31	$ 2,601	$ 524

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

FEDERAL HOME LOAN BANK BOARD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1988 AND 1987

1. Summary of Significant Accounting Policies:

a. Furniture, Fixtures, and Equipment (FF&E) - FF&E costs at December 31, 1988 and 1987 were $12,368,137 and $12,368,137 less accumulated depreciation of $11,310,404 and $9,310,405, respectively. 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 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 resulted in a FF&E reduction of $3,057,732 over a 2-year period -- $2,000,000 in 1988 and $1,057,732 slated for 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. Building costs at December 31, 1988 and 1987, were $47,216,233 and $45,407,226 less accumulated depreciation of $9,588,102 and $8,588,934, respectively. Depreciation for the building is computed on the straight-line method over 50 years.

c. Accrued Liabilities - Historically, the Bank Board had never accrued expenses for outstanding contract balances since the totals were insignificant compared to total assets. However, since the contract amounts have grown significantly, the Bank Board accrued over $1.6 million in 1988.

d. Statement of Cash Flows - In November 1987, the Financial Accounting Standards Board issued Statement No. 95, Statement of Cash Flows (SFAS 95). The Bank Board has adopted the provisions of SFAS 95 by presenting the Statement of Cash Flows in place of the Statement of Changes in Financial Position. The Bank Board did not have any material noncash transactions in 1988.

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 (FSLIC), the Office of Regulatory Activities, the Federal Home Loan Mortgage Corporation, the Office of Finance, the Financing Corporation (FICO), 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 FSLIC and FICO, governs and finances 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 1988 was $10,777,105 and $30,562,625, respectively.

3. Retirement Plan - Approximately 66% 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, .94 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 $45,000 for 1988, 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 .94 percent of their gross earnings and matches those withholdings with a 12.86 percent contribution. 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 1988 and 1987 were $1,425,225 and $1,381,947, 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: Paid-in-capital represents total paid assessments from the Federal Home Loan Banks for the sole purpose of providing funds for the Bank Board's land and building.

	(in thousands) 1988	1987
Retained Earnings at Beginning of Year	$12,675	$12,857
Net Income (Loss)	478	(182)
Retained Earnings at End of Year	13,153	12,675
Paid-in-Capital at Beginning and End of Year	41,030	41,030
Total Capital at End of Year	$54,183	$53,705

5. Litigation - At the end of 1988, various 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.

6. Subsequent Event:

Pending Legislation - On February 22, 1989, the Secretary of the Treasury submitted to the Congress the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA), which was introduced as Senate Bill S.774 and as House Bill HR.1278. Under FIRREA, the Bank Board would be abolished and the regulation and examination authority and functions would be transferred to a new office within Treasury, while responsibility to oversee and supervise the Federal Home Loan Banks would be transferred to a new independent agency.

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 audited the accompanying consolidated statements of financial condition of the Federal Savings and Loan Insurance Corporation (FSLIC) as of December 31, 1988 and 1987, and the related consolidated statements of income and expense and reserves for the years then ended, the statement of cash flows for the year ended December 31, 1988, and the statement of changes in financial position for the year ended December 31, 1987. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits. In addition to this report on our audits of the Corporation's 1988 and 1987 financial statements, we are reporting on our consideration of its system of internal accounting controls and on its compliance with laws and regulations.

We conducted our audits in accordance with generally accepted government auditing standards, except as discussed in the following paragraph. Those 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 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.

During 1988, the Corporation incurred a net loss of $66 billion, resulting in a reported deficit of $75 billion at the end of the year. The Corporation reported a $43.6 billion loss allowance for troubled but still operating savings and loan associations. This allowance represents the Corporation's estimated cost to resolve the problems of 578 institutions. The Corporation also estimated that the present value cost associated with institutions that were merged or sold during 1988 was $33 billion. To develop its estimates, the Corporation used systematic methods based on the best available information at the time. Thus, its estimates appeared reasonable. However, the actual costs depend on various uncertainties, such as the extent of continued operating losses; the quality of each institution's assets; future interest rates; the potential effect of the recently enacted Financial Institutions Reform, Recovery, and Enforcement Act of 1989; and the economic outlook for certain sectors of the economy. The actual cost of its assistance transactions is also dependent on the outcome of detailed reviews of the failed institutions' assets, most of which have not yet been completed. Sufficient evidence on the outcome of these uncertainties will not be available until resolution action is actually taken and the assets are sold and detailed asset reviews are completed. Financial information for the first half of 1989 showed that insolvent institutions incurred operating losses at a rate substantially higher than estimated and that the quality and value of assets may be deteriorating. As a result of these uncertainties, we were unable to satisfy ourselves that the $43.6 billion loss allowance is sufficient to cover the actual cost to resolve the problems of the 578 troubled institutions. We were also unable to satisfy ourselves that the $33 billion is an accurate estimate of the cost related to the Corporation's 1988 assistance transactions.

In our opinion, except for the effects that the uncertainties discussed in the preceding paragraph may have on resolution costs, the financial statements referred to above present fairly, in all material respects, the financial position of the Federal Savings and Loan Insurance Corporation as of December 31, 1988 and 1987, the results of its operations for the years then ended, its cash flows for the year ended December 31, 1988, and its changes in financial position for the year ended December 31, 1987, in conformity with generally accepted accounting principles.

As discussed in Note 1 to the financial statements, the Corporation elected to present the statement of cash flows only for the year ended December 31, 1988. This presentation is permitted by Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows."

As discussed in Note 17 to the financial statements, due to its actions to resolve the problems of failed savings and loan institutions and to its continuing liability for troubled but still operating savings and loans, the

Corporation has suffered recurring losses and has reported a $75 billion deficit. As a result of the Corporation's losses and the continuing problems in the savings and loan industry, on February 23, 1989, the administration proposed legislation to provide a mechanism to resolve these problems.

Legislation similar to the original proposal was enacted on August 9, 1989. The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 dissolved the Corporation and as of the date of enactment, transferred its assets, debts, obligations, contracts, and other liabilities to a newly established fund, the FSLIC Resolution Fund. The Federal Deposit Insurance Corporation is responsible for administering the fund to ensure its assets are sold and liabilities paid. The act also created the Resolution Trust Corporation and provided it $50 billion to resolve the problems of institutions placed into conservatorship or receivership from January 1, 1989, until 3 years after enactment. The act also transferred the Corporation's insurance function to the Federal Deposit Insurance Corporation, which, among other things, will administer a newly created insurance fund for savings and loan associations, the Savings Association Insurance Fund. We believe that the act provides the means to pay for the Corporation's past actions, but are concerned that resolution costs for troubled but still operating institutions may exceed the $50 billion in funds provided to the Resolution Trust Corporation.

The following sections provide supplementary comments relating to the savings and loan industry, the Corporation's financial condition, and the funding provisions in the Financial Institutions Reform, Recovery, and Enforcement Act.

SAVINGS AND LOAN INDUSTRY'S FINANCIAL CONDITION

Over the past decade, the savings and loan industry has experienced severe financial difficulties. In 1981 and 1982, the industry lost $11.6 billion in equity capital because extremely high general interest rates forced institutions to pay high interest rates to fund their operations. At the same time, they were encumbered with low-yielding, long-term loan portfolios. Also, regulators did not act decisively to close failed savings and loans. Instead, they reduced capital standards, allowed institutions to use accounting gimmicks to artificially inflate reported capital, and even granted forbearance from the relaxed capital standards.

During the same period, many institutions were allowed to diversify their investment activities into potentially more profitable, but risky, activities. The profitability of many of these activities was predicated on continued inflation in real estate values to make them economically viable. Moreover, in many cases, this diversification was coupled with poor internal controls and noncompliance with laws and regulations, thus increasing the risk of these activities. (See GAO/AFMD-89-62, dated June 16, 1989.)

As a result of these factors, many institutions have been adversely affected by substantial losses on their loans and investments. These losses have been exacerbated by the severe economic downturn in the Southwest. By the end of 1987, 505 savings and loan associations were insolvent--had capital as measured by generally accepted accounting principles (GAAP) of less than zero.[1]

In 1988, the industry's financial condition continued to deteriorate. The savings and loan industry reported an overall net loss of $13.0 billion. Although 70 percent of insured institutions operated profitably, earning $5 billion during 1988, these profits were far outweighed by the $18 billion in losses incurred by the remaining institutions, located primarily in the Southwest. Moreover, although the Corporation merged, sold, or liquidated over 200 institutions during 1988, there were still 364 insolvent institutions with assets of $113.5 billion and negative tangible net worth (GAAP capital less intangible assets, such as goodwill) of $16 billion at the end of the year.

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 reported reserves of $6.5 billion, representing 1.28

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[1]Capital as used here is the difference between assets and liabilities as measured by generally accepted accounting principles.

percent of total insured deposits; at December 31, 1988, it reported a deficit of $75 billion. Due to increasing costs related to insurance activities, the Corporation began incurring losses in 1984. The Corporation's 1988 reported loss of $66 billion was primarily due to (1) the $36 billion in estimated costs related to institutions that have been merged or sold, $33 billion of which related to 1988 assistance transactions, and (2) the $26 billion increase in the Corporation's loss allowance for troubled but still operating institutions.

The Corporation's 1988 Assistance Transactions

During 1988, due to the insolvency of its insurance fund and the questionable quality of the failed institutions' assets, the Corporation relied on promissory notes and guaranteed assistance to complete assistance transactions with acquirers of troubled savings and loans. The terms and conditions of the assistance agreements often included provisions to cover the negative net worth of the acquired institutions and to protect the acquirers from losses resulting from nonperforming assets and sales of poor quality assets.

The Corporation estimated that the present value cost of its 1988 assistance transactions was $33 billion. To develop its cost estimates, the Corporation made various assumptions regarding future economic conditions and acquirer actions to forecast expected future net cash outlays, which it then discounted back to present value. For example, the Corporation assumed that

-- for most assistance agreements, interest rates would increase moderately, and

-- assets would be sold over periods ranging from 3 years to 7-1/2 years and that the recovery rate on asset book value would range from 43 percent to 67 percent.

Based on our analysis of the assistance agreements, data available at the time of our audit, and the Corporation's support for its assumptions, the Corporation's cost estimates appeared reasonable. Nonetheless, as with any estimate, actual costs as well as cash outlays may differ from those projected. Moreover, at the time that the Corporation estimated costs, neither the Corporation nor the acquirers had performed a detailed review of the failed institutions' assets to produce a more accurate estimate of the institutions' negative net worth or the value of assets to be covered by guarantees. Once such a review is completed, the institutions' deficits and the expected losses on covered assets may differ from the Corporation's estimates.

Estimated Loss on Troubled but Still Operating Institutions

As discussed in note 15 to the financial statements, at December 31, 1988, the Corporation recorded a $43.6 billion loss allowance for troubled but still operating institutions, an increase of $26 billion from its 1987 allowance. This allowance represents the Corporation's estimated cost to resolve 578 troubled but still operating institutions with assets of $267 billion and negative tangible net worth of $17.2 billion at December 31, 1988. For the first time, in addition to the cost related to insolvent institutions, the Corporation included the cost related to solvent but troubled institutions in its loss allowance. These institutions added about $16.5 billion to the loss allowance.

To estimate its loss allowance, the Corporation made various assumptions regarding future operating losses, economic conditions, and interest rates, and whether an institution would be liquidated or merged. For example, the Corporation assumed that the 578 troubled institutions would be resolved over the next 5 years, and, during this time, they would continue to incur operating losses at a rate similar to the rate incurred during the fourth quarter of 1988.

Based on our analysis of the Corporation's assumptions and cost estimates and data available at the time of our audit, we believe that the $43.6 billion allowance for troubled institutions was reasonable. However, as with any estimate, actual costs may differ from those projected. Information that was not available until after we completed audit work leads us to believe that resolution costs may exceed the Corporation's December 31, 1988, estimate. Specifically, financial information reported by savings and loans showed that insolvent institutions incurred operating losses during the first 6 months of 1989 at a rate substantially higher than expected. Further, during the first half of 1989, insolvent institutions' provisions for losses on assets were almost as high as the loss provisions for all of 1988. Therefore, it appears that the quality and value of assets is continuing to deteriorate.

FUNDING PROVISIONS IN THE ACT

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 made numerous structural changes to the regulatory and insurance functions for the savings and loan industry and included mechanisms to provide the funds to resolve the savings and loan crisis as follows.

-- The act included provisions to pay for the Corporation's prior obligations (primarily obligations arising from assistance transactions entered into before January 1, 1989) that were transferred to the FSLIC Resolution Fund and to pay administrative expenses from the date of enactment through fiscal year 1999, estimated to be about $60.5 billion. The necessary funds will come from a variety of sources, including savings and loan insurance premiums, proceeds from liquidating receivership assets, and the sale of bonds authorized by the Competitive Equality Banking Act of 1987. Any shortfall in the amounts needed for these obligations and expenses is to be provided by the Department of the Treasury through appropriations.

-- The act created the Resolution Trust Corporation and provided it $50 billion to pay for the costs associated with institutions placed into conservatorship or receivership (troubled but still operating institutions) from January 1, 1989, until 3 years after enactment. Of that amount, Treasury will provide $18.8 billion during fiscal year 1989. Another newly created entity, the Resolution Funding Corporation (REFCORP), will provide $1.2 billion during fiscal year 1989, using funds it receives from the Federal Home Loan Banks and the proceeds from certain receiverships. REFCORP will raise the remaining $30 billion by issuing 30-year bonds and will transfer the proceeds to the Resolution Trust Corporation for use in resolution actions.

-- A mechanism was also provided to pay Savings Association Insurance Fund obligations during fiscal years 1992 through 1999 and to establish a minimum insurance fund balance. During this period, funds of at least $2 billion are to be provided annually. To the extent that savings and loan insurance premiums do not provide $2 billion annually, Treasury is to provide additional funds to make up the shortfall. In addition, Treasury is to provide additional funds as may be needed to ensure that the insurance fund maintains legislatively mandated annual minimum net worth levels, ranging from zero during fiscal year 1992 to $8.8 billion during fiscal year 2000. The amount of funds Treasury can provide to maintain the fund's net worth cannot exceed $2 billion during either fiscal year 1991 or fiscal year 1992. In addition, the cumulative amount appropriated for fiscal years 1991 through 1999 cannot exceed $16 billion.

Based on estimates of the budget impact and funding needs of the legislation, which the administration issued in February 1989, and the Corporation's estimates of acquirer tax benefits attributed to its 1988 assistance transactions, we estimated that $305.9 billion would be needed over the next 33 years to pay for future and prior resolution actions, to pay interest on $50 billion in REFCORP debt and the debt that was authorized by the Competitive Equality Banking Act of 1987, and to pay other miscellaneous items. Of that amount, Treasury's share would be $157.3 billion--$94.1 billion for REFCORP interest and $63.2 billion for direct program items. This estimate does not include any general budgetary interest costs that Treasury would incur on funds it may have to borrow to make expenditures under the legislation. Excluding these interest costs is consistent with the manner in which the Congressional Budget Office and the Office of Management and Budget treat them.

In July 1989, the administration issued new budget and funding estimates, using different interest rate and deposit growth rate assumptions. Based on the administration's revisions, we estimated that the 33-year funding needs for the plan using $30 billion instead of $50 billion in REFCORP debt would be $257.2 billion. Of that amount, Treasury's share would be $139.0 billion--$50.0 billion for REFCORP interest and $89.0 billion for direct program items. The decrease in funding needs and in Treasury's share is primarily due to Treasury providing $18.8 billion for which no general budgetary interest costs are included in the revised estimate. These funds will replace $20 billion in proposed REFCORP debt for which interest costs were included in the original estimate.

To make its original estimate of the costs and cash needs of the plan, the administration used various assumptions, such as rapidly declining interest rates and fairly high deposit growth rates. We have stated on numerous occasions that we believe these assumptions are optimistic. Although the administration revised some of its assumptions for its July 1989 estimates, we believe that they may still prove to be optimistic. For example, the revised assumptions included the following.

-- The interest rate on REFCORP debt would decline from 8.25 percent for debt issued in fiscal year 1989 to 7.25 percent for debt issued in fiscal year 1991.

-- The interest rate on the Corporation's notes payable would decline from 9.3 percent in fiscal year 1989 to 6.0 percent in fiscal year 1994.

-- Insured deposits would increase by an average of 5.2 percent per year through fiscal year 1999, even though the savings and loan industry has been experiencing record deposit outflows since the end of 1988. Nonetheless, this growth rate is substantially lower than the 7.2 percent used for the administration's original estimate.

Overall, we still believe that the administration used optimistic assumptions. Therefore, we believe that the cost to Treasury to resolve the savings and loan crisis will probably be higher than currently estimated.

Nonetheless, because the act provides for Treasury payments to cover any shortfall in funding for the FSLIC Resolution Fund, we believe it provides the means to pay for the Corporation's past actions. However, the act limits the amount of funds available to the Resolution Trust Corporation for future resolutions. It also limits the amount of Treasury funds available to the Savings Association Insurance Fund and restricts the fund's ability to increase insurance assessment rates and to issue notes and other obligations. As previously discussed, insolvent institutions are incurring operating losses at a rate substantially higher than expected. Also, it appears that asset values are continuing to deteriorate. Therefore, resolution costs for troubled but still operating institutions may exceed the $50 billion in funds available to the Resolution Trust Corporation. To the extent that the Savings Association Insurance Fund must cover any such shortfall, its fund balance may be adversely affected.

Charles A. Bowsher

Charles A. Bowsher
Comptroller General
of the United States

May 31, 1989

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 audited the consolidated financial statements of the Federal Savings and Loan Insurance Corporation for the years ended December 31, 1988 and 1987, and have issued our opinion thereon. As part of our audits, we made a study and evaluation of the system of internal accounting controls to the extent we considered necessary to evaluate the system as required by generally accepted government auditing standards. This report pertains only to our study and evaluation of the system of internal accounting controls for the year ended December 31, 1988. Our report on the study and evaluation of internal accounting controls for the year ended December 31, 1987, is presented in GAO/AFMD-88-58, dated July 5, 1988.

The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the Corporation's financial statements. For purposes of this report, we have classified the significant internal accounting controls into the following categories:

-- assistance to merged/acquired institutions,

-- costs related to closed institutions,

-- costs related to unresolved institutions,

-- expenditures,

-- financial reporting,

-- revenue, and

-- treasury.

Our study and evaluation included all of the control categories listed above. In addition, we reviewed the Corporation's 1988 report issued pursuant to section 2 of the Federal Managers' Financial Integrity Act of 1982 (31 U.S.C. 3512) to determine the existence and status of any internal accounting control weaknesses relevant to financial matters. The Corporation reported that its systems of internal accounting and administrative controls, taken as a whole, provided reasonable assurance that the required control requirements were being complied with. We considered the report's statements in conducting our study and evaluation and determining the nature, timing, and extent of our audit tests.

The Corporation's management is responsible for establishing and maintaining an effective system of internal accounting controls. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system of internal accounting controls are to provide management with reasonable assurance that (1) obligations and costs are in compliance with applicable laws, (2) funds, property, and assets are safeguarded against waste, loss, and unauthorized use or misappropriation, and (3) assets, liabilities, revenues, and expenditures applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial reports and to maintain accountability over the Corporation's assets. Because of inherent limitations in any system of internal accounting controls, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation, made for the limited purpose described in the second paragraph, would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the Corporation's system of internal accounting controls taken as a whole or on the categories of controls identified in the second paragraph. Our study and evaluation did not disclose any internal accounting control weaknesses which we considered to be material in relation to the financial statements taken as a whole. Nonetheless, we believe that the following discussion of the Corporation's systems for estimating the costs associated with troubled but still operating savings and loan associations and with its assistance agreements provides information that will be useful to users of its financial statements.

THE CORPORATION'S RESOLUTION COST ESTIMATING SYSTEMS ARE REASONABLE

The Corporation has standardized methodologies for estimating the costs associated with troubled savings and loan associations and with its assistance agreements. Although the actual cost to resolve the savings and loan crisis cannot be precisely predicted, we believe that the Corporation's systems provide a reasonable basis for developing resolution cost estimates.

In general, to develop its loss allowance for troubled but still operating institutions, the Corporation used cost estimates which were prepared for each troubled institution by the Federal Home Loan Bank analysts who were most familiar with the institutions' financial condition, asset quality, and prospects for the future. To develop the cost estimates, the analysts used financial information that savings and loan associations submitted to the Federal Home Loan Bank Board, adjusted for items such as intangible assets and deferred losses, which either have no value or increase the loss to the Corporation. They then calculated cost estimates using various assumptions regarding future interest rates, asset values, and other factors that were developed to ensure consistency.

The Corporation then adjusted these estimates to incorporate estimated future operating losses and discounted the resulting total cost to its present value as of the end of 1988. The Corporation also established review procedures to ensure that the individual cost estimates were consistent, complete, and reasonable.

To estimate the present value cost of assistance transactions, Corporation analysts used a computer simulation model. Corporation analysts entered relevant asset and net worth information from an assisted institution's most recent quarterly financial report and the specific rates for yield subsidies and promissory notes from the signed agreement. The model then estimated future Corporation cash outflows using this information as well as standardized assumptions regarding future interest rates and asset disposition schedules. The Corporation then discounted the cash flows to present value using its most recent cost of funds. Corporation case managers revise the cost estimates quarterly to reflect assistance paid under the agreement and to update the calculation for changing interest rates and institution-reported financial information. The Corporation also established limited-access procedures for the computer model and review procedures for the resulting estimates to ensure the accuracy and reliability of its methodology and cost estimates.

Through our audit work, we determined that the Corporation's systems were reasonable methods to estimate the cost of unresolved cases and assistance transactions. We also believe that the Corporation used the best information available at the time. However, as discussed in our opinion on the Corporation's financial statements, until resolution action is completed and the true quality of an institution's assets is known, resolution costs cannot be precisely determined.

During our audit, we identified several internal accounting control matters which, although not material, nonetheless merit corrective action to strengthen the Corporation's internal accounting controls. Accordingly, we are reporting them separately to the Federal Deposit Insurance Corporation, which has taken over responsibility for the Corporation's activities.

Sincerely yours,

Charles A. Bowsher

Charles A. Bowsher
Comptroller General
of the United States

May 31, 1989

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 audited the consolidated financial statements of the Federal Savings and Loan Insurance Corporation for the years ended December 31, 1988 and 1987, and have issued our opinion thereon. Our audits were made in accordance with generally accepted government auditing standards and, accordingly, included such tests of compliance with laws and regulations as we considered necessary in the circumstances. This report pertains only to our review of compliance with laws and regulations for the year ended December 31, 1988. Our report on the review of compliance with laws and regulations for the year ended December 31, 1987, is presented in GAO/AFMD-88-58, dated July 5, 1988.

The Corporation's management is responsible for compliance with laws and regulations. In connection with our audits, we selected and tested transactions and records to determine the Corporation's compliance with laws and regulations, noncompliance with which could have a material effect on the financial statements.

As part of our audit, we reviewed and tested compliance with provisions of title IV of the National Housing Act, as amended (12 U.S.C. 1724-1730), title III of the Competitive Equality Banking Act of 1987 (12 U.S.C. 226 note), the Prompt Payment Act (39 U.S.C. 3901), the Federal Managers' Financial Integrity Act of 1982 (31 U.S.C. 3512(b),(c)), and such other laws and regulations as we considered pertinent to the Corporation. In our opinion, the Corporation complied with the terms and provisions of laws and regulations for the transactions tested that could have materially affected the financial statements. In connection with our audit, nothing came to our attention that caused us to believe that the Corporation was not in compliance with the terms and provisions of laws and regulations for those transactions not tested.

Sincerely yours,

Charles A. Bowsher

Charles A. Bowsher
Comptroller General
of the United States

May 31, 1989

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 1988 AND 1987
(in thousands)

	1988	1987
Assets		
Cash and Cash Equivalents (Notes 1 and 3)..	$ 3,090,776	$ 2,922,824
Investments (Note 3)......................	574,002	446,764
Interest Receivable on Investments.........	765	1,000
Insurance Premiums and Accounts Receivable.	8,497	11,551
Subrogated Accounts from Receivers (Note 4)	5,200,380	3,988,495
Collateralized Advances due from Receivers (Note 5)................................	558,791	814,047
Loans to Receivers (Note 5)...............	128,612	113,573
Interest Receivable on Loans to Receivers..	5,217	3,767
Collateralized Loans to Insured Institutions (Note 6)................................	830,000	900,000
Other Loans to Insured Institutions (Note 6)	205,123	214,181
Interest Receivable on Other Loans to Insured Institutions.....................	11,485	10,533
Real Estate, Mortgage Loans and Other Assets (Note 7)....................	1,356,096	173,437
Income Capital Certificates (Notes 8 and 10)	257,819	656,742
Net Worth Certificates (Notes 9 and 10)....	171,200	225,025
Miscellaneous Assets......................	17,473	26,508
Total Assets.............................	12,416,236	10,508,447
Liabilities		
Accounts Payable and Other Liabilities.....	127,066	102,230
Notes Payable to Insured Institutions (Note 10)...............................	19,748,114	4,661,093
Miscellaneous Liabilities to Insured Institutions.....................	286,690	286,370
Accrued Interest on Notes Payable to Insured Institutions.....................	220,456	99,905
Notes Payable to Federal Home Loan Banks (Note 6)................................	830,000	900,000
Allowance for Loss - Assistance Agreements (Note 11)...............................	22,645,000	749,069
Allowance for Loss - Unresolved Cases (Note 15)...............................	43,550,000	17,400,000
Total Liabilities.........................	87,407,326	24,198,667
Insurance Fund Reserves		
Capital Stock............................	497,000	129,500
Capital Certificates......................	5,353,000	1,070,500
Reserves.................................	(80,841,090)	(14,890,220)
Total Primary Reserve (Note 13)...........	(74,991,090)	(13,690,220)
Total Liabilities and Reserves............	$ 12,416,236	$ 10,508,447

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

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION
CONSOLIDATED STATEMENTS OF INCOME AND EXPENSE AND RESERVES
FOR THE YEARS ENDED DECEMBER 31, 1988 AND 1987
(in thousands)

	1988	1987
Income		
Insurance Premiums (Note 1)	$ 473,167	$ 734,021
Special Assessment Premiums (Note 1)	1,195,037	1,119,582
Less Secondary Reserve Offset (Note 1)	(162,220)	0
Interest on Investments	179,978	112,552
Interest on Collateralized Advances and Loans to Receivers	36,378	8,814
Interest on Other Loans to Insured Institutions	44,130	88,617
Interest on Collateralized Loans to Insured Institutions	62,627	101,240
Interest on Advances to Insured Institutions	1,256	47,051
Interest from Real Estate, Mortgage Loans and Other Assets in Process of Liquidation	11,432	17,159
Gain on Sale of Assets	54,457	32,299
Gain on Transfer of Insured Accounts	73,998	31,710
Other Income	482,603	102,084
Total Income	2,452,843	2,395,129
Expenses		
Insurance Settlement and Administrative Expenses	223,928	192,593
Services Rendered to FSLIC by the FHLBB (Note 2)	30,562	25,604
Interest on Notes Payable to the FHLBanks	64,731	78,928
Interest on Notes Payable to Insured Institutions	522,351	237,789
Provision for Loss on:		
Subrogated Accounts from Receivers (Note 4)	2,813,697	1,623,060
Collateralized Advances due from Receivers (Note 5)	(3,780)	145,313
Real Estate, Mortgage Loans and Other Assets in Process of Liquidation (Note 7)	2,587,454	106,943
Loans to Receivers (Note 5)	8,775	24,225
Loans to Insured Institutions (Note 6)	97,600	
Income Capital Certificates (Notes 8 and 10)	113,938	281,793
Assistance Agreements (Note 11)	35,794,457	1,334,730
Unresolved Cases (Note 15)	26,150,000	6,900,000
Total Expenses	68,403,713	10,950,978
Net Loss From Operations	(65,950,870)	(8,555,849)
Primary Reserve at Beginning of Period	(13,690,220)	(6,332,891)
Prior Period Adjustments	0	(1,480)
Net Loss	(65,950,870)	(8,555,849)
Capital Stock	367,500	129,500
Capital Certificates	4,282,500	1,070,500
Primary Reserve at End of Period (Note 13)	$ (74,991,090)	$ (13,690,220)

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

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 1988
(in thousands)

	1988
Operating Activities	
Net Loss	$ (65,950,870)
Adjustments to Reconcile Net Income to Net Cash Used by Operating Activities:	
Gain on Sale of Assets	(54,457)
Gain on Transfer of Insured Accounts	(73,998)
Provision for Loss on:	
Subrogated Accounts	2,813,697
Collateralized Advances due from Receiver	(3,780)
Income Capital Certificates	113,938
Assistance Agreements	35,794,457
Loans to Receivers	8,775
Real Estate and Mortgage Loans	2,587,454
Loans to Insured Institutions	97,600
Unresolved Cases	26,150,000
Changes in Operating Assets & Liabilities:	
Decrease in Accounts Receivable	3,054
Increase in Accrued Interest Receivable	(2,183)
Increase in Subrogated Accounts	(2,917,454)
Decrease in Other Assets	9,081
Increase in Accounts Payable	7,643
Increase in Interest Payable	120,444
Decrease in Other Liabilities to Insured Institutions	(15,455)
Payments made on Assistance Agreements	(1,715,490)
Purchase of Acquired Assets	(85,092)
Net Cash Used by Operating Activities	(3,112,636)
Investing Activities	
Maturity of Marketable Securities	54,007
Purchase of S&L Stock	(133,230)
Repayment of Collateralized Advances due from Receivers	259,270
Repayment of Loans to Receivers	(23,804)
Net Increase in Other Loans to Insured Institutions	(15,109)
Redemption of Income Capital Certificates	2,334
Net Cash Provided by Investing Activities	143,468
Financing Activities	
Sale of Capital Stock	367,500
Sale of Capital Certificates	4,282,500
Redemption of Notes Payable to Insured Institutions	(1,512,880)
Net Cash Provided by Financing Activities	3,137,120
Increase in Cash & Cash Equivalents (Note 1)	167,952
Cash & Cash Equivalents as of January 1, 1988 (Note 3)	2,922,824
Cash & Cash Equivalents as of December 31, 1988 (Note 3)	$ 3,090,776

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 YEAR ENDED DECEMBER 31, 1987
(CALENDAR YEAR BASIS, $000'S)

	1987
SOURCES OF FUNDS	
Net Loss	$ (8,555,849)
Add (Deduct) Items Not Requiring or Generating Cash:	
Depreciation of FF&E	3,227
Accretion and Amortization of Investments	1,972
Gain on Transfer of Insured Accounts	(31,710)
Provision for Loss on:	
Subrogated Accounts (Note 4)	1,623,060
Collateralized Advances from Receiver (Note 5)	145,313
Loans to Receivers (Note 5)	24,225
Income Capital Certificates (Notes 8 and 10)	281,793
Real Estate, Mortgage Loans and Other Assets (Note 7)	106,943
Assistance Agreements (Note 11)	1,334,730
Unresolved Cases (Note 15)	6,900,000
Funds Provided from Operations	1,833,704
Sale of Capital Stock	129,500
Sale of Capital Certificates	1,070,500
Increase In:	
Accounts Payable and Other Liabilities	41,092
Notes Payable and Other Liabilities to Insured Institutions (Note 10)	74,713
Accrued Interest on Notes Payable to Insured Institutions	1,964
Decrease In:	
Investments and Interest Receivable	652,855
Real Estate, Mortgage Loans and Other Assets in Process of Liquidation	13,136
Income Capital Certificates	498,247
Net Worth Certificates	47,625
Other Assets	2,459
TOTAL FUNDS PROVIDED	4,365,795
APPLICATION OF FUNDS	
Amount Paid Under Assistance Agreements	1,359,733
Refund of Secondary Reserve	1,480
Increase in:	
Subrogated Accounts	2,752,355
Loans to Receivers and Interest Receivable	22,275
Collateralized Advances due from Receivers	134,876
Loans to Insured Institutions and Interest Receivable	108,434
Insurance Premiums and Accounts Receivable	8,526
TOTAL FUNDS APPLIED	4,387,679
Decrease in Cash	$ (21,884)

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

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1988 AND 1987

1. Summary of Significant Accounting Policies:

   a) Principles of Consolidation - The Federal Savings and Loan Insurance Corporation (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 recently 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 a result of CEBA, $340.8 and $32.1 million of insurance premiums were assessed and collected by the Financing Corporation during 1988 and 1987 respectively.

   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 307 of the Competitive Equality Banking Act of 1987 (CEBA) authorizes insured institutions to offset against future special assessment premiums amounts that were previously part of the "Secondary Reserve". This offset began in 1988 and special assessment premiums were reduced by $162.2 million.

   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 1988 limitation was 1/12 of one percent, while the 1987 limitation was 5/48 of one percent. However, the Act allowed the Board to postpone the reduction in the special assessment if the Board determined that severe pressures on the Corporation exist which necessitate an infusion of additional funds. The Board approved postponement of the reduction in 1988, and in 1987.

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

The Allowance for Loss on Unresolved Cases is the estimated cost to FSLIC of all unresolved, troubled institutions (Note 15). This allowance represents the present value cost of future FSLIC assistance that is probable and can be reasonably estimated as of December 31, 1988, and is not a projection of the cost to resolve all future problems in the Savings and Loan Industry. During 1988, there was a policy change to include in the allowance for loss GAAP insolvent and GAAP solvent but troubled institutions beyond the FSLIC caseload. In 1987, the allowance for loss included institutions in the FSLIC caseload plus additional institutions in the Southwest. This policy change resulted in a significant increase to the amount reported as of December 31, 1988.

The administration has proposed legislation that provides for payment of the Corporation's liabilities for both resolved and unresolved troubled institutions.

e) Furniture Fixtures, and Equipment (FF&E) - The FF&E cost at December 31, 1988 and 1987 was zero. All prior years capitalized purchases were depreciated through September 30, 1987, at which time a review of the FF&E policy was made. It was determined that, for the purpose of consistency, all FF&E should be expensed. This policy change resulted in a one time FF&E reduction of $2,128,626 along with a corresponding increase in depreciation expense in 1987. 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) Statement of Cash Flows - In November 1987, the Financial Accounting Standards Board issued Statement No. 95, Statement of Cash Flows (SFAS 95). The FSLIC has adopted the provisions of SFAS 95 by presenting the Statement of Cash Flows in place of the Statement of Changes in Financial Position for 1988 only. For the purposes of the Statement of Cash Flows, all highly liquid investments with original maturities of three months or less are considered to be cash equivalents.

g) Reclassification - Reclassifications have been made in the 1987 financial statements to conform to the presentation used in 1988.

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 Federal Home Loan Banks (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 the Bank Board, the 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, 1988, the FSLIC had guaranteed commitments of $4.5 billion, of which $1.6 billion had been advanced to member associations. By comparison, as of December 31, 1987, guaranteed commitments totaled $7.3 billion, of which $2.3 billion had been advanced. In the event that FSLIC is called upon to honor these guarantees, they are recorded as an asset on FSLIC's books and FSLIC 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 have been passed through to member institutions as Collateralized Loans (Note 6). These loans totaled $830 million as of December 31, 1988, and $900 million as of December 31, 1987.

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, 1988 FADA reported assets of $21.1 million, liabilities of $3.4 million, a retained deficit of $7.3 million, and total stockholder's equity of $17.7 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, 1988 and 1987, the FADA had outstanding borrowings of zero and $7.0 million, respectively, against this open line of credit.

Financing Corporation - Title III, Section 302 of the Competitive Equality Banking Act of 1987 established 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, 1988, the FICO has purchased $5.9 billion in FSLIC Capital Stock and Capital Certificates.

3. Cash and 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.

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. In 1988, the Corporation earned an average geometric rate of return of 7.49% on all investments, excluding preferred stock.

As of December 31, 1988 and 1987, the Corporation's cash and investment portfolio consisted of the following:

	1988		1987	
	Book Value	Market Value	Book Value	Market Value
	(in thousands)		(in thousands)	
Cash and Cash Equivalents:				
Cash	$ 77,301	$ 77,301	$ 11,200	$ 11,200
U.S Treasury Overnight Funds	3,004,775	3,004,775	2,910,410	2,910,410
FADA Money Market Funds	8,700	8,700	1,214	1,214
Total Cash and Cash Equivalents:	3,090,776	3,090,776	2,922,824	2,922,824

Investments:				
Maturities up to One Year	0	0	51,985	51,801
Maturities Over One Year	3,011	2,853	5,018	4,857
Total Securities:	3,011	2,853	57,003	56,658
Preferred Stock	570,991	570,991	389,761	389,761
Total Investments:	$ 574,002	$ 573,844	$ 446,764	$ 446,419

4. Subrogated Accounts - As required by statute, an institution is closed unless there is a default prevention measure that would be less costly than liquidation. In the case of liquidation, the FSLIC settles insurance claims either by cash payout of insured accounts or by transferring insured accounts to another insured institution. The FSLIC's subrogated account claim against the receivership of the liquidated institution is equal to the amount of the insured accounts transferred or paid out.

As assets are liquidated by the receivership, the FSLIC and other creditors receive periodic liquidating dividends in payment of their claims against the receiver. In most cases, a receivership does not have sufficient assets to pay all claims; therefore, the FSLIC must estimate how much of its 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 for the years ended December 31, 1988 and 1987 are:

	Subrogated Accounts	
	1988	1987
	(in thousands)	
Balance: Beginning of Year	$10,847,248	$ 7,841,250
Additions During the Year	5,394,620	3,006,765
Receiverships Closed During the Year	(8,478)	0
Losses Realized During the Year	(398)	(767)
Gross Subrogated Accounts	16,232,992	10,847,248
Less: Liquidating Dividends from Open Receiverships	1,712,612	351,974
Less: Allowance for Loss for Open Receiverships	9,320,000	6,506,779
Net: End of Year	$ 5,200,380	$ 3,988,495

5. Collateralized Advances Due from Receivers and Loans to Receivers - The FSLIC sometimes guarantees repayment of advances made by FHLBanks to insured institutions. If, subsequently, an institution is closed by the FSLIC, the FSLIC may be required by the FHLBank to repay the advance. The FSLIC repayment of the advance results in a claim against the receivership for the insured institution and establishment of a FSLIC asset, Collateralized Advances Due from Receivers. These Collateralized Advances are to be recovered by the FSLIC from the receivership's liquidation of assets.

The FSLIC also makes loans available to meet the administrative and operating expense requirements of certain receiverships. These loans are to be repaid from the liquidating of assets of the receivership.

The changes in Collateralized Advances Due from Receivers and Loans to Receivers for the years ended December 31, 1988 and 1987 are:

	Collateralized Advances		Loans to Receivers	
	1988	1987	1988	1987
	(in thousands)		(in thousands)	
Balance: Beginning of Year	$990,827	$855,951	$137,798	$117,274
Net Increase (Decrease)	(259,036)	134,876	23,814	20,524
End of Year	731,791	990,827	161,612	137,798
Less: Allowance for Loss	173,000	176,780	33,000	24,225
Net: End of Year	$558,791	$814,047	$128,612	$113,573

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 $630 million, totaling $830 million. Interest rates on the $200 million loan and the corresponding note to the FHLBank are the same and averaged 7.7% in 1988. The interest rate on the remaining $630 million loan receivable 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 7.5% to 7.9% in 1988. Interest on the corresponding note payable to the FHLBank is based on the cost of FHLBank funds plus 20 basis points. This rate varied between 6.9% and 8.8% during 1988. Principal payments on the $630 million collateralized loan began in 1988 and end in 1995, while principal payments on the $200 million collateralized loan begin in 1989 and end in 1995.

The $205.1 million in Other Loans to Insured Institutions is shown net of a $103.0 million allowance. 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 for the years ended December 31, 1988 and 1987 are:

Real Estate, Mortgage Loans, and Other Assets

		1988	1987
		(in thousands)	
Balance:	Beginning of Year	$ 287,919	$ 337,479
Add:	Increase (Decrease)	3,755,177	(49,560)
Balance:	End of Year	4,043,096	287,919
Less:	Allowance for Loss	2,687,000	114,482
Net:	End of Year	$1,356,096	$ 173,437
		=========	=======

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 due 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, 1988 and 1987 are:

Income Capital Certificates

		1988	1987
		(in thousands)	
Balance:	Beginning of Year	$ 1,645,883	$ 2,219,544
Add:	Net Purchases or (Cancellations)	(1,230,064)	(573,661)
Balance:	End of Year	415,819	1,645,883
Less:	Allowance for Loss	158,000	989,141
Net:	End of Year	$ 257,819	$ 656,742
		=======	=======

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 1/4 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 program will expire on October 13, 1991.

The changes in the NWCs for the years ended December 31, 1988 and 1987 are:

	Net Worth Certificates 1988 (in thousands)	Net Worth Certificates 1987 (in thousands)
Balance: Beginning of Year	$ 225,025	$ 272,650
Add: Net Purchases or (Cancellations)	(53,825)	(47,625)
Net: End of Year	$ 171,200	$ 225,025

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. Generally, 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 either quarterly or semiannually based on various indices. The weighted average rate as of December 31, 1988 was 8.98 percent. In addition to these notes, FSLIC has other liabilities to acquiring institutions of $286.7 million.

The aggregate amount of the Notes Payable to Insured Institutions and their maturity dates as of December 31, 1988 are as follows:

	ICCs	NWCs	Acquirers & Other	Total
		(in thousands)		
1989	$ 0	$ 0	$ 2,742,397*	$ 2,742,397
1990	218,102	0	478,335	696,437
1991	1,000	0	174,756	175,756
1992	15,000	19,600	174,756	209,356
1993	0	37,250	705,840	743,090
Later	27,000	113,125	15,040,953	15,181,078
Total	$261,102	$169,975	$19,317,037	$19,748,114

* Includes $2,036,490 in renewable notes.

11. Allowance for Loss - Assistance Agreements - The FSLIC enters into assistance agreements, which are usually associated with mergers, to prevent the default of an insured institution. Under these arrangements, the Corporation agrees to give financial assistance over time. All future cash outlays are estimated and discounted to their present value. The changes in the Allowance for Loss on Assistance Agreements for the years ended December 31, 1988 and 1987 are:

Allowance for Loss - Assistance Agreements

		1988	1987
		(in thousands)	
Balance:	Beginning of Year	$ 749,069	$ 774,072
Add:	Provisions	35,794,457	1,334,730
Less:	Assistance Provided	13,898,526	1,359,733
Balance:	End of Year	$22,645,000	$ 749,069

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, .94 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 $45,000 for 1988, 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 .94 percent of their gross earnings and matches those withholdings with a 12.86 percent contribution. 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 1988 and 1987 were $2,323,854 and $1,353,587 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 - As of December 31, 1988 and 1987, the Corporation's Primary Reserve consisted of the following:

	Primary Reserve	
	1988	1987
	(in thousands)	
Balance: Beginning of Year	$ (13,690,220)	$ (6,332,891)
Net Loss	(65,950,870)	(8,555,849)
Prior Year Adjustment	0	(1,480)
Capital Stock	367,500	129,500
Capital Certificates	4,282,500	1,070,500
Balance: End of Year	$ (74,991,090)	$(13,690,220)

Title III, Section 304 of CEBA 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.

14. Lease Commitments - The FSLIC is currently leasing office space in five Washington D.C. locations in order to accommodate its increased staffing levels. The minimum yearly rental expenses for all locations is as follows:

Year	Minimum Rental Expense
1987	$2,998,276
1988	6,874,346
1989	8,620,840
1990	7,842,012
1991	7,842,012
1992	7,993,012
1993	8,259,012
Later	60,939,273

15. Allowance for Loss - Unresolved Cases - The Corporation has established a liability for future FSLIC assistance to or liquidation of troubled institutions. The recorded liability represents the present value of future FSLIC assistance that is probable and can be reasonably estimated as of December 31, 1988. The liability was determined by using Federal Home Loan Bank Board thrift financial reports and FHLBank estimates to adjust the liability for anticipated asset write downs, interest rate market adjustments and projected resolution costs.

A comparison of the December 31, 1988 and 1987 Allowances for Loss on Unresolved Cases indicates a $26.1 billion on-statement increase that is primarily the result of modifications to the methodology and assumptions used each year. These modifications included the inclusion of troubled thrifts not on the FSLIC caseload; the strict use of FHLBank cost data, thereby eliminating the use of a combination of FSLIC bid cost, negative tangible net worth, and FHLBank cost data as was done in 1987; and the development by the Dallas FHLBank of a cost model for Southwest Plan and other Texas insured institutions whose economic environment is quite different from the rest of the country.

Deterioration of the financial condition of a number of insured institutions in 1988, exacerbated by the rapid decline of real estate values, also contributed to the estimate increase. Various uncertainties could cause this estimate to further increase or decrease. Notably, the effect that accomplished case resolutions might have on the cost of other future case resolutions was not estimated.

Changes in the Allowance for Loss on Unresolved Cases for the years ended December 31, 1988 and 1987 are:

	Allowance for Loss - Unresolved Cases	
	1988	1987
	(in thousands)	
Balance: Beginning of Year	$17,400,000	$ 10,500,000
Add: Provisions	26,150,000	6,900,000
Balance: End of Year	$43,550,000	$ 17,400,000

16. Litigation - At the end of 1988, FSLIC was named in numerous legal or administrative actions while serving in its corporate, receivership, or conservator capacities. 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.

17. Subsequent Events:

a) Pending Legislation - Due to its actions to resolve the problems of troubled savings and loan institutions and its continuing liability for troubled, but still operating savings and loans, the corporation has suffered recurring losses and has a $75 billion deficit. As a result, on February 22, 1989, the Secretary of the Treasury submitted to the Congress the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA), which was introduced as Senate Bill S.413 and as House Bill HR.1278. Under FIRREA, as proposed by the Secretary of the Treasury, the Bank Board would be abolished and its authority and functions, including its authority to supervise and regulate the FHLBanks, would be transferred to a new bureau within the Department of Treasury.

Also, FSLIC would be dissolved and its insurance function transferred to a newly-created thrift industry insurance fund administered by the Federal Deposit Insurance Corporation (FDIC). Concerning outstanding FSLIC obligations, FIRREA provides that on the date of FSLIC dissolution, all its assets, debts, obligations, contracts and other liabilities would be transferred in their entirety to the FSLIC Resolution Fund (FRF) to be administered by the FDIC.

In addition to the FSLIC Resolution Fund, FIRREA provides for the establishment of a Resolution Trust Corporation (RTC). The RTC shall not be an agency or an executive agency for the purposes of Title 5, U.S. Code. The RTC shall carry out a program to manage and resolve all cases involving institutions, the accounts of which were insured by FSLIC prior to enactment of FIRREA, for which a receiver or liquidating conservator has been appointed or is appointed within the three-year period following the date of the enactment of that Act; to manage the assets of the Federal Asset Disposition Association; and to perform such other functions as authorized under the Act.

FIRREA also provides for the formation of the Resolution Funding Corporation (REFCORP). REFCORP would function as a financing vehicle substantially similar to the Financing Corporation. REFCORP would issue debt obligations in a principal amount of up to $50 billion, the proceeds of which would be used to provide funds for the resolution and disposition of insolvent thrift institutions for which a receiver or conservator is appointed within three years following the enactment of FIRREA.

FIRREA is currently being modified by Congress, and Congress is considering other proposals to resolve the problems of FSLIC and the thrift industry. It is not possible at this time to assess the full impact that FIRREA, or any modification to FIRREA, would have on the FSLIC or the thrift industry.

b) Joint Lending Program - On February 23, 1989, the Bank Board and the Federal Reserve Board announced the establishment of the Joint Lending Program to meet the liquidity needs of savings and loans. For a thrift to be eligible for the program, it would have exhausted its normal sources of liquidity, including FHLBank advances, brokered deposits and funding from repurchase agreements.

Under the program, funding for the loans to these eligible thrifts is shared 45% from Federal Reserve resources, 45% from FHLBank resources, and 10% from the FSLIC, utilizing the proceeds from its $700 million borrowing authority with the U.S. Treasury. After funds from FSLIC's U.S. Treasury borrowings are exhausted, lending to individual thrifts will be shared 50-50 between the FHLBanks and the Federal Reserve Banks.

As of May 31, 1989, $180.9 million in loans have been issued under the program, and FSLIC has utilized $29.3 million of its U.S. Treasury borrowing authority. All loans issued from the Federal Reserve and Federal Home Loan Banks are guaranteed by FSLIC. Both the House and

Senate versions of FIRREA stipulate these guarantees will, upon legislative enactment and without any further action, become obligations of the Resolution Trust Corporation and payable within one year from enactment.

18. Supplementary Cash Flow Information

	1988
Noncash Investing Activities:	
Increase in S&L Stock	$ 48,000
Increase in Collateralized Advances due from Receivers	234
Increase in Loans to Receivers	10
Increase in Other Loans to Insured Institutions	73,433
Decrease in Capital Certificates	(1,227,730)
Total Noncash Investing Activities	(1,106,053)
Noncash Financing Activities:	
Increase in Notes Payable	16,599,901
Total Noncash Financing Activities	16,599,901
Total Noncash Investing and Financing Activities	$ 15,493,898

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INDEPENDENT AUDITORS' REPORT

The Financing Corporation
Washington, D.C.

We have audited the accompanying balance sheets of the Financing Corporation as of December 31, 1988 and 1987, and the related statements of operations, of capital and of cash flows for the year ended December 31, 1988 and for the period from August 28, 1987 (inception) through December 31, 1987. These financial statements are the responsibility of the management of the Financing Corporation. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and generally accepted government auditing standards. Those 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 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, such financial statements present fairly, in all material respects, the financial position of the Financing Corporation at December 31, 1988 and 1987, and the results of its operations and its cash flows for the year ended December 31, 1988, and for the period from August 28, 1987 (inception) through December 31, 1987 in conformity with generally accepted accounting principles.

Deloitte Haskins + Sells

Washington, D.C.
January 24, 1989 (February 14, 1989 as to Note 9)

FINANCING CORPORATION
BALANCE SHEETS
December 31, 1988 and 1987

ASSETS	1988	1987
Cash and short-term investments:		
General operating account	$ 147,247,438	$ 26,959,947
Issuance and custodial account	75,803	77,255
General administrative account	21,755	48,198
Total cash and short-term investments	147,344,996	27,085,400
Accounts receivable-administrative costs		5,988
Segregated Account investments, net (Notes 2 and 3)	499,070,519	154,424,120
Concession fees on Obligations (Notes 2 and 4)	16,681,200	7 461,223
TOTAL ASSETS	$ 663,096,715	$ 188,976,731
LIABILITIES AND CAPITAL (DEFICIT)		
Liabilities:		
Obligations, net (Notes 2 and 4)	$5,820,387,234	$1,198,759,597
Accrued interest payable on Obligations	107,470,556	19,156,944
Accounts payable:		
Bond issuance costs	37,900	24,389
General administrative costs	2,014	
Deferred assessments collected from FSLIC-insured institutions (Notes 2 and 5)	60,526,463	13,167,864
Deferred assessments collected from FHLBanks for general administrative costs (Note 2)	19,740	54,187
Total Liabilities	5,988,443,907	1,231,162,981
Capital (Deficit):		
Nonvoting FICO capital stock issued to FHLBanks (Note 6)	497,000,000	155,500,000
Accumulated excess of assessments and investment income over costs	27,652,808	2,313,750
FSLIC redeemable nonvoting capital stock (Notes 2 and 7)	(497,000,000)	(129,500,000)
FSLIC nonredeemable capital certificates (Notes 2 and 7)	(5,353,000,000)	(1,070,500,000)
Total Capital (Deficit)	(5,325,347,192)	(1,042,186,250)
TOTAL LIABILITIES AND CAPITAL (DEFICIT)	$ 663,096,715	$ 188,976,731

See Notes to Financial Statements

FINANCING CORPORATION
STATEMENTS OF OPERATIONS
For the Year Ended December 31, 1988
And The Period August 28, 1987 (Inception) Through December 31, 1987

	1988	1987
ASSESSMENTS AND INVESTMENT INCOME		
Assessments (Note 2 and 5):		
Thrift industry assessments received for interest, issuance and custodial costs	$340,784,030	$32,067,174
Less deferred assessments, net	(47,358,598)	(13,167,864)
Net thrift industry assessments applicable to the current period	293,425,432	18,899,310
Add general administrative costs incurred and assessed to FHLBanks	59,447	84,859
Total Assessments	293,484,879	18,984,169
Investment Income (Note 2):		
Investment income earned from assessments collected for interest, issuance and custodial costs	7,719,456	609,560
Investment income earned from assessments collected for general administrative costs	937	1,144
Accretion of discount on noninterest bearing securities	25,339,058	2,313,750
Total Investment Income	33,059,451	2,924,454
Total Assessments and Investment Income	326,544,330	21,908,623
COSTS		
Costs of Servicing Obligations - interest (Note 2)	300,699,771	19,205,318
Operating Costs (Note 8):		
Issuance and custodial	446,054	304,695
General administrative	59,447	84,860
Total Operating Costs	505,501	389,555
Total Costs	301,205,272	19,594,873
EXCESS OF ASSESSMENTS AND INVESTMENT INCOME OVER COSTS	$ 25,339,058	$ 2,313,750

See Notes to Financial Statements

FINANCING CORPORATION
STATEMENTS OF CAPITAL
For The Year Ended December 31, 1988
And The Period August 28, 1987 (Inception) Through December 31, 1987

	Nonvoting FICO Capital Stock	Accumulated Excess Of Assessments And Investment Income Over Costs	FSLIC Redeemable Nonvoting Capital Stock	FSLIC Nonredeemable Capital Certificates	Total
Issuance of FICO stock	$155,500,000				$ 155,500,000
Excess of assessments and investment income over costs		$ 2,313,750			2,313,750
Purchase of FSLIC capital stock and certificates			$(129,500,000)	$(1,070,500,000)	(1,200,000,000)
Balance, December 31, 1987	155,500,000	2,313,750	(129,500,000)	(1,070,500,000)	(1,042,186,250)
Issuance of FICO stock	341,500,000				341,500,000
Excess of assessments and investment income over costs		25,339,058			25,339,058
Purchase of FSLIC capital stock and certificates			(367,500,000)	(4,282,500,000)	(4,650,000,000)
Balance, December 31, 1988	$497,000,000	$27,652,808	$(497,000,000)	$(5,353,000,000)	$(5,325,347,19[illegible]

See Notes to Financial Statements

FINANCING CORPORATION
STATEMENTS OF CASH FLOWS
For The Period Ended December 31, 1988
And The Period August 28, 1987 (Inception) Through December 31, 1987

	1988	1987
Cash flows from operating activities:		
Cash received through assessments	$ 340,815,018	$ 32,200,232
Interest received	7,720,393	610,704
Interest paid	(211,377,499)	
Operating costs	(489,975)	(365,166)
Net cash provided by operating activities	136,667,937	32,445,770
Cash flows used in investing activities -		
Purchase of Segregated Account investments	(319,307,341)	(152,110,370)
Cash flows from financing activities:		
Assessments received from FHLBanks for issuance of FICO capital stock	341,500,000	155,500,000
Net proceeds of Obligations issued	4,611,399,000	1,191,250,000
Purchase of FSLIC redeemable nonvoting capital stock	(367,500,000)	(129,500,000)
Purchase of FSLIC nonredeemable capital certificates	(4,282,500,000)	(1,070,500,000)
Net cash provided by financing activities	302,899,000	146,750,000
Net increase in cash and cash equivalents	120,259,596	27,085,400
Cash and cash equivalents, beginning of period	27,085,400	-
Cash and cash equivalents, end of period	$ 147,344,996	$ 27,085,400
Reconciliation of excess of assessments and investment income over costs to net cash provided by operating activities:		
Excess of assessments and investment income over costs	$ 25,339,058	$ 2,313,750
Adjustments to reconcile net income to net cash provided by operating activities:		
Accretion of discount on noninterest bearing securities	(25,339,058)	(2,313,750)
Amortization of:		
Concession fees on Obligations	467,523	38,777
Discount on Obligations	547,369	9,597
Premium	(6,232)	
Decreases in accounts receivable	5,988	
Increases in:		
Accounts receivable		(5,988)
Accounts payable	15,525	24,389
Net deferred assessments collected	47,324,152	13,222,051
Accrued interest payable on Obligations	88,313,612	19,156,944
Total Adjustments	111,328,879	30,132,020
Net cash provided by operating activities	$ 136,667,937	$ 32,445,770

See Notes to Financial Statements

FINANCING CORPORATION
NOTES TO FINANCIAL STATEMENTS
For The Year Ended December 31, 1988
And The Period August 28, 1987 (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. The sufficiency of funds for interest payments from such assessments is dependent upon various factors, including the amount of aggregate deposits held from time to time by FSLIC-insured institutions and the amount of interest payable on the Obligations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FICO Assessments

All interest, issuance and custodial costs related to the 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.

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.

Concession Fees Paid, Discount and Premium on Obligations

Concession fees paid, discount and premium on Obligations are amortized using the level yield method over the lives of the Obligations.

Deferred Concession Fees, Discount and Premium on Obligations

Deferred concession fees and deferred discount on Obligations comprise assessments received from FSLIC-insured institutions for such costs incurred by FICO which are applicable to future periods. Deferred premiums on Obligations comprise funds received above the cost of the Obligations. Premiums are amortized over the lives of the Obligations and reduce the industry assessment due in the month received.

FSLIC Redeemable Nonvoting Capital Stock and FSLIC Nonredeemable Capital Certificates

Inasmuch as the FSLIC capital certificates are nonredeemable and the FSLIC redeemable nonvoting 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).

Cash Flows

For purposes of the statements of cash flows, cash and cash equivalents include cash on deposit and overnight Fed Funds.

Restatement

In 1988, FICO adopted Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows." For comparative purposes, the statement of changes in financial position for the period ended December 31, 1987 has been restated to a statement of cash flows.

3. SEGREGATED ACCOUNT INVESTMENTS

The following U.S. Treasury noninterest bearing securities were held in the Segregated Account at December 31, 1988 and 1987:

	Bond Equivalent Yield	1988 Face Amount	1988 Amortized Cost	1987 Face Amount	1987 Amortized Cost
Principal Strips					
May 15, 2016	8.45%- 8.47%	$ 80,000,000	$ 8,288,952	$ 80,000,000	$ 7,628,678
November 15, 2016	8.52%- 9.76%	260,000,000	23,893,356	260,000,000	21,931,847
May 15, 2017	8.07%-10.00%	2,504,735,000	214,876,593	1,358,300,000	102,349,978
August 15, 2017	8.28%- 9.33%	1,208,300,000	99,432,002		
May 15, 2018	8.41%- 9.00%	834,800,000	69,131,662		
November 15, 2018	8.54%- 8.87%	492,000,000	38,080,339		
Total Principal Strips		5,379,835,000	453,702,904	1,698,300,000	131,910,503
Interest Strips					
May 15, 2016	8.54%- 9.13%	75,326,000	6,813,108	72,226,000	5,950,415
November 15, 2016	8.22%- 9.90%	180,852,000	15,421,552	136,608,000	10,227,546
February 15, 2017	8.57%- 8.92%	4,550,000	403,823		
May 15, 2017	8.08%-10.00%	168,558,000	14,750,618	85,920,000	6,335,656
August 15, 2017	8.43%- 9.30%	43,685,000	3,614,874		
November 15, 2017	8.64%- 8.80%	8,190,000	683,334		
May 15, 2018	8.43%- 8.73%	31,466,000	2,548,315		
November 15, 2018	8.85%	14,715,000	1,131,991		
Total Interest Strips		527,342,000	45,367,615	294,754,000	22,513,617
TOTAL PRINCIPAL/INTEREST STRIPS		$5 907,177,000	$ 499,070,519	$1,993,054,000	$ 154,424,120

At December 31, 1988 and 1987, the quoted market value for such securities was as follows:

	1988	1987
Principal strips	$468,145,124	$147,887,000
Interest strips	46,357,843	24,962,000
TOTAL	$514,502,967	$172,849,000

The amortized cost of noninterest bearing securities includes accretion of discount totaling $27,652,808 and $2,313,750 at December 31, 1988 and 1987, respectively.

At December 31, 1987, the Segregated Account investments include $85,000,000 of noninterest bearing securities collateralized/receivable. 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.

4. OBLIGATIONS

As of December 31, 1988 and 1987, the following series of Obligations had been issued by FICO:

Series	Interest Rate	Maturity Date	Principal Amount 1988	Principal Amount 1987
A-2017	10.70%	October 6, 2017	$ 500,000,000	$ 500,000,000
B-2017	10.65%	October 20, 2017	100,000,000	100,000,000
C-2017	9.80%	November 30, 2017	600,000,000	600,000,000
A-2018	9.40%	February 8, 2018	650,000,000	
B-2018	9.80%	April 6, 2018	300,000,000	
C-2018	10.00%	May 11, 2018	1,000,000,000	
D-2018	10.35%	August 3, 2018	600,000,000	
E-2018	9.65%	November 2, 2018	700,000,000	
F-2018	9.90%	December 6, 2018	700,000,000	
G-2018	9.60%	December 27, 2018	700,000,000	
			5,850,000,000	1,200,000,000
Less discount			(32,293,834)	(1,240,403)
Add premium			2,681,068	--
Obligations, net			$5,820,387,234	$1,198,759,597

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 borrowings 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.

Unamortized concession fees totaled $16,681,200 and $7,461,223 at December 31, 1988 and 1987, respectively.

5. DEFERRED ASSESSMENTS

Deferred assessments include the following amounts as of December 31, 1988 and 1987:

	1988	1987
Premiums rebated	$(2,681,068)	
Interest, issuance and custodial costs	14,232,497	$ 4,466,238
Discount	32,293,834	1,240,403
Concession fees	16,681,200	7,461,223
TOTAL	$60,526,463	$13,167,864

6. 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. At August 28, 1987, the Bank Board authorized the issuance of up to 1 billion shares at $1.00 par value per share.

7. FSLIC REDEEMABLE NONVOTING CAPITAL STOCK AND FSLIC NONREDEEMABLE CAPITAL CERTIFICATES

Subject to any terms or conditions which may be approved by the Bank Board, the net proceeds of any Obligation issued by FICO are to be used principally to acquire FSLIC capital certificates or capital stock, or to refund any previously issued Obligations.

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 bond offerings. 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.

8. 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 reimbursed basis. These costs are 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.

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

9. SUBSEQUENT EVENT

On February 14, 1989, the Treasury Department submitted a draft bill to Congress entitled "The Financial Institutions Reform, Recovery, and Enforcement Act of 1989" and the Savings and Loan Resolution Funding Plan. The Savings and Loan Resolution Funding Plan includes the following proposals:

> The (proposed) Resolution Funding Corporation ("REFCORP") would issue $50 billion of bonds. Approximately $5-6 billion of savings and loan industry funds (FHLBanks retained earnings and savings and loan industry assessment premiums) would be used to buy long-term zero coupon Treasury obligations, which, when they mature, would pay-off the $50 billion of principal.
>
> Proceeds from new savings and loan liquidations, and additional FHLBank retained earnings would first be used to pay the interest on REFCORP bonds with Treasury funds making up any shortfall.
>
> Treasury funds would also be required to service past FSLIC resolutions. Any shortfall in FSLIC resources needed to pay past FSLIC resolutions would be paid with Treasury funds.

The draft bill also proposes changes in the composition of the boards of directors of the FHLBanks and explicit pricing of FHLBank services comparable to Federal Reserve pricing.

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INDEPENDENT AUDITORS' REPORT

To the Chairman
Federal Home Loan Bank Board
Washington, D.C.:

We have audited the accompanying combined statements of condition of the twelve Federal Home Loan Banks (the "FHLBanks") as of December 31, 1988 and 1987, and the related combined statements of income and of capital accounts for each of the three years in the period ended December 31, 1988. We have also audited the related combined statement of cash flows for the years ended December 31, 1988 and 1987 and combined statement of changes in financial position for the year ended December 31, 1986. These combined financial statements are the responsibility of management of the Federal Home Loan Banks and the Federal Home Loan Bank Board. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and generally accepted government auditing standards. Those 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, such combined financial statements present fairly, in all material respects, the combined financial position of the FHLBanks at December 31, 1988 and 1987 and the results of their combined operations for each of the three years in the period ended December 31, 1988 and their combined cash flows for the years ended December 31, 1988 and 1987 and their combined changes in financial position for the year ended December 31, 1986, in conformity with generally accepted accounting principles.

As discussed in Note 1 to the combined financial statements, in 1988 the FHLBanks adopted the provisions of Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows."

At December 31, 1988, the Federal Home Loan Bank of Dallas ("FHLBank of Dallas") had outstanding advances to members which were collateralized by notes issued by the Federal Savings and Loan Insurance Corporation ("FSLIC") or secured by cash flows from FSLIC assistance agreements. The amount of advances against FSLIC notes and guarantees exceeds the capital of the FHLBank of Dallas by approximately $4.0 billion. As described in Note 14, there is uncertainty as to the collectibility of the advances described above and to the ability of FSLIC to repay its obligation and perform under the terms of its assistance agreements. This uncertainty could significantly affect the financial condition of the FHLBank of Dallas. Because of the joint and several nature of the FHLBanks' consolidated obligations as described in Note 9, the potential inability of one FHLBank to repay its participation in consolidated obligations could result in additional liability to the other FHLBanks. In addition, as described in Note 17, the Secretary of the Treasury has submitted to Congress the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA"). Under FIRREA, as proposed, there would be significant changes in the Federal Home Loan Bank System and the FHLBanks would be required to utilize portions of their retained earnings and certain amounts of future earnings as part of the funding for resolution of insolvent thrift institutions. Because of the uncertainties involved, it is not possible to estimate the impact, if any, on the financial statements of the FHLBanks that may result from the resolution of the above matters.

Deloitte Haskins + Sells

February 10, 1989 (February 22, 1989 as to Note 17
and April 17, 1989 as to Note 18)

COMBINED STATEMENT OF CONDITION
WITH SUPPLEMENTAL COMBINING INFORMATION
DECEMBER 31, 1988
(In thousands of dollars)

			Supplemental Combining Information			
	Notes	Combined	Combining Entries	Boston	New York	Pittsburgh
ASSETS						
Cash and due from banks	2	$ 1,549,259		$ 5,760	$ 195,776	$ 62,004
Investments	3	16,981,214		920,346	1,059,403	1,566,879
Advances to members	4,14	152,781,026		10,894,929	16,598,314	5,189,756
Loans guaranteed by Agency for International Development, net	5	72,307		23,415	48,892	
Loans to other FHLBanks	7		$(418,000)	3,000		65,000
Loans to Federal Savings and Loan Insurance Corporation	6	830,000			630,000	
Accrued interest receivable		1,469,934		98,762	211,146	62,944
Bank premises and equipment, net	1	160,053		2,717	9,340	3,367
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	126,082		6,091	14,219	3,352
Deferred charges - Federal Home Loan Bank Board assessments	1	24,835		899	2,946	1,349
Other assets		50,051		629	5,246	1,469
Total assets		$174,844,761	$ 282,000	$11,961,448	$18,786,982	$6,962,220
LIABILITIES AND CAPITAL						
LIABILITIES:						
Deposits:						
Members - overnight and demand		$ 14,191,006		$ 696,772	$ 1,191,707	$ 773,645
Members - term		4,840,465		335,114	134,840	22,750
Total deposits		19,031,471		1,031,886	1,326,547	796,395
Borrowings:						
Other FHLBanks	7		$(418,000)			
Securities sold under agreements to repurchase	3	393,038			154,148	10,167
Other borrowings						
Total borrowings		393,038	(418,000)		154,148	10,167
Consolidated obligations:	1,8,9					
Discount notes		20,923,325		1,857,457	2,068,052	1,644,913
Bonds		115,590,023	(22,596)	7,931,758	13,871,474	3,733,295
Less: Pass-throughs to FHLMC			700,000		(700,000)	
Total consolidated obligations		136,513,348	677,404	9,789,215	15,239,526	5,378,208
Accrued interest payable		2,634,286		156,644	298,724	85,127
Other liabilities	2	752,259		30,747	32,749	16,598
Total liabilities		159,324,402	259,404	11,008,492	17,051,694	6,286,495
CONTINGENCIES AND COMMITMENTS	13,14					
CAPITAL:	11					
Capital stock outstanding ($100 par value)		13,177,336		841,839	1,477,765	562,237
Retained earnings:						
Legal reserve		2,263,826		89,729	266,930	96,084
Dividend stabilization reserve		406,035		27,689	24,309	31,692
Undivided profits		170,162	22,596	2,958	11,513	6,935
Total retained earnings		2,840,023	22,596	120,376	302,752	134,711
Capital distribution to Financing Corporation	1,11	(497,000)		(9,259)	(45,229)	(21,223)
Total capital		15,520,359	22,596	952,956	1,735,288	675,725
Total liabilities and capital		$174,844,761	$ 282,000	$11,961,448	$18,786,982	$6,962,220

Statement continued on following page.

FEDERAL HOME LOAN BANKS

COMBINED STATEMENT OF CONDITION
WITH SUPPLEMENTAL COMBINING INFORMATION
DECEMBER 31, 1988
(In thousands of dollars)

	Supplemental Combining Information				
	Atlanta	Cincinnati	Indianapolis	Chicago	Des Moines
ASSETS					
Cash and due from banks	$ 85,573	$ 44,377	$ 160,486	$ 50,384	$ 91,634
Investments	1,691,284	1,508,013	459,646	1,998,583	685,277
Advances to members	19,004,458	4,317,665	7,550,628	3,821,336	6,751,950
Loans guaranteed by Agency for International Development, net					
Loans to other FHLBanks		100,000			
Loans to Federal Savings and Loan Insurance Corporation		200,000			
Accrued interest receivable	50,718	40,557	48,178	95,210	54,790
Bank premises and equipment, net	51,672	5,479	5,514	5,171	14,100
Investment in and advances to Federal Home Loan Mortgage Corporation	14,200	9,300	4,900	10,300	6,100
Concessions on consolidated obligations - bonds	13,071	3,463	8,866	2,128	4,724
Deferred charges - Federal Home Loan Bank Board assessments	4,566	2,042	970	2,621	1,343
Other assets	11,014	1,969	7,027	2,522	1,208
Total assets	$20,926,556	$6,232,865	$8,246,215	5,988,255	$7,611,126
LIABILITIES AND CAPITAL					
LIABILITIES:					
Deposits:					
Members - overnight and demand	$1,913,000	$ 470,837	$ 248,008	2,177,651	$ 595,777
Members - term	395,927	793,750	441,618	495,263	408,617
Total deposits	2,308,927	1,264,587	689,626	2,672,914	1,004,394
Borrowings:					
Other FHLBanks			50,000		
Securities sold under agreements to repurchase	117,605	70,771	9,447		
Other borrowings					
Total borrowings	117,605	70,771	59,447		
Consolidated obligations:					
Discount notes	3,884,887	591,133	497,145	429,238	705,045
Bonds	12,354,157	3,469,957	6,142,823	1,959,878	5,034,301
Less: Pass-throughs to FHLMC					
Total consolidated obligations	16,239,044	4,061,090	6,639,968	2,389,116	5,739,346
Accrued interest payable	241,642	83,414	149,012	130,165	126,286
Other liabilities	78,538	11,848	8,082	23,831	20,906
Total liabilities	18,985,756	5,491,710	7,546,135	5,216,026	6,890,932
CONTINGENCIES AND COMMITMENTS					
CAPITAL:					
Capital stock outstanding ($100 par value)	1,645,130	588,239	559,781	626,507	571,213
Retained earnings:					
Legal reserve	303,696	147,268	126,182	175,546	136,753
Dividend stabilization reserve	46,946	26,514	36,140	6,194	36,670
Undivided profits	16,600	20,213	4,250	12,134	10,000
Total retained earnings	367,242	193,995	166,572	193,874	183,423
Capital distribution to Financing Corporation	(71,572)	(41,079)	(26,273)	(48,152)	(34,442)
Total capital	1,940,800	741,155	700,080	772,229	720,194
Total liabilities and capital	$20,926,556	$6,232,865	$8,246,215	5,988,255	$7,611,126

Statement concluded on following page.

FEDERAL HOME LOAN BANKS

COMBINED STATEMENT OF CONDITION
WITH SUPPLEMENTAL COMBINING INFORMATION
DECEMBER 31, 1988
(In thousands of dollars)

	Supplemental Combining Information			
	Dallas	Topeka	San Francisco	Seattle
ASSETS				
Cash and due from banks	$ 339,872	$ 43,670	$ 405,768	$ 63,955
Investments	2,980,342	997,956	2,076,841	1,036,644
Advances to members	21,076,607	9,991,769	37,955,845	9,627,769
Loans guaranteed by Agency for International Development, net				
Loans to other FHLBanks	100,000		150,000	
Loans to Federal Savings and Loan Insurance Corporation				
Accrued interest receivable	323,255	73,054	314,533	96,787
Bank premises and equipment, net	31,430	4,418	23,589	3,256
Investment in and advances to Federal Home Loan Mortgage Corporation	6,800	3,900	17,900	3,900
Concessions on consolidated obligations - bonds	19,160	8,227	36,207	6,574
Deferred charges - Federal Home Loan Bank Board assessments	1,729	1,068	4,371	931
Other assets	5,390	1,537	9,598	2,442
Total assets	$24,884,585	$11,125,599	$40,994,652	$10,842,258
LIABILITIES AND CAPITAL				
LIABILITIES:				
Deposits:				
Members - overnight and demand	$ 2,845,597	$ 627,080	$ 2,192,064	$ 458,868
Members - term	1,007,164	262,790	340,775	201,857
Total deposits	3,852,761	889,870	2,532,839	660,725
Borrowings:				
Other FHLBanks	50,000	300,000	18,000	
Securities sold under agreements to repurchase				30,900
Other borrowings				
Total borrowings	50,000	300,000	18,000	30,900
Consolidated obligations:				
Discount notes	3,187,932	764,992	3,591,571	1,700,960
Bonds	15,404,780	8,006,304	30,337,477	7,366,415
Less: Pass-throughs to FHLMC				
Total consolidated obligations	18,592,712	8,771,296	33,929,048	9,067,375
Accrued interest payable	414,531	210,095	568,490	170,156
Other liabilities	241,696	39,229	199,452	48,583
Total liabilities	23,151,700	10,210,490	37,247,829	9,977,739
CONTINGENCIES AND COMMITMENTS				
CAPITAL:				
Capital stock outstanding ($100 par value)	1,500,505	790,055	3,300,172	713,893
Retained earnings:				
Legal reserve	202,019	112,987	465,999	140,633
Dividend stabilization reserve	64,187	29,064	45,221	31,409
Undivided profits	10,000	9,198	34,654	9,111
Total retained earnings	276,206	151,249	545,874	181,153
Capital distribution to Financing Corporation	(43,826)	(26,195)	(99,223)	(30,527)
Total capital	1,732,885	915,109	3,746,823	864,519
Total liabilities and capital	$24,884,585	$11,125,599	$40,994,652	$10,842,258

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

FEDERAL HOME LOAN BANKS

COMBINED STATEMENT OF CONDITION
WITH SUPPLEMENTAL COMBINING INFORMATION
DECEMBER 31, 1987
(In thousands of dollars)

			Supplemental Combining Information			
	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	3	16,538,089		687,696	1,349,496	601,570
Advances to members	4,14	133,057,585		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 FHLBanks	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		36,336	(5,234)	486	5,141	1,229
Total assets		$154,177,167	$ 61,766	$11,167,743	$18,831,530	$6,104,044
LIABILITIES AND CAPITAL						
LIABILITIES:						
Deposits:						
Members - overnight and demand		$ 14,355,804		$ 704,067	$ 1,028,819	$1,100,737
Members - term		5,999,187		328,968	189,945	26,750
Total deposits		20,354,991		1,033,035	1,218,764	1,127,487
Borrowings:						
Other FHLBanks	7		$(633,000)	410,000		
Securities sold under agreements to repurchase	3	396,953				
Other borrowings		242,379				
Total borrowings		639,332	(633,000)	410,000		
Consolidated obligations:	1,8,9					
Discount notes		19,849,121		3,004,705	4,266,842	1,389,119
Bonds		96,533,921	(44,454)	5,770,752	12,064,779	2,994,887
Less: Pass-throughs to FHLMC			700,000		(700,000)	
Total consolidated obligations		116,383,042	655,546	8,775,457	15,631,621	4,384,006
Accrued interest payable		2,179,078		113,382	228,297	60,180
Other liabilities	2	875,728		24,299	185,918	18,172
Total liabilities		140,432,171	22,546	10,356,173	17,264,600	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	1,11	(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		$154,177,167	$ 61,766	$11,167,743	$18,831,530	$6,104,044

Statement continued on following page.

FEDERAL HOME LOAN BANKS

COMBINED STATEMENT OF CONDITION
WITH SUPPLEMENTAL COMBINING INFORMATION
DECEMBER 31, 1987
(In thousands of dollars)

	Supplemental Combining Information				
	Atlanta	Cincinnati	Indianapolis	Chicago	Des Moines
ASSETS					
Cash and due from banks	$ 75,258	$ 25,122	$ 124,642	$ 38,261	$ 107,174
Investments	1,733,396	1,493,860	620,311	2,083,272	448,891
Advances to members	16,885,564	4,308,292	7,439,756	3,869,476	5,990,250
Loans guaranteed by Agency for International Development, net					
Loans to other FHLBanks		100,000			
Loans to Federal Savings and Loan Insurance Corporation		200,000			
Accrued interest receivable	11,917	37,987	43,482	52,926	37,028
Bank premises and equipment, net	53,597	5,973	4,534	5,246	14,440
Investment in and advances to Federal Home Loan Mortgage Corporation	14,200	9,300	4,900	10,300	6,100
Concessions on consolidated obligations - bonds	13,783	4,249	10,439	2,868	4,589
Deferred charges - Federal Home Loan Bank Board assessments	4,689	2,239	1,039	2,649	1,453
Other assets	10,123	1,756	2,932	2,832	925
Total assets	$18,802,527	$6,188,778	$8,252,035	$6,067,830	$6,610,850
LIABILITIES AND CAPITAL					
LIABILITIES:					
Deposits:					
Members - overnight and demand	$ 2,109,907	$ 934,475	$ 627,634	$2,534,631	$ 422,194
Members - term	283,174	476,955	236,068	242,033	426,942
Total deposits	2,393,081	1,411,430	863,702	2,776,664	849,136
Borrowings:					
Other FHLBanks			50,000		5,000
Securities sold under agreements to repurchase	302,121		16,718		10,025
Other borrowings					
Total borrowings	302,121		66,718		15,025
Consolidated obligations:					
Discount notes	3,423,298	528,785	513,916	324,719	764,376
Bonds	10,685,792	3,433,422	5,955,731	2,104,145	4,171,095
Less: Pass-throughs to FHLMC					
Total consolidated obligations	14,109,090	3,962,207	6,469,647	2,428,864	4,935,471
Accrued interest payable	212,857	85,209	142,186	86,276	103,190
Other liabilities	70,110	9,894	17,283	7,413	47,766
Total liabilities	17,087,259	5,468,740	7,559,536	5,299,217	5,950,588
CONTINGENCIES AND COMMITMENTS					
CAPITAL:					
Capital stock outstanding ($100 par value)	1,405,064	547,365	539,922	608,896	485,047
Retained earnings:					
Legal reserve	268,731	134,864	108,675	160,994	124,264
Dividend stabilization reserve	47,266	30,449	47,872	1,655	51,727
Undivided profits	16,600	20,213	4,250	12,134	10,000
Total retained earnings	332,597	185,526	160,797	174,783	185,991
Capital distribution to Financing Corporation	(22,393)	(12,853)	(8,220)	(15,066)	(10,776)
Total capital	1,715,268	720,038	692,499	768,613	660,262
Total liabilities and capital	$18,802,527	$6,188,778	$8,252,035	$6,067,830	$6,610,850

Statement concluded on following page.

FEDERAL HOME LOAN BANKS

COMBINED STATEMENT OF CONDITION
WITH SUPPLEMENTAL COMBINING INFORMATION
DECEMBER 31, 1987
(In thousands of dollars)

	Supplemental Combining Information			
	Dallas	Topeka	San Francisco	Seattle
ASSETS				
Cash and due from banks	$ 308,240	$ 57,956	$ 478,820	$ 66,277
Investments	2,172,514	1,246,615	2,824,559	1,275,909
Advances to members	13,745,910	7,777,534	32,498,769	8,720,723
Loans guaranteed by Agency for International Development, net				
Loans to other FHLBanks	100,000		60,000	150,000
Loans to Federal Savings and Loan Insurance Corporation				
Accrued interest receivable	190,247	102,917	41,665	91,750
Bank premises and equipment, net	31,970	3,724	16,287	3,773
Investment in and advances to Federal Home Loan Mortgage Corporation	6,800	3,900	17,900	3,900
Concessions on consolidated obligations - bonds	12,239	8,353	38,451	7,452
Deferred charges - Federal Home Loan Bank Board assessments	1,832	1,151	4,762	1,019
Other assets	3,775	2,643	7,203	2,525
Total assets	$16,573,527	$9,204,793	$35,988,416	$10,323,328
LIABILITIES AND CAPITAL				
LIABILITIES:				
Deposits:				
Members - overnight and demand	$ 721,713	$ 796,145	$ 2,751,237	$ 624,245
Members - term	3,223,233	154,699	191,075	219,345
Total deposits	3,944,946	950,844	2,942,312	843,590
Borrowings:				
Other FHLBanks	50,000	100,000	18,000	
Securities sold under agreements to repurchase		68,089		
Other borrowings		242,379		
Total borrowings	50,000	410,468	18,000	
Consolidated obligations:				
Discount notes	1,902,354	478,675	1,427,006	1,825,326
Bonds	8,827,247	6,420,728	27,514,427	6,635,370
Less: Pass-throughs to FHLMC				
Total consolidated obligations	10,729,601	6,899,403	28,941,433	8,460,696
Accrued interest payable	246,377	208,447	532,237	160,440
Other liabilities	223,039	41,524	179,483	50,827
Total liabilities	15,193,963	8,510,686	32,613,465	9,515,553
CONTINGENCIES AND COMMITMENTS				
CAPITAL:				
Capital stock outstanding ($100 par value)	1,156,869	562,200	2,904,837	638,562
Retained earnings:				
Legal reserve	171,539	97,105	398,062	125,024
Dividend stabilization reserve	54,868	33,800	68,443	44,629
Undivided profits	10,000	9,198	34,654	9,111
Total retained earnings	236,407	140,103	501,159	178,764
Capital distribution to Financing Corporation	(13,712)	(8,196)	(31,045)	(9,551)
Total capital	1,379,564	694,107	3,374,951	807,775
Total liabilities and capital	$16,573,527	$9,204,793	$35,988,416	$10,323,328

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

FEDERAL HOME LOAN BANKS

COMBINED STATEMENT OF INCOME
WITH SUPPLEMENTAL COMBINING INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 1988
(In thousands of dollars)

	Notes	Combined	Supplemental Combining Information: Combining Entries	Boston	New York	Pittsburgh
INCOME:						
Interest and fees on advances to members	1,4	$11,753,956		$863,052	$1,400,053	$407,549
Income from investments		1,636,887		77,976	99,152	87,960
Interest and fees on Agency for International Development loans	5	6,100		1,874	4,226	
Income from agency functions		115,318		2,462	7,911	3,182
Income from services to members		78,857		1,250	13,218	10,939
Income from services to other FHLBanks			$ (5,106)		1,123	
Interest on loans to other FHLBanks			(26,681)	422	130	7,812
Interest on loans to the Federal Savings and Loan Insurance Corporation		67,932			52,523	
Income from Federal Home Loan Mortgage Corporation	8	61,860	53,125	468	975	583
Income from prepayment fees - advances		64,990		1,521	5,479	1,622
Other income		17,746		174	945	320
Total income		13,803,646	21,338	949,199	1,585,735	519,967
EXPENSES:						
Interest and concessions on consolidated obligations		10,276,335	70,205	738,891	1,271,217	344,061
Interest on deposits		1,566,216		85,578	80,226	83,792
Interest on interbank borrowings			(26,681)	734		
Other interest		54,582			9,436	56
Assessments:	1					
Federal Home Loan Bank Board		11,663		762	1,264	490
Bank System Offices		25,256		1,732	2,993	839
Financing Corporation		17			2	1
Other operating expense	12,13	419,986	(5,106)	13,134	40,284	17,017
Total expenses		12,354,055	38,418	840,831	1,405,422	446,256
INCOME BEFORE EXTRAORDINARY ITEM		1,449,591	(17,080)	108,368	180,313	73,711
Extraordinary item: Gain (loss) from early retirement of debt	16	4,332	456	(975)		
NET INCOME		$ 1,453,923	$(16,624)	$107,393	$ 180,313	$ 73,711

Statement continued on following page.

FEDERAL HOME LOAN BANKS

COMBINED STATEMENT OF INCOME
WITH SUPPLEMENTAL COMBINING INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 1988
(In thousands of dollars)

	Supplemental Combining Information				
	Atlanta	Cincinnati	Indianapolis	Chicago	Des Moines
INCOME:					
Interest and fees on advances to members	$1,474,132	$372,965	$687,723	$313,034	$490,599
Income from investments	202,803	128,282	49,146	235,025	54,065
Interest and fees on Agency for International Development loans					
Income from agency functions	13,786	7,934	3,910	7,531	6,610
Income from services to members	7,917	7,667	4,799	6,814	
Income from services to other FHLBanks				1,654	1,826
Interest on loans to other FHLBanks		271		9	
Interest on loans to the Federal Savings and Loan Insurance Corporation		15,409			
Income from Federal Home Loan Mortgage Corporation	1,183	888	468	858	508
Income from prepayment fees - advances	6,513	4,206	3,673	8,187	1,679
Other income	928	357	3,901	992	1,259
Total income	1,707,262	537,979	753,620	574,104	556,546
EXPENSES:					
Interest and concessions on consolidated obligations	1,248,376	347,472	584,892	220,146	413,057
Interest on deposits	216,804	86,347	54,120	254,752	50,710
Interest on interbank borrowings			6,069		66
Other interest	14,530	7,145	1,762	196	47
Assessments:					
Federal Home Loan Bank Board	1,097	722	572	668	577
Bank System Offices	3,015	1,240	965	1,261	919
Financing Corporation	4	2	1	2	2
Other operating expense	48,612	33,031	17,703	24,316	28,721
Total expenses	1,532,438	475,959	666,084	501,341	494,099
INCOME BEFORE EXTRAORDINARY ITEM	174,824	62,020	87,536	72,763	62,447
Extraordinary item: Gain (loss) from early retirement of debt					
NET INCOME	$ 174,824	$ 62,020	$ 87,536	$ 72,763	$ 62,447

Statement concluded on following page.

FEDERAL HOME LOAN BANKS

COMBINED STATEMENT OF INCOME
WITH SUPPLEMENTAL COMBINING INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 1988
(In thousands of dollars)

	Supplemental Combining Information			
	Dallas	Topeka	San Francisco	Seattle
INCOME:				
Interest and fees on advances to members	$1,320,832	$789,882	$2,857,931	$776,204
Income from investments	218,476	93,614	281,012	109,376
Interest and fees on Agency for International Development loans				
Income from agency functions	19,340	4,595	34,391	3,666
Income from services to members	15,014	8,207		3,032
Income from services to other FHLBanks				503
Interest on loans to other FHLBanks	12,091		5,820	126
Interest on loans to the Federal Savings and Loan Insurance Corporation				
Income from Federal Home Loan Mortgage Corporation	567	373	1,491	373
Income from prepayment fees - advances	18,810	2,593	1,400	9,307
Other income	1,854	57	5,245	1,714
Total income	1,606,984	899,321	3,187,290	904,301
EXPENSES:				
Interest and concessions on consolidated obligations	1,057,263	671,447	2,556,307	753,001
Interest on deposits	323,127	100,264	178,147	52,349
Interest on interbank borrowings	5,508	12,154	2,125	25
Other interest	(118)	12,730	3,702	5,096
Assessments:				
Federal Home Loan Bank Board	1,183	637	3,032	659
Bank System Offices	2,585	1,083	7,316	1,308
Financing Corporation		1		2
Other operating expense	65,036	21,140	96,978	19,120
Total expenses	1,454,584	819,456	2,847,607	831,560
INCOME BEFORE EXTRAORDINARY ITEM	152,400	79,865	339,683	72,741
Extraordinary item: Gain (loss) from early retirement of debt		(456)		5,307
NET INCOME	$ 152,400	$ 79,409	$ 339,683	$ 78,048

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

COMBINED STATEMENT OF INCOME
WITH SUPPLEMENTAL COMBINING INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 1987
(In thousands of dollars)

	Notes	Combined	Supplemental Combining Information: Combining Entries	Boston	New York	Pittsburgh
INCOME:						
Interest and fees on advances to members	1,4	$ 9,919,296		$612,555	$1,098,742	$355,124
Income from investments		1,311,991		43,044	67,729	64,436
Interest and fees on Agency for International Development loans	5	6,367		1,977	4,390	
Income from agency functions		97,094		2,780	7,298	3,538
Income from services to members		100,284		1,032	12,178	11,589
Income from services to other FHLBanks			$ (5,086)	1	1,197	
Interest on loans to other FHLBanks			(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	63,075	57,238	245	728	305
Income from prepayment fees - advances		147,309		8,641	27,268	1,438
Other income		19,507	131	348	892	31
Total income		11,725,750	9,619	671,550	1,267,987	445,032
EXPENSES:						
Interest and concessions on consolidated obligations		8,546,529	86,750	509,869	969,358	274,987
Interest on deposits		1,388,471		69,040	72,513	89,646
Interest on interbank borrowings			(42,533)	4,458	1,029	
Other interest		49,913			1,007	
Assessments:	1					
Federal Home Loan Bank Board		8,969		487	994	365
Bank System Offices		17,319		1,011	1,926	614
Financing Corporation		136		2	13	6
Other operating expense	12,13	375,672	(11,789)	12,233	36,686	15,970
Total expenses		10,387,009	32,428	597,100	1,083,526	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	16	(10,408)				
NET INCOME		$ 1,328,333	$(22,809)	$ 74,450	$ 184,461	$ 63,444

Statement continued on following page.

FEDERAL HOME LOAN BANKS

COMBINED STATEMENT OF INCOME
WITH SUPPLEMENTAL COMBINING INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 1987
(In thousands of dollars)

	Supplemental Combining Information				
	Atlanta	Cincinnati	Indianapolis	Chicago	Des Moines
INCOME:					
Interest and fees on advances to members	$1,168,773	$354,071	$633,033	$300,804	$421,818
Income from investments	188,312	132,302	59,269	173,249	54,433
Interest and fees on Agency for International Development loans					
Income from agency functions	14,543	9,029	4,240	9,138	6,388
Income from services to members	7,551	7,847	4,679	6,041	
Income from services to other FHLBanks				1,794	2,091
Interest on loans to other FHLBanks		347	1,389	203	3,330
Interest on loans to the Federal Savings and Loan Insurance Corporation		13,292			
Income from Federal Home Loan Mortgage Corporation	883	465	245	640	379
Income from prepayment fees - advances	22,314	6,823	15,119	1,479	13,845
Other income	229	371	2,969	626	1,084
Total income	1,402,605	524,547	720,943	493,974	503,368
EXPENSES:					
Interest and concessions on consolidated obligations	982,704	320,589	542,110	196,428	347,223
Interest on deposits	214,904	102,145	56,680	210,333	57,214
Interest on interbank borrowings			7,449	31	909
Other interest	11,283	5,374	735	323	537
Assessments:					
Federal Home Loan Bank Board	872	505	421	571	501
Bank System Offices	1,990	966	801	1,047	837
Financing Corporation	20	11	7	13	9
Other operating expense	44,060	32,032	17,403	23,443	27,143
Total expenses	1,255,833	461,622	625,606	432,189	434,373
INCOME BEFORE EXTRAORDINARY ITEM	146,772	62,925	95,337	61,785	68,995
Extraordinary item: Gain (loss) from early retirement of debt			(10,775)		
NET INCOME	$ 146,772	$ 62,925	$ 84,562	$ 61,785	$ 68,995

Statement concluded on following page.

FEDERAL HOME LOAN BANKS

COMBINED STATEMENT OF INCOME
WITH SUPPLEMENTAL COMBINING INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 1987
(In thousands of dollars)

	Supplemental Combining Information			
	Dallas	Topeka	San Francisco	Seattle
INCOME:				
Interest and fees on advances to members	$ 988,100	$600,568	$2,698,467	$687,241
Income from investments	193,204	62,023	169,167	104,823
Interest and fees on Agency for International Development loans				
Income from agency functions	19,086	4,958	11,388	4,708
Income from services to members	14,021	7,252	25,449	2,645
Income from services to other FHLBanks				3
Interest on loans to other FHLBanks	14,482		13,212	173
Interest on loans to the Federal Savings and Loan Insurance Corporation				
Income from Federal Home Loan Mortgage Corporation	423	195	1,113	216
Income from prepayment fees - advances	1,514	8,532	21,886	18,450
Other income	408	278	11,983	157
Total income	1,231,238	683,806	2,952,665	818,416
EXPENSES:				
Interest and concessions on consolidated obligations	760,864	500,007	2,410,412	645,228
Interest on deposits	274,840	62,617	121,717	56,822
Interest on interbank borrowings	6,372	13,481	5,179	3,625
Other interest	689	9,533	18,161	2,271
Assessments:				
Federal Home Loan Bank Board	931	458	2,339	525
Bank System Offices	1,784	794	4,570	979
Financing Corporation	12	6	28	9
Other operating expense	58,110	17,926	84,308	18,147
Total expenses	1,103,602	604,822	2,646,714	727,606
INCOME BEFORE EXTRAORDINARY ITEM	127,636	78,984	305,951	90,810
Extraordinary item: Gain (loss) from early retirement of debt				367
NET INCOME	$ 127,636	$ 78,984	$ 305,951	$ 91,177

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

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	Supplemental Combining Information: Combining Entries	Boston	New York	Pittsburgh
INCOME:						
Interest and fees on advances to members	1,4	$ 9,089,613		$418,907	$817,188	$264,264
Income from investments		1,518,916		49,744	66,618	89,007
Interest and fees on Agency for International Development loans	5	17,374		2,074	4,468	
Income from agency functions		76,304		2,664	5,936	2,349
Income from services to members		85,560		348	11,936	11,461
Income from services to other FHLBanks			$ (5,488)		1,488	
Interest on loans to other FHLBanks			(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
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	
Assessments:	1					
Federal Home Loan Bank Board		9,524		478	1,067	362
Bank System Offices		10,459		591	1,233	450
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	16	(15,604)	62,282			
NET INCOME		$ 1,462,270	$ 62,029	$ 58,997	$147,881	$ 51,633

Statement continued on following page.

COMBINED STATEMENT OF INCOME
WITH SUPPLEMENTAL COMBINING INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 1986
(In thousands of dollars)

	Supplemental Combining Information				
	Atlanta	Cincinnati	Indianapolis	Chicago	Des Moines
INCOME:					
Interest on advances to members	$1,118,268	$344,162	$580,535	$302,780	$416,762
Income from investments	297,630	153,125	68,102	179,509	66,157
Interest and fees on Agency for International Development loans				6,251	4,581
Income from agency functions	9,859	6,019	3,456	336	4,591
Income from services to members	6,980	7,153	6,958		
Income from services to other FHLBanks				1,775	1,877
Interest on loans to other FHLBanks	7,218		1,531	253	5,173
Interest on loans to the Federal Savings and Loan Insurance Corporation		14,072			
Income from Federal Home Loan Mortgage Corporation	1,026	614	362	743	439
Income from prepayment fees - advances	51,782	26,222	51,971	10,803	29,342
Other income	4,363	763	628	1,173	1,201
Total income	1,497,126	552,130	713,543	503,623	530,123
EXPENSES:					
Interest and concessions on consolidated obligations	950,616	295,662	489,807	188,979	336,859
Interest on deposits	303,962	132,216	56,075	212,794	66,633
Interest on interbank borrowings			18,875	3,242	18,995
Other interest	6,231	3,081	1,507	359	47
Assessments:					
Federal Home Loan Bank Board	1,091	578	478	661	540
Bank System Offices	1,389	620	517	743	625
Other operating expense	35,486	28,296	16,272	20,567	24,517
Total expenses	1,298,775	460,453	583,531	427,345	448,216
INCOME BEFORE EXTRAORDINARY ITEM	198,351	91,677	130,012	76,278	81,907
Extraordinary item: Gain (loss) from early retirement of debt			(47,474)		
NET INCOME	$ 198,351	$ 91,677	$ 82,538	$ 76,278	$ 81,907

Statement concluded on following page.

FEDERAL HOME LOAN BANKS

COMBINED STATEMENT OF INCOME
WITH SUPPLEMENTAL COMBINING INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 1986
(In thousands of dollars)

	Supplemental Combining Information			
	Dallas	Topeka	San Francisco	Seattle
INCOME:				
Interest on advances to members	$ 870,374	$499,730	$2,781,404	$675,239
Income from investments	223,945	49,427	182,859	92,793
Interest and fees on Agency for International Development loans				
Income from agency functions	20,103	3,728	13,634	3,629
Income from services to members	11,763	6,117	20,118	2,726
Income from services to other FHLBanks			60	288
Interest on loans to other FHLBanks	22,437		39,767	4,165
Interest on loans to the Federal Savings and Loan Insurance Corporation				
Income from Federal Home Loan Mortgage Corporation	490	257	1,179	259
Income from prepayment fees - advances	15,005	9,969	115,891	62,627
Other income	1,333	10,962	7,024	443
Total income	1,165,450	580,190	3,161,936	842,169
EXPENSES:				
Interest and concessions on consolidated obligations	680,981	419,978	2,494,858	613,450
Interest on deposits	288,782	57,234	183,463	75,358
Interest on interbank borrowings	17,823	23,904	17,295	12,782
Other interest	590	8,174	30,491	10
Assessments:				
Federal Home Loan Bank Board	887	454	2,421	507
Bank System Offices	952	553	2,183	603
Other operating expense	55,839	13,159	72,884	32,739
Total expenses	1,045,854	523,456	2,803,595	735,449
INCOME BEFORE EXTRAORDINARY ITEM	119,596	56,734	358,341	106,720
Extraordinary item:				
Gain (loss) from early retirement of debt				(30,412)
NET INCOME	$ 119,596	$ 56,734	$ 358,341	$ 76,308

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

FEDERAL HOME LOAN BANKS

COMBINED STATEMENTS OF CAPITAL
WITH SUPPLEMENTAL COMBINING INFORMATION
FOR THE YEARS ENDED DECEMBER 31, 1988, 1987, AND 1986
(In thousands of shares and dollars)

	Combined		Supplemental Combining Information: Combining Entries	Boston		New York	
	Shares	Amount	Amount	Shares	Amount	Shares	Amount
CAPITAL STOCK							
BALANCE, JANUARY 1, 1986	83,132	$ 8,313,247		3,775	$377,541	9,646	$ 964,592
Proceeds from sale of capital stock	10,848	1,084,734		1,079	107,855	1,356	135,595
Redemption of capital stock	(2,604)	(260,535)		(190)	(18,962)	(69)	(6,870)
Dividends on capital stock - Stock issued	3,472	347,239					
BALANCE, DECEMBER 31, 1986	94,848	9,484,685		4,664	466,434	10,933	1,093,317
Proceeds from sale of capital stock	14,877	1,488,023		2,962	296,180	2,291	229,112
Redemption of capital stock	(3,745)	(374,721)		(461)	(46,120)	(131)	(13,146)
Dividends on capital stock - Stock issued	6,835	683,492					
BALANCE, DECEMBER 31, 1987	112,815	11,281,479		7,165	716,494	13,093	1,309,283
Proceeds from sale of capital stock	13,996	1,399,650		1,394	139,427	1,834	183,445
Redemption of capital stock	(3,310)	(331,249)		(317)	(31,736)	(149)	(14,963)
Dividends on capital stock - Stock issued	8,273	827,456		176	17,654		
BALANCE, DECEMBER 31, 1988	131,774	$13,177,336		8,418	$841,839	14,778	$1,477,765
RETAINED EARNINGS							
LEGAL RESERVE:							
BALANCE, JANUARY 1, 1986		$ 1,419,440			$ 41,561		$ 164,399
Statutory transfer of net income		280,046			11,799		29,576
BALANCE, DECEMBER 31, 1986		1,699,486			53,360		193,975
Statutory transfer of net income		270,232			14,890		36,893
BALANCE, DECEMBER 31, 1987		1,969,718			68,250		230,868
Statutory transfer of net income		294,108			21,479		36,062
BALANCE, DECEMBER 31, 1988		$ 2,263,826			$ 89,729		$ 266,930
DIVIDEND STABILIZATION RESERVE:							
BALANCE, JANUARY 1, 1986		$ 224,629			$ 3,175		$ 7,698
Transfer from (to) net income		414,190			11,024		1,088
Dividends on capital stock:							
Cash payment		(47)					
Stock issued		(224,954)					
BALANCE, DECEMBER 31, 1986		413,818			14,199		8,786
Transfer from (to) net income		327,300			12,566		20,631
Dividends on capital stock:							
Cash payment		(47)					
Stock issued		(278,558)					
BALANCE, DECEMBER 31, 1987		462,513			26,765		29,417
Transfer from (to) net income		238,490			924		(5,108)
Dividends on capital stock:							
Cash payment		(44)					
Stock issued		(294,924)					
BALANCE, DECEMBER 31, 1988		$ 406,035			$ 27,689		$ 24,309

Statement continued on following page.

FEDERAL HOME LOAN BANKS

COMBINED STATEMENTS OF CAPITAL
WITH SUPPLEMENTAL COMBINING INFORMATION
FOR THE YEARS ENDED DECEMBER 31, 1988, 1987, AND 1986
(In thousands of dollars)

	Combined Amount	Supplemental Combining Information: Combining Entries Amount	Boston	New York
UNDIVIDED PROFITS:				
BALANCE, JANUARY 1, 1986	$ 147,566		$ 2,958	$ 11,513
Net income	1,462,270	$62,029	58,997	147,881
Statutory transfer of net income	(280,046)		(11,799)	(29,576)
Transfer to (from) dividend stabilization reserve	(414,190)		(11,024)	(1,088)
Dividends on capital stock:				
Cash payment	(583,720)		(36,174)	(117,217)
Stock issued	(122,285)			
BALANCE, DECEMBER 31, 1986	209,595	62,029	2,958	11,513
Net income	1,328,333	(22,809)	74,450	184,461
Statutory transfer of net income	(270,232)		(14,890)	(36,893)
Transfer to (from) dividend stabilization reserve	(327,300)		(12,566)	(20,631)
Dividends on capital stock:				
Cash payment	(348,676)		(46,994)	(126,937)
Stock issued	(404,934)			
BALANCE, DECEMBER 31, 1987	186,786	39,220	2,958	11,513
Net income	1,453,923	(16,624)	107,393	180,313
Statutory transfer of net income	(294,108)		(21,479)	(36,062)
Transfer to (from) dividend stabilization reserve	(238,490)		(924)	5,108
Dividends on capital stock				
Cash payment	(405,417)		(67,336)	(149,359)
Stock issued	(532,532)		(17,654)	
BALANCE, DECEMBER 31, 1988	$ 170,162	$22,596	$ 2,958	$ 11,513
CAPITAL DISTRIBUTION TO FINANCING CORPORATION				
BALANCE, JANUARY 1, 1987				
Capital distribution to Financing Corporation	$ (155,500)		$ (2,897)	$ (14,151)
BALANCE, DECEMBER 31, 1987	(155,500)		(2,897)	(14,151)
Capital distribution to Financing Corporation	(341,500)		(6,362)	(31,078)
BALANCE, DECEMBER 31, 1988	$ (497,000)		$ (9,259)	$ (45,229)

Statement continued on following page.

FEDERAL HOME LOAN BANKS

COMBINED STATEMENTS OF CAPITAL
WITH SUPPLEMENTAL COMBINING INFORMATION
FOR THE YEARS ENDED DECEMBER 31, 1988, 1987, AND 1986
(In thousands of shares and dollars)

Supplemental Combining Information

	Pittsburgh Shares	Pittsburgh Amount	Atlanta Shares	Atlanta Amount	Cincinnati Shares	Cincinnati Amount	Indianapolis Shares	Indianapolis Amount
CAPITAL STOCK								
BALANCE, JANUARY 1, 1986	2,751	$275,128	11,461	$1,146,136	4,521	$452,103	4,038	$403,694
Proceeds from sale of capital stock	698	69,800	1,323	132,252	383	38,323	570	57,002
Redemption of capital stock	(87)	(8,726)	(235)	(23,530)	(257)	(25,652)	(87)	(8,730)
Dividends on capital stock - Stock issued					123	12,260		
BALANCE, DECEMBER 31, 1986	3,362	336,202	12,549	1,254,858	4,770	477,034	4,521	451,966
Proceeds from sale of capital stock	714	71,491	1,278	127,833	246	24,586	556	55,648
Redemption of capital stock	(7)	(753)	(962)	(96,229)	(47)	(4,727)	(55)	(5,470)
Dividends on capital stock - Stock issued			1,186	118,602	505	50,472	377	37,778
BALANCE, DECEMBER 31, 1987	4,069	406,940	14,051	1,405,064	5,474	547,365	5,399	539,922
Proceeds from sale of capital stock	1,575	157,485	1,544	154,396	142	14,239	221	22,118
Redemption of capital stock	(22)	(2,188)	(544)	(54,388)	(268)	(26,844)	(22)	(2,259)
Dividends on capital stock - Stock issued			1,400	140,058	535	53,479		
BALANCE, DECEMBER 31, 1988	5,622	$562,237	16,451	$1,645,130	5,883	$588,239	5,598	$559,781
RETAINED EARNINGS								
LEGAL RESERVE:								
BALANCE, JANUARY 1, 1986		$ 58,327		$ 199,706		$103,943		$ 75,255
Statutory transfer of net income		10,326		39,670		18,336		16,507
BALANCE, DECEMBER 31, 1986		68,653		239,376		122,279		91,762
Statutory transfer of net income		12,689		29,355		12,585		16,913
BALANCE, DECEMBER 31, 1987		81,342		268,731		134,864		108,675
Statutory transfer of net income		14,742		34,965		12,404		17,507
BALANCE, DECEMBER 31, 1988		$ 96,084		$ 303,696		$147,268		$126,182
DIVIDEND STABILIZATION RESERVE:								
BALANCE, JANUARY 1, 1986		$ 5,176		$ 12,327		$ 5,874		$ 37,374
Transfer from (to) net income		9,957		36,247		24,779		8,645
Dividends on capital stock:								
Cash payment								
Stock issued								
BALANCE, DECEMBER 31, 1986		15,133		48,574		30,653		46,019
Transfer from (to) net income		10,489		(1,308)		(204)		1,853
Dividends on capital stock:								
Cash payment								
Stock issued								
BALANCE, DECEMBER 31, 1987		25,622		47,266		30,449		47,872
Transfer from (to) net income		6,070		(320)		(3,935)		(11,732)
Dividends on capital stock:								
Cash payment								
Stock issued								
BALANCE, DECEMBER 31, 1988		$ 31,692		$ 46,946		$ 26,514		$ 36,140

Statement continued on following page.

COMBINED STATEMENTS OF CAPITAL
WITH SUPPLEMENTAL COMBINING INFORMATION
FOR THE YEARS ENDED DECEMBER 31, 1988, 1987, AND 1986
(In thousands of dollars)

	Supplemental Combining Information			
	Pittsburgh	Atlanta	Cincinnati	Indianapolis
UNDIVIDED PROFITS:				
BALANCE, JANUARY 1, 1986	$ 6,935	$ 16,600	$ 20,213	$ 4,250
Net income	51,633	198,351	91,677	82,538
Statutory transfer of net income	(10,326)	(39,670)	(18,336)	(16,507)
Transfer to (from) dividend stabilization reserve	(9,957)	(36,247)	(24,779)	(8,645)
Dividends on capital stock:				
Cash payment	(31,350)	(122,434)	(36,302)	(57,386)
Stock issued			(12,260)	
BALANCE, DECEMBER 31, 1986	6,935	16,600	20,213	4,250
Net income	63,444	146,772	62,925	84,562
Statutory transfer of net income	(12,689)	(29,355)	(12,585)	(16,913)
Transfer to (from) dividend stabilization reserve	(10,489)	1,308	204	(1,853)
Dividends on capital stock:				
Cash payment	(40,266)	(123)	(72)	(28,018)
Stock issued		(118,602)	(50,472)	(37,778)
BALANCE, DECEMBER 31, 1987	6,935	16,600	20,213	4,250
Net income	73,711	174,824	62,020	87,536
Statutory transfer of net income	(14,742)	(34,965)	(12,404)	(17,507)
Transfer to (from) dividend stabilization reserve	(6,070)	320	3,935	11,732
Dividends on capital stock				
Cash payment	(52,899)	(121)	(72)	(81,761)
Stock issued		(140,058)	(53,479)	
BALANCE, DECEMBER 31, 1988	$ 6,935	$ 16,600	$ 20,213	$ 4,250
CAPITAL DISTRIBUTION TO FINANCING CORPORATION				
BALANCE, JANUARY 1, 1987				
Capital distribution to Financing Corporation	$ (6,640)	$ (22,393)	$(12,853)	$ (8,220)
BALANCE, DECEMBER 31, 1987	(6,640)	(22,393)	(12,853)	(8,220)
Capital distribution to Financing Corporation	(14,583)	(49,179)	(28,226)	(18,053)
BALANCE, DECEMBER 31, 1988	$(21,223)	$ (71,572)	$(41,079)	$(26,273)

Statement continued on following page.

COMBINED STATEMENTS OF CAPITAL
WITH SUPPLEMENTAL COMBINING INFORMATION
FOR THE YEARS ENDED DECEMBER 31, 1988, 1987, AND 1986
(In thousands of shares and dollars)

	Supplemental Combining Information							
	Chicago		Des Moines		Dallas		Topeka	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
CAPITAL STOCK								
BALANCE, JANUARY 1, 1986	5,313	$531,319	4,315	$431,520	7,668	$ 766,765	3,599	$359,945
Proceeds from sale of capital stock	242	24,217	347	34,726	2,070	207,011	669	66,912
Redemption of capital stock	(16)	(1,609)	(78)	(7,860)	(315)	(31,512)	(14)	(1,441)
Dividends on capital stock - Stock issued					453	45,372	106	10,566
BALANCE, DECEMBER 31, 1986	5,539	553,927	4,584	458,386	9,876	987,636	4,360	435,982
Proceeds from sale of capital stock	554	55,359	364	36,485	1,556	155,639	811	81,142
Redemption of capital stock	(4)	(390)	(98)	(9,824)	(844)	(84,421)	(49)	(4,874)
Dividends on capital stock - Stock issued					981	98,015	500	49,950
BALANCE, DECEMBER 31, 1987	6,089	608,896	4,850	485,047	11,569	1,156,869	5,622	562,200
Proceeds from sale of capital stock	298	29,840	323	32,299	2,832	283,208	1,695	169,444
Redemption of capital stock	(122)	(12,229)	(111)	(11,109)	(521)	(52,073)	(98)	(9,818)
Dividends on capital stock - Stock issued			650	64,976	1,125	112,501	682	68,229
BALANCE, DECEMBER 31, 1988	6,265	$626,507	5,712	$571,213	15,005	$1,500,505	7,901	$790,055
RETAINED EARNINGS								
LEGAL RESERVE:								
BALANCE, JANUARY 1, 1986		$133,381		$ 94,084		$ 122,091		$ 69,962
Statutory transfer of net income		15,256		16,381		23,920		11,346
BALANCE, DECEMBER 31, 1986		148,637		110,465		146,011		81,308
Statutory transfer of net income		12,357		13,799		25,528		15,797
BALANCE, DECEMBER 31, 1987		160,994		124,264		171,539		97,105
Statutory transfer of net income		14,552		12,489		30,480		15,882
BALANCE, DECEMBER 31, 1988		$175,546		$136,753		$ 202,019		$112,987
DIVIDEND STABILIZATION RESERVE:								
BALANCE, JANUARY 1, 1986		$ 5,998		$ 32,703		$ 45,064		$ 13,732
Transfer from (to) net income		(931)		17,097		5,811		6,867
Dividends on capital stock:								
Cash payment								
Stock issued								
BALANCE, DECEMBER 31, 1986		5,067		49,800		50,875		20,599
Transfer from (to) net income		(3,412)		1,927		22,741		13,201
Dividends on capital stock:								
Cash payment								
Stock issued						(18,748)		
BALANCE, DECEMBER 31, 1987		1,655		51,727		54,868		33,800
Transfer from (to) net income		4,539		(15,057)		9,319		(4,736)
Dividends on capital stock:								
Cash payment								
Stock issued								
BALANCE, DECEMBER 31, 1988		$ 6,194		$ 36,670		$ 64,187		$ 29,064

Statement continued on following page.

COMBINED STATEMENTS OF CAPITAL
WITH SUPPLEMENTAL COMBINING INFORMATION
FOR THE YEARS ENDED DECEMBER 31, 1988, 1987, AND 1986
(In thousands of dollars)

	Supplemental Combining Information			
	Chicago	Des Moines	Dallas	Topeka
UNDIVIDED PROFITS:				
BALANCE, JANUARY 1, 1986	$ 12,134	$ 10,000	$ 10,000	$ 9,198
Net income	76,278	81,907	119,596	56,734
Statutory transfer of net income	(15,256)	(16,381)	(23,920)	(11,346)
Transfer to (from) dividend stabilization reserve	931	(17,097)	(5,811)	(6,867)
Dividends on capital stock:				
Cash payment	(61,953)	(48,429)	(44,493)	(27,955)
Stock issued			(45,372)	(10,566)
BALANCE, DECEMBER 31, 1986	12,134	10,000	10,000	9,198
Net income	61,785	68,995	127,636	78,984
Statutory transfer of net income	(12,357)	(13,799)	(25,528)	(15,797)
Transfer to (from) dividend stabilization reserve	3,412	(1,927)	(22,741)	(13,201)
Dividends on capital stock:				
Cash payment	(52,840)	(53,269)	(100)	(36)
Stock issued			(79,267)	(49,950)
BALANCE, DECEMBER 31, 1987	12,134	10,000	10,000	9,198
Net income	72,763	62,447	152,400	79,409
Statutory transfer of net income	(14,552)	(12,489)	(30,480)	(15,882)
Transfer to (from) dividend stabilization reserve	(4,539)	15,057	(9,319)	4,736
Dividends on capital stock				
Cash payment	(53,672)	(39)	(100)	(34)
Stock issued		(64,976)	(112,501)	(68,229)
BALANCE, DECEMBER 31, 1988	$ 12,134	$ 10,000	$ 10,000	$ 9,198
CAPITAL DISTRIBUTION TO FINANCING CORPORATION				
BALANCE, JANUARY 1, 1987				
Capital distribution to Financing Corporation	$(15,066)	$(10,776)	$ (13,712)	$ (8,196)
BALANCE, DECEMBER 31, 1987	(15,066)	(10,776)	(13,712)	(8,196)
Capital distribution to Financing Corporation	(33,086)	(23,666)	(30,114)	(17,999)
BALANCE, DECEMBER 31, 1988	$(48,152)	$(34,442)	$ (43,826)	$(26,195)

Statement continued on following page.

FEDERAL HOME LOAN BANKS

COMBINED STATEMENTS OF CAPITAL
WITH SUPPLEMENTAL COMBINING INFORMATION
FOR THE YEARS ENDED DECEMBER 31, 1988, 1987, AND 1986
(In thousands of shares and dollars)

	Supplemental Combining Information			
	San Francisco		Seattle	
	Shares	Amount	Shares	Amount
CAPITAL STOCK				
BALANCE, JANUARY 1, 1986	21,754	$2,175,427	4,291	$ 429,077
Proceeds from sale of capital stock	1,425	142,493	686	68,548
Redemption of capital stock	(1,095)	(109,585)	(161)	(16,058)
Dividends on capital stock - Stock issued	2,249	224,954	541	54,087
BALANCE, DECEMBER 31, 1986	24,333	2,433,289	5,357	535,654
Proceeds from sale of capital stock	2,906	290,686	639	63,862
Redemption of capital stock	(789)	(78,948)	(298)	(29,819)
Dividends on capital stock - Stock issued	2,598	259,810	688	68,865
BALANCE, DECEMBER 31, 1987	29,048	2,904,837	6,386	638,562
Proceeds from sale of capital stock	1,724	172,395	414	41,354
Redemption of capital stock	(719)	(71,984)	(417)	(41,658)
Dividends on capital stock - Stock issued	2,949	294,924	756	75,635
BALANCE, DECEMBER 31, 1988	33,002	$3,300,172	7,139	$713,893
RETAINED EARNINGS				
LEGAL RESERVE:				
BALANCE, JANUARY 1, 1986		$ 265,204		$ 91,527
Statutory transfer of net income		71,668		15,261
BALANCE, DECEMBER 31, 1986		336,872		106,788
Statutory transfer of net income		61,190		18,236
BALANCE, DECEMBER 31, 1987		398,062		125,024
Statutory transfer of net income		67,937		15,609
BALANCE, DECEMBER 31, 1988		$ 465,999		$140,633
DIVIDEND STABILIZATION RESERVE:				
BALANCE, JANUARY 1, 1986		$ 21,867		$ 33,641
Transfer from (to) net income		286,673		6,933
Dividends on capital stock:				
Cash payment		(47)		
Stock issued		(224,954)		
BALANCE, DECEMBER 31, 1986		83,539		40,574
Transfer from (to) net income		244,761		4,055
Dividends on capital stock:				
Cash payment		(47)		
Stock issued		(259,810)		
BALANCE, DECEMBER 31, 1987		68,443		44,629
Transfer from (to) net income		271,746		(13,220)
Dividends on capital stock:				
Cash payment		(44)		
Stock issued		(294,924)		
BALANCE, DECEMBER 31, 1988		$ 45,221		$ 31,409

Statement concluded on following page.

FEDERAL HOME LOAN BANKS

COMBINED STATEMENTS OF CAPITAL
WITH SUPPLEMENTAL COMBINING INFORMATION
FOR THE YEARS ENDED DECEMBER 31, 1988, 1987, AND 1986
(In thousands of dollars)

	Supplemental Combining Information	
	San Francisco Amount	Seattle Amount
UNDIVIDED PROFITS:		
BALANCE, JANUARY 1, 1986	$ 34,654	$ 9,111
Net income	358,341	76,308
Statutory transfer of net income	(71,668)	(15,261)
Transfer to (from) dividend stabilization reserve	(286,673)	(6,933)
Dividends on capital stock:		
Cash payment		(27)
Stock issued		(54,087)
BALANCE, DECEMBER 31, 1986	34,654	9,111
Net income	305,951	91,177
Statutory transfer of net income	(61,190)	(18,236)
Transfer to (from) dividend stabilization reserve	(244,761)	(4,055)
Dividends on capital stock:		
Cash payment		(21)
Stock issued		(68,865)
BALANCE, DECEMBER 31, 1987	34,654	9,111
Net income	339,683	78,048
Statutory transfer of net income	(67,937)	(15,609)
Transfer to (from) dividend stabilization reserve	(271,746)	13,220
Dividends on capital stock		
Cash payment		(24)
Stock issued		(75,635)
BALANCE, DECEMBER 31, 1988	$ 34,654	$ 9,111
CAPITAL DISTRIBUTION TO FINANCING CORPORATION		
BALANCE, JANUARY 1, 1987		
Capital distribution to Financing Corporation	$ (31,045)	$ (9,551)
BALANCE, DECEMBER 31, 1987	(31,045)	(9,551)
Capital distribution to Financing Corporation	(68,178)	(20,976)
BALANCE, DECEMBER 31, 1988	$ (99,223)	$(30,527)

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

FEDERAL HOME LOAN BANKS

COMBINED STATEMENT OF CASH FLOWS
WITH SUPPLEMENTAL COMBINING INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 1988
(In thousands of dollars)

	Combined	Supplemental Combining Information: Combining Entries	Boston	New York	Pittsburgh
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income	$ 1,453,923	$ (16,624)	$ 107,393	$ 180,313	$ 73,711
Adjustments to reconcile net income to net cash provided by operating activities:					
Amortization of discount on consolidated obligations - discount notes	1,164,349		178,639	219,706	76,146
Amortization of concessions on consolidated obligations - bonds	53,398		4,668	4,160	2,016
Amortization of premiums on consolidated obligations - bonds and foreign exchange contracts	(843)	18,563	(290)		(136)
Amortization of discounts on consolidated obligations - bonds and foreign exchange contracts	1,358	(1,483)	1,398		(1)
Amortization of deferred (gain) loss on hedges	1,040			2,117	(9)
Depreciation and amortization of bank premises and equipment	21,209		659	1,553	1,056
Amortization of Federal Home Loan Bank Board assessments	2,276		64	332	75
Amortization of commitment fees	(198)				
Prepayment fee - income on advances	(58,111)		(1,521)		(1,622)
Loss/(gain) on early extinguishment of debt	(4,332)	(456)	975		
Decrease (increase) in accrued interest receivable	(601,250)		(19,543)	(66,999)	(27,545)
Decrease (increase) in other assets	(9,417)		(143)	(255)	(410)
Increase (decrease) in accrued interest payable	455,208		43,262	70,427	24,947
Increase (decrease) in other liabilities	(123,609)		6,448	(153,169)	(1,769)
Total adjustments	901,078	16,624	214,616	77,872	72,748
Net cash provided by operating activities	2,355,001		322,009	258,185	146,459
CASH FLOWS FROM INVESTING ACTIVITIES:					
Net decrease (increase) in investments	(443,124)		(232,650)	290,093	(965,309)
Principal collected on advances	167,871,756		20,730,380	9,693,882	8,094,161
Advances made to members	(187,534,733)		(21,275,719)	(10,048,455)	(8,052,785)
Principal collected on other loans	2,910		1,377	1,533	
Net decrease (increase) - loans to other FHLBanks		(215,000)	5,000	150,000	
Principal collected on loans to Federal Savings and Loan Insurance Corporation	70,000			70,000	
Net decrease (increase) in bank premises and equipment	(27,335)		(602)	(3,099)	(607)
Net cash provided by (used in) investing activities	(20,060,526)	(215,000)	(772,214)	153,954	(924,540)

Statement continued on following page.

FEDERAL HOME LOAN BANKS

COMBINED STATEMENT OF CASH FLOWS
WITH SUPPLEMENTAL COMBINING INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 1988
(In thousands of dollars)

		Supplemental Combining Information			
	Combined	Combining Entries	Boston	New York	Pittsburgh
CASH FLOWS FROM FINANCING ACTIVITIES:					
Net increase (decrease) in deposits	$ (1,323,520)		$ (1,149)	$ 107,783	$ (331,092)
Net increase (decrease) in securities sold under agreements to repurchase	(3,720)			154,148	10,362
Net increase (decrease) in loans from other FHLBanks		$215,000	(410,000)		
Net increase (decrease) in other borrowings	(242,379)				
Proceeds from sale of consolidated obligation bonds	40,692,133		4,248,048	4,612,375	1,651,466
Payments for maturing consolidated obligation bonds	(21,690,412)		(2,093,475)	(2,808,600)	(914,934)
Proceeds from sale of discount notes	41,615,960		5,234,448	5,912,386	2,270,113
Payments for maturing discount notes	(41,708,223)		(6,560,335)	8,333,000)	(2,090,465)
Proceeds from issuance of capital stock	1,399,650		139,427	183,445	157,485
Payments for redemption of capital stock	(331,249)		(31,736)	(14,963)	(2,188)
Cash dividends paid	(405,461)		(67,336)	(149,359)	(52,899)
Capital distribution to Financing Corporation	(341,500)		(6,362)	(31,078)	(14,583)
Net cash provided by (used in) financing activities	17,661,279	215,000	451,530	(366,863)	683,265
Net increase (decrease) in cash and cash equivalents	(44,246)		1,325	45,276	(94,816)
Cash and cash equivalents at beginning of the year	1,593,505		4,435	150,500	156,820
Cash and cash equivalents at end of the year	$ 1,549,259		$ 5,760	$ 195,776	$ 62,004

Statement continued on following page.

COMBINED STATEMENT OF CASH FLOWS
WITH SUPPLEMENTAL COMBINING INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 1988
(In thousands of dollars)

	Supplemental Combining Information				
	Atlanta	Cincinnati	Indianapolis	Chicago	Des Moines
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income	$ 174,824	$ 62,020	$ 87,536	$ 72,763	$ 62,447
Adjustments to reconcile net income to net cash provided by operating activities:					
Amortization of discount on consolidated obligations - discount notes	263,885	37,643	32,872	25,244	29,647
Amortization of concessions on consolidated obligations - bonds	6,517	1,777	2,629	1,068	2,739
Amortization of premiums on consolidated obligations - bonds and foreign exchange contracts	(564)	(16)	29	(56)	(13)
Amortization of discounts on consolidated obligations - bonds and foreign exchange contracts	(13)	10	(196)	(56)	17
Amortization of deferred (gain) loss on hedges	974	(93)	(1,217)	(2,638)	560
Depreciation and amortization of bank premises and equipment	3,607	1,245	1,058	627	2,143
Amortization of Federal Home Loan Bank Board assessments	493	176	116	263	109
Amortization of commitment fees		(45)	(153)		
Prepayment fee - income on advances	(6,513)	(4,206)	(3,673)	(8,187)	(1,679)
Loss/(gain) on early extinguishment of debt					
Decrease (increase) in accrued interest receivable	(38,801)	(2,570)	(4,696)	(42,284)	(17,762)
Decrease (increase) in other assets	(1,262)	(192)	(4,142)	74	(282)
Increase (decrease) in accrued interest payable	28,785	(1,795)	6,826	43,889	23,096
Increase (decrease) in other liabilities	8,491	1,954	(9,201)	16,419	(26,859)
Total adjustments	265,599	33,888	20,252	34,363	11,716
Net cash provided by operating activities	440,423	95,908	107,788	107,126	74,163
CASH FLOWS FROM INVESTING ACTIVITIES:					
Net decrease (increase) in investments	42,112	(14,153)	160,665	84,689	(236,385)
Principal collected on advances	8,260,885	2,136,411	1,519,305	3,157,820	7,952,511
Advances made to members	(10,373,594)	(2,141,319)	(1,625,993)	(3,098,855)	(8,713,015)
Principal collected on other loans					
Net decrease (increase) - loans to other FHLBanks					
Principal collected on loans to Federal Savings and Loan Insurance Corporation					
Net decrease (increase) in bank premises and equipment	(1,682)	(751)	(2,038)	(552)	(1,804)
Net cash provided by (used in) investing activities	(2,072,279)	(19,812)	51,939	143,102	(998,693)

Statement continued on following page.

FEDERAL HOME LOAN BANKS

COMBINED STATEMENT OF CASH FLOWS
WITH SUPPLEMENTAL COMBINING INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 1988
(In thousands of dollars)

	Supplemental Combining Information				
	Atlanta	Cincinnati	Indianapolis	Chicago	Des Moines
CASH FLOWS FROM FINANCING ACTIVITIES:					
Net increase (decrease) in deposits	$ (84,154)	$ (146,843)	$ (174,076)	$ (103,750)	$ 155,258
Net increase (decrease) in securities sold under agreements to repurchase	(184,516)	70,771	(7,271)		(10,025)
Net increase (decrease) in loans from other FHLBanks					(5,000)
Net increase (decrease) in other borrowings					
Proceeds from sale of consolidated obligation bonds	3,894,817	919,429	672,957	371,517	1,945,250
Payments for maturing consolidated obligation bonds	(2,232,388)	(884,000)	(485,895)	(516,000)	(1,085,000)
Proceeds from sale of discount notes	7,164,164	1,651,705	1,129,857	564,250	1,107,655
Payments for maturing discount notes	(6,966,460)	(1,627,000)	(1,179,500)	(484,975)	(1,196,633)
Proceeds from issuance of capital stock	154,396	14,239	22,118	29,840	32,299
Payments for redemption of capital stock	(54,388)	(26,844)	(2,259)	(12,229)	(11,109)
Cash dividends paid	(121)	(72)	(81,761)	(53,672)	(39)
Capital distribution to Financing Corporation	(49,179)	(28,226)	(18,053)	(33,086)	(23,666)
Net cash provided by (used in) financing activities	1,642,171	(56,841)	(123,883)	(238,105)	908,990
Net increase (decrease) in cash and cash equivalents	10,315	19,255	35,844	12,123	(15,540)
Cash and cash equivalents at beginning of the year	75,258	25,122	124,642	38,261	107,174
Cash and cash equivalents at end of the year	$ 85,573	$ 44,377	$ 160,486	$ 50,384	$ 91,634

Statement continued on following page.

FEDERAL HOME LOAN BANKS

COMBINED STATEMENT OF CASH FLOWS
WITH SUPPLEMENTAL COMBINING INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 1988
(In thousands of dollars)

	Supplemental Combining Information			
	Dallas	Topeka	San Francisco	Seattle
CASH FLOWS FROM OPERATING ACVITITIES:				
Net income	$ 152,400	$ 79,409	$ 339,683	$ 78,048
Adjustments to reconcile net income to net cash provided by operating activities:				
Amortization of discount on consolidated obligations - discount notes	159,246	25,641		115,680
Amortization of concessions on consolidated obligations - bonds	6,074	3,725	14,296	3,729
Amortization of premiums on consolidated obligations - bonds and foreign exchange contracts	(18)	(3,105)	(14,406)	(831)
Amortization of discounts on consolidated obligations - bonds and foreign exchange contracts		1,682		
Amortization of deferred (gain) loss on hedges	(554)	1,449	(341)	792
Depreciation and amortization of bank premises and equipment	2,772	762	3,083	2,644
Amortization of Federal Home Loan Bank Board assessments	86	83	391	88
Amortization of commitment fees				
Prepayment fee - income on advances	(18,810)	(2,593)		(9,307)
Loss/(gain) on early extinguishment of debt		456		(5,307)
Decrease (increase) in accrued interest receivable	(133,008)	29,863	(272,868)	(5,037)
Decrease (increase) in other assets	(1,599)	1,106	(2,395)	83
Increase (decrease) in accrued interest payable	168,154	1,648	36,253	9,716
Increase (decrease) in other liabilities	18,657	(2,295)	19,959	(2,244)
Total adjustments	201,000	58,422	(216,028)	110,006
Net cash provided by operating activities	353,400	137,831	123,655	188,054
CASH FLOWS FROM INVESTING ACTIVITIES:				
Net decrease (increase) in investments	(807,828)	248,659	747,718	239,265
Principal collected on advances	72,885,480	3,755,330	26,465,257	3,220,334
Advances made to members	(80,197,367)	(5,967,710)	(31,921,848)	(4,118,073)
Principal collected on other loans				
Net decrease (increase) - loans to other FHLBanks			(90,000)	150,000
Principal collected on loans to Federal Savings and Loan Insurance Corporation				
Net decrease (increase) in bank premises and equipment	(2,232)	(1,456)	(10,385)	(2,127)
Net cash provided by (used in) investing activities	(8,121,947)	(1,965,177)	(4,809,258)	(510,601)

Statement concluded on following page.

FEDERAL HOME LOAN BANKS

COMBINED STATEMENT OF CASH FLOWS
WITH SUPPLEMENTAL COMBINING INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 1988
(In thousands of dollars)

	Supplemental Combining Information			
	Dallas	Topeka	San Francisco	Seattle
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net increase (decrease) in deposits	$ (92,185)	$ (60,974)	$ (409,473)	$ (182,865)
Net increase (decrease) in securities sold under agreements to repurchase		(68,089)		30,900
Net increase (decrease) in loans from other FHLBanks		200,000		
Net increase (decrease) in other borrowings		(242,379)		
Proceeds from sale of consolidated obligation bonds	8,425,111	2,905,339	8,531,949	2,513,875
Payments for maturing consolidated obligation bonds	(1,860,000)	(1,323,106)	(5,706,679)	(1,780,335)
Proceeds from sale of discount notes	5,416,190	957,601	7,249,872	2,957,719
Payments for maturing discount notes	(4,289,858)	(696,925)	(5,085,307)	(3,197,765)
Proceeds from issuance of capital stock	283,208	169,444	172,395	41,354
Payments for redemption of capital stock	(52,073)	(9,818)	(71,984)	(41,658)
Cash dividends paid	(100)	(34)	(44)	(24)
Capital distribution to Financing Corporation	(30,114)	(17,999)	(68,178)	(20,976)
Net cash provided by (used in) financing activities	7,800,179	1,813,060	4,612,551	320,225
Net increase (decrease) in cash and cash equivalents	31,632	(14,286)	(73,052)	(2,322)
Cash and cash equivalents at beginning of the year	308,240	57,956	478,820	66,277
Cash and cash equivalents at end of the year	$ 339,872	$ 43,670	$ 405,768	$ 63,955

Supplemental disclosure of cash flow information and accounting policy - Note 15

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

FEDERAL HOME LOAN BANKS

COMBINED STATEMENT OF CASH FLOWS
WITH SUPPLEMENTAL COMBINING INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 1987
(In thousands of dollars)

		Supplemental Combining Information			
	Combined	Combining Entries	Boston	New York	Pittsburgh
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income	$ 1,328,333	$(22,809)	$ 74,450	$ 184,461	$ 63,444
Adjustments to reconcile net income to net cash provided by operating activities:					
Amortization of discount on consolidated obligations - discount notes	731,351		141,229	30,811	52,896
Amortization of concessions on consolidated obligations - bonds	39,140		2,230	2,911	1,431
Amortization of premiums on consolidated obligations - bonds and foreign exchange contracts	(1,954)	26,356	(108)		(330)
Amortization of discounts on consolidated obligations - bonds and foreign exchange contracts	(2,791)	(3,547)	608		(2)
Amortization of deferred (gain) loss on hedges	(7,296)		608	(2,115)	(14)
Depreciation and amortization of bank premises and equipment	18,587		590	1,500	925
Amortization of Federal Home Loan Bank Board assessments	2,128		64	278	75
Prepayment fee - income on advances	(98,155)		(8,641)		(1,438)
Loss/(gain) on early extinguishment of debt	10,067		(341)		
Decrease (increase) in accrued interest receivable	(192,013)		(38,305)	(66,966)	(6,842)
Decrease (increase) in other assets	12,954		556	(2,353)	31
Increase (decrease) in accrued interest payable	241,891		39,672	78,486	8,193
Increase (decrease) in other liabilities	(249,677)		8,525	3,545	1,857
Total adjustments	504,232	22,809	146,687	46,097	56,782
Net cash provided by operating activities	1 832,565		221,137	230,558	120,226
CASH FLOWS FROM INVESTING ACTIVITIES:					
Net decrease (increase) in investments	1,052,514		103,233	(102,874)	201,171
Principal collected on advances	170,065,949		14,517,285	6,533,920	5,852,990
Advances made to members	(194,371,950)		(19,128,944)	(12,228,838)	(7,537,205)
Principal collected on other loans	2,219		1,267	952	
Net decrease (increase) - advances to other FHLBanks		20,000		(150,000)	45,000
Net decrease (increase) in bank premises and equipment	(39,250)		(749)	(1,178)	(785)
Net cash provided by (used in) investing activities	(23,290,518)	20,000	(4,507,908)	(5,948,018)	(1,438,829)

Statement continued on following page.

FEDERAL HOME LOAN BANKS

COMBINED STATEMENT OF CASH FLOWS
WITH SUPPLEMENTAL COMBINING INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 1987
(In thousands of dollars)

		Supplemental Combining Information			
	Combined	Combining Entries	Boston	New York	Pittsburgh
CASH FLOWS FROM FINANCING ACTIVITIES:					
Net increase (decrease) in deposits	$ (6,596,630)		$ (312,104)	$ (444,832)	$ (354,329)
Net increase (decrease) in securities sold under agreements to repurchase	108,888			(66,793)	
Net increase (decrease) in loans from other FHLBanks		$(20,000)	385,000	(10,000)	
Net increase (decrease) in other borrowings	113,231				
Proceeds from sale of consolidated obligation bonds	35,820,609		2,870,767	5,546,494	1,246,125
Payments for maturing consolidated obligation bonds	(15,263,917)		(434,359)	(999,100)	(551,058)
Proceeds from sale of discount notes	34,971,210		4,921,447	9,508,338	2,672,234
Payments for maturing discount notes	(29,327,222)		(3,381,140)	(8,036,548)	(1,681,635)
Proceeds from issuance of capital stock	1,488,023		296,180	229,112	71,491
Payments for redemption of capital stock	(374,721)		(46,120)	(13,146)	(753)
Cash dividends paid	(348,723)		(46,994)	(126,937)	(40,266)
Capital distribution to Financing Corporation	(155,500)		(2,897)	(14,151)	(6,640)
Net cash provided by (used in) financing activities	20,435,248	(20,000)	4,249,780	5,572,437	1,355,169
Net increase (decrease) in cash and cash equivalents	(1,022,705)		(36,991)	(145,023)	36,566
Cash and cash equivalents at beginning of the year	2,616,210		41,426	295,523	120,254
Cash and cash equivalents at end of the year	$ 1,593,505		$ 4,435	$ 150,500	$ 156,820

Statement continued on following page.

COMBINED STATEMENT OF CASH FLOWS
WITH SUPPLEMENTAL COMBINING INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 1987
(In thousands of dollars)

	Supplemental Combining Information				
	Atlanta	Cincinnati	Indianapolis	Chicago	Des Moines
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income	$ 146,772	$ 62,925	$ 84,562	$ 61,785	$ 68,995
Adjustments to reconcile net income to net cash provided by operating activities:					
Amortization of discount on consolidated obligations - discount notes	133,685	24,900	39,286	7,474	8,929
Amortization of concessions on consolidated obligations - bonds	5,050	1,504	2,613	876	2,070
Amortization of premiums on consolidated obligations - bonds and foreign exchange contracts	(413)	(16)	34	(85)	(12)
Amortization of discounts on consolidated obligations - bonds and foreign exchange contracts	(40)	8	(62)	(64)	2
Amortization of deferred (gain) loss on hedges	1,305	(254)	(297)	(570)	563
Depreciation and amortization of bank premis and equipment	3,236	1,101	902	1,318	2,075
Amortization of Federal Home Loan Bank Board assessments	362	186	96	219	109
Prepayment fee - income on advances	(22,314)	(6,823)	(15,119)	(1,479)	(13,845)
Loss/(gain) on early extinguishment of debt			10,775		
Decrease (increase) in accrued interest receivable	(9,015)	(6,951)	(7,292)	(12,766)	(1,703)
Decrease (increase) in other assets	8,544	(163)	2,574	848	(90)
Increase (decrease) in accrued interest payable	17,969	14,998	18,393	9,537	(7,821)
Increase (decrease) in other liabilities	(32,985)	(8,232)	9,085	2,307	3,808
Total adjustments	105,384	20,258	60,988	7,615	(5,915)
Net cash provided by operating activities	252,156	83,183	145,550	69,400	63,080
CASH FLOWS FROM INVESTING ACTIVITIES:					
Net decrease (increase) in investments	1,225,672	607,032	86,921	202,674	261,135
Principal collected on advances	7,768,443	1,299,556	2,508,484	2,754,877	9,312,535
Advances made to members	(11,322,219)	(1,941,222)	(3,712,782)	(3,272,682)	(10,001,525)
Principal collected on other loans					
Net decrease (increase) - loans to other FHLBanks		(100,000)	25,000	15,000	30,000
Net decrease (increase) in bank premises and equipment	(4,064)	(1,257)	(2,472)	(2,840)	(8,132)
Net cash provided by (used in) investing activities	(2,332,168)	(135,891)	(1,094,849)	(302,971)	(405,987)

Statement continued on following page.

FEDERAL HOME LOAN BANKS

COMBINED STATEMENT OF CASH FLOWS
WITH SUPPLEMENTAL COMBINING INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 1987
(In thousands of dollars)

	Supplemental Combining Information				
	Atlanta	Cincinnati	Indianapolis	Chicago	Des Moines
CASH FLOWS FROM FINANCING ACTIVITIES:					
Net increase (decrease) in deposits	$(1,545,067)	$ (664,179)	$ (139,964)	$(248,310)	$ (610,811)
Net increase (decrease) in securities sold under agreements to repurchase	179,949	(38,995)	16,718	(10,150)	10,025
Net increase (decrease) in loans from other FHLBanks			(50,000)		(50,000)
Net increase (decrease) in other borrowings					
Proceeds from sale of consolidated obligation bonds	3,394,269	853,654	2,000,496	502,157	1,193,271
Payments for maturing consolidated obligation bonds	(2,190,028)	(322,000)	(820,336)	(313,000)	(975,500)
Proceeds from sale of discount notes	5,720,341	1,281,667	1,350,212	540,180	830,448
Payments for maturing discount notes	(3,491,635)	(1,100,000)	(1,431,000)	(222,935)	(75,000)
Proceeds from issuance of capital stock	127,833	24,586	55,648	55,359	36,485
Payments for redemption of capital stock	(96,229)	(4,727)	(5,470)	(390)	(9,824)
Cash dividends paid	(123)	(72)	(28,018)	(52,840)	(53,269)
Capital distribution to Financing Corporation	(22,393)	(12,853)	(8,220)	(15,066)	(10,776)
Net cash provided by (used in) financing activities	2,076,917	17,081	940,066	235,005	285,049
Net increase (decrease) in cash and cash equivalents	(3,095)	(35,627)	(9,233)	1,434	(57,858)
Cash and cash equivalents at beginning of the year	78,353	60,749	133,875	36,827	165,032
Cash and cash equivalents at end of the year	$ 75,258	$ 25,122	$ 124,642	$ 38,261	$ 107,174

Statement continued on following page.

FEDERAL HOME LOAN BANKS

COMBINED STATEMENT OF CASH FLOWS
WITH SUPPLEMENTAL COMBINING INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 1987
(In thousands of dollars)

	Supplemental Combining Information			
	Dallas	Topeka	San Francisco	Seattle
CASH FLOWS FROM OPERATING ACVITITIES:				
Net income	$ 127,636	$ 78,984	$ 305,951	$ 91,177
Adjustments to reconcile net income to net cash provided by operating activities:				
Amortization of discount on consolidated obligations - discount notes	147,583	31,866		112,692
Amortization of concessions on consolidated obligations - bonds	3,620	2,471	11,746	2,618
Amortization of premiums on consolidated obligations - bonds and foreign exchange contracts	(57)	(1,080)	(26,238)	(5)
Amortization of discounts on consolidated obligations - bonds and foreign exchange contracts		306		
Amortization of deferred (gain) loss on hedges	(8,349)	140	(46)	1,733
Depreciation and amortization of bank premises and equipment	1,947	602	2,127	2,264
Amortization of Federal Home Loan Bank Board assessments	172	84	391	92
Prepayment fee - income on advances	(1,514)	(8,532)		(18,450)
Loss/(gain) on early extinguishment of debt				(367)
Decrease (increase) in accrued interest receivable	(40,449)	(4,053)	19,004	(16,675)
Decrease (increase) in other assets	(98)	(872)	5,387	(1,410)
Increase (decrease) in accrued interest payable	48,173	28,806	(40,665)	26,150
Increase (decrease) in other liabilities	(2,203)	(24,028)	(211,697)	341
Total adjustments	148,825	25,710	(239,991)	108,983
Net cash provided by operating activities	276,461	104,694	65,960	200,160
CASH FLOWS FROM INVESTING ACTIVITIES:				
Net decrease (increase) in investments	(93,234)	(670,500)	(497,492)	(271,224)
Principal collected on advances	88,582,814	3,026,700	24,327,545	3,580,800
Advances made to members	(91,209,440)	(4,751,860)	(24,241,626)	(5,023,607)
Principal collected on other loans				
Net decrease (increase) - loans to other FHLBanks	80,000		165,000	(130,000)
Net decrease (increase) in bank premises and equipment	(10,563)	(2,630)	(2,389)	(2,191)
Net cash provided by (used in) investing activities	(2,650,423)	(2,398,290)	(248,962)	(1,846,222)

Statement concluded on following page.

COMBINED STATEMENT OF CASH FLOWS
WITH SUPPLEMENTAL COMBINING INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 1987
(In thousands of dollars)

	Supplemental Combining Information			
	Dallas	Topeka	San Francisco	Seattle
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net increase (decrease) in deposits	$ (524,223)	$ 78,585	$(1,485,661)	$ (345,735)
Net increase (decrease) in securities sold under agreements to repurchase		68,089		(49,955)
Net increase (decrease) in loans from other FHLBanks	(110,000)	(25,000)		(120,000)
Net increase (decrease) in other borrowings		113,231		
Proceeds from sale of consolidated obligation bonds	4,786,520	2,965,015	7,346,116	3,115,725
Payments for maturing consolidated obligation bonds	(1,846,500)	(928,000)	(4,772,100)	(1,111,936)
Proceeds from sale of discount notes	2,834,769	597,529	2,194,777	2,519,268
Payments for maturing discount notes	(3,230,810)	(605,395)	(3,573,819)	(2,497,305)
Proceeds from issuance of capital stock	155,639	81,142	290,686	63,862
Payments for redemption of capital stock	(84,421)	(4,874)	(78,948)	(29,819)
Cash dividends paid	(100)	(36)	(47)	(21)
Capital distribution to Financing Corporation	(13,712)	(8,196)	(31,045)	(9,551)
Net cash provided by (used in) financing activities	1,967,162	2,332,090	(110,041)	1,534,533
Net increase (decrease) in cash and cash equivalents	(406,800)	38,494	(293,043)	(111,529)
Cash and cash equivalents at beginning of the year	715,040	19,462	771,863	177,806
Cash and cash equivalents at end of the year	$ 308,240	$ 57,956	$ 478,820	$ 66,277

Supplemental disclosure of cash flow information and accounting policy - Note 15

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

COMBINED STATEMENT OF CHANGES IN FINANCIAL POSITION
WITH SUPPLEMENTAL COMBINING INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 1986
(In thousands of dollars)

		Supplemental Combining Information			
	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

Statement continued on following page.

COMBINED STATEMENT OF CHANGES IN FINANCIAL POSITION
WITH SUPPLEMENTAL COMBINING INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 1986
(In thousands of dollars)

	Supplemental Combining Information				
	Atlanta	Cincinnati	Indianapolis	Chicago	Des Moines
FINANCIAL RESOURCES WERE PROVIDED FROM:					
Operations:					
Income before extraordinary item	$ 198,351	$ 91,677	$ 130,012	$ 76,278	$ 81,907
Noncash charges (credits) to income:					
Depreciation and amortization of bank premises and equipment	1,401	678	695	340	1,819
Amortization of concessions on consolidated obligation bonds	4,385	1,166	2,677	764	1,841
Amortization of premium on consolidated obligation bonds and forward exchange contracts	(650)		168	(138)	(9)
Amortization of discount on consolidated obligation bonds and forward exchange contracts			(50)	9	7
Amortization of discount on consolidated obligation discount notes	139,709	40,804	26,667	10,668	6,469
Amortization of Federal Home Loan Bank Board assessments			77	172	109
Amortization of deferred (gain) loss on hedges	1,606	(472)	(2,987)	(683)	(1,749)
Other resources	345	150		41	(500)
Total from operations (exclusive of extraordinary item)	345,147	134,003	157,259	87,451	89,894
Extraordinary item			(47,474)		
Total	345,147	134,003	109,785	87,451	89,894
Net proceeds from issuance of consolidated obligations:					
Bonds	4,489,324	1,075,898	1,755,630	873,042	1,843,652
Discount notes	3,165,996	974,624	1,512,627	179,807	
Advances repaid	6,154,332	1,479,556	1,604,171	2,809,780	8,052,563
Proceeds from sale of capital stock	132,252	38,323	57,002	24,217	34,726
Increase (decrease) in loans guaranteed by the Agency for International Development - net					
Net change in interbank loans and borrowings	75,000		(133,000)	(45,000)	(135,000)
Increase (decrease) in dividends payable	(2,863)				
Net increase (decrease) in members' deposits	58,098	231,744	187,921	105,565	381,564
Decrease in investment in FHLMC		4,650			3,050
Increase in pass-through reserves	10,563				
Increase (decrease) in securities sold under agreements to repurchase	58,369	33,993	(27,006)	10,150	
Increase (decrease) in accrued interest payable	18,452	4,348	6,533	19,366	25,320
Increase (decrease) in other liabilities	(774)	(4,484)	9,782	(5,917)	27,090
Total	$14,503,896	$3,972,655	$5,083,445	$4,058,461	$10,322,859
FINANCIAL RESOURCES WERE USED FOR:					
Payments on maturing consolidated obligations:					
Bonds	$ 2,227,000	$1,310,360	$1,070,927	$ 440,000	$ 735,000
Discount notes	4,210,350	449,000	1,285,225	300,200	333,000
Advances made	7,843,026	1,923,160	2,802,924	3,378,053	9,137,520
Redemption of capital stock	23,530	25,652	8,730	1,609	7,860
Cash dividends paid on capital stock	122,434	36,302	57,386	61,953	48,429
Net additions to bank premises and equipment	50,834	3,051	2,064	2,718	2,304
Increase (decrease) in investments	26,882	206,291	(221,336)	(123,413)	(24,833)
Increase (decrease) in accrued interest receivable	361	(1,115)	979	11,945	19,294
Increase (decrease) in deferred charges and other assets	9,683	461		(3,962)	(854)
Increase (decrease) in cash	(10,204)	19,493	76,546	(10,642)	65,139
Total	$14,503,896	$3,972,655	$5,083,445	$4,058,461	$10,322,859

Statement concluded on following page.

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)

	Supplemental Combining Information			
	Dallas	Topeka	San Francisco	Seattle
FINANCIAL RESOURCES WERE PROVIDED FROM:				
Operations:				
Income before extraordinary item	$ 119,596	$ 56,734	$ 358,341	$ 106,720
Noncash charges (credits) to income:				
Depreciation and amortization of bank premises and equipment	1,111	277	1,408	1,968
Amortization of concessions on consolidated obligation bonds	3,083	1,814	11,530	2,280
Amortization of premium on consolidated obligation bonds and forward exchange contracts	(41)	(43)	(5,476)	
Amortization of discount on consolidated obligation bonds and forward exchange contracts	10	43		
Amortization of discount on consolidated obligation discount notes	112,364	21,891	216,765	86,258
Amortization of Federal Home Loan Bank Board assessments	115	84	361	84
Amortization of deferred (gain) loss on hedges	(892)	580	(8,577)	2,381
Other resources	199		1,126	(51)
Total from operations (exclusive of extraordinary item)	235,545	81,380	575,478	199,640
Extraordinary item				(30,412)
Total	235,545	81,380	575,478	169,228
Net proceeds from issuance of consolidated obligations:				
Bonds	2,249,478	1,802,827	12,711,625	1,103,548
Discount notes	2,624,518	463,968	3,644,506	2,200,326
Advances repaid	86,127,513	2,609,423	32,753,780	3,551,949
Proceeds from sale of capital stock	207,011	66,912	142,493	68,548
Increase (decrease) in loans guaranteed by the Agency for International Development - net				
Net change in interbank loans and borrowings	85,000	(110,000)	(30,000)	30,000
Increase (decrease) in dividends payable				
Net increase (decrease) in members' deposits	944,114	152,326	683,389	(355,230)
Decrease in investment in FHLMC	3,400			
Increase in pass-through reserves	54,105	1,950	8,950	
Increase (decrease) in securities sold under agreements to repurchase		129,148	(498,571)	49,955
Increase (decrease) in accrued interest payable	(22,576)	42,663	(6,495)	(22,193)
Increase (decrease) in other liabilities	(151)	24,781	226,329	20,360
Total	$92,507,957	$5,265,378	$50,211,484	$6,816,491
FINANCIAL RESOURCES WERE USED FOR:				
Payments on maturing consolidated obligations:				
Bonds	$ 1,850,000	$ 711,000	$ 9,040,000	$1,134,000
Discount notes	2,054,790	272,500	5,468,195	1,880,658
Advances made	88,444,318	4,173,942	36,472,111	4,117,638
Redemption of capital stock	31,512	1,441	109,585	16,058
Cash dividends paid on capital stock	44,493	27,954	47	27
Net additions to bank premises and equipment	12,850	721	2,442	3,142
Increase (decrease) in investments	(520,322)	74,049	(1,487,686)	(4,986)
Increase (decrease) in accrued interest receivable	203	22,400	(27,077)	(483,415)
Increase (decrease) in deferred charges and other assets	(1,166)	215	(1,169)	752
Increase (decrease) in cash	591,279	(18,844)	635,036	152,617
Total	$92,507,957	$5,265,378	$50,211,484	$6,816,491

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

NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1988, 1987, AND 1986

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 and the Federal Home Loan Bank Board ("Bank Board"), 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. Certain FHLBank employees also perform supervisory and examination agency functions as delegated by the Bank Board. Most FHLBanks also provide member institutions with related services such as settlement services and execution of securities transactions on behalf of and at the direction of their members. A principal source of funds for the FHLBanks is the sale 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 member deposits.

The FHLBank System is supervised and regulated by the Bank Board which is an independent federal agency in the executive branch of government. The Bank Board approves the operating budgets and establishes guidelines regarding the credit, borrowing, and investment policies of the FHLBanks. 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 ("FHLMC") which is a secondary mortgage market facility. The principal function of FHLMC 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 FSLIC which insures the accounts of depositors in federally insured savings and loan associations and federal savings banks. Bank Board expenses are met through assessments to the FHLBanks and FSLIC.

In accordance with 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 FSLIC. As discussed more fully in Note 11, the FHLBanks are providing the capitalization for FICO.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The more significant accounting policies not described elsewhere in the notes to the combined financial statements are as follows:

Investments - Investment securities are carried at cost, adjusted for amortization of premiums and accretion of discounts, and deferred gains and losses from hedging activities. Gains and losses on sales of securities are included in income from investments. Sales of securities under agreements to repurchase the same or substantially the same securities are treated as financings.

Bank Premises and Equipment - Bank premises and equipment are stated at cost less accumulated depreciation and amortization of approximately $55,891,000, and $41,779,000 at December 31, 1988 and 1987, respectively. Depreciation and amortization are computed on the straight-line method over the estimated useful life of the asset or, for leasehold improvements, over the estimated useful 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. Gains and losses on disposals are included in other income.

Assessments - Federal Home Loan Bank Board - The FHLBanks expense their pro rata share of Bank Board assessments 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. These payments are recorded as deferred charges and are amortized using the straight-line method over a twenty-five year period.

The Bank Board also assesses the FHLBanks for the cost of capital expenditures for furniture, equipment and furnishings for the Bank Board's building. These payments are treated as a deferred charge and are amortized using the straight-line method over a five year period.

Assessments - Federal Home Loan Bank Offices - The FHLBank System Offices assess the FHLBanks for their operating costs. Such assessments are included in the operating expenses of the FHLBanks.

The FHLBanks' Office of Finance manages the Consolidated Securities Fund and the sale of consolidated obligations for the twelve FHLBanks. Assessments for the Office's operating costs are charged to expense except for capital expenditures which are amortized using the straight-line method over a five-year period.

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 FHLBanks, their members and the public. Assessments for the Office's operating costs are charged 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 FHLBank System. Assessments for the Office's operating costs are charged to expense when billed.

The FHLBanks' Office of Regulatory Activities ("ORA"), formerly the Office of Regulatory Policy, Oversight and Supervision, was established September 27, 1986 to succeed the Bank Board's Office of Examinations and Supervision. ORA monitors the activities of the FHLBank System examiners, who ensure that individual thrift institutions follow federal law and Bank Board regulations. Assessments for the Office's operating costs are charged to expense except for capital expenditures which are amortized, using the straight-line method over a five-year period.

<u>Assessment - Financing Corporation</u> - The administrative expenses of FICO are billed to the FHLBanks by the Office of Finance on behalf of FICO.

<u>Concessions on Consolidated Obligations</u> - The amounts paid 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.

<u>Discounts and Premiums on Consolidated Obligations</u> - The discounts on consolidated obligation discount notes are amortized using the straight-line method to the maturity of the related notes. The discounts and premiums on consolidated obligation bonds are amortized using the level yield method over the term to maturity of the bond issue.

<u>Hedging</u> - The FHLBanks are engaged in asset/liability management programs that include the use of hedges in the cash market and the use of hedge instruments such as interest rate futures, options and interest rate swap agreements. Gains and losses on hedge transactions are deferred except for gains and losses from cash securities used as a hedge which are recognized as incurred after March 1987. 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 reflected as an adjustment of the carrying value of the hedged assets or liabilities.

Prepayment Fees - A prepayment fee is paid by the member when a fixed rate noncallable 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 for Advances - Commitment fees for advances are deferred and are amortized to interest income using the level yield method over the life of the related advance. Refundable fees are deferred until the commitment expires or the advance is made. Commitment fees for letters of credit are recorded as a deferred credit when received and are amortized over the period of the letter of credit.

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 Statements of Condition.

Agency for International Development (AID) Service Fees - The 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.

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

Restatement - The FHLBanks adopted Statement of Financial Accounting Standards No. 95, Statement of Cash Flows, for 1988 and restated the 1987 Combined Statement of Changes in Financial Position to conform with the 1988 presentation. As permitted by the Statement, the 1986 Combined Statement of Changes in Financial Position has not been restated.

Reclassification - Certain amounts in the 1987 and 1986 combined financial statements have been reclassified to conform with the 1988 presentation.

2. CASH

Compensating Balances - The FHLBanks have agreed to maintain average collected cash balances with various commercial banks in consideration for certain services. There are no legal restrictions under these agreements as to the withdrawal of funds. The average compensating balances were approximately $110,975,000 and $129,842,000 at December 31, 1988 and 1987, respectively.

In addition, the FHLBanks maintained average collected balances with various Federal Reserve Banks and branches of approximately $29,105,000, $45,448,000 and $83,143,000 for the years ended December 31, 1988, 1987, and 1986 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 authorizes the FHLBanks to act as pass-through correspondents for member institutions required to deposit reserves with the Federal Reserve. The amount shown as cash includes pass-through reserves deposited with Federal Reserve offices of approximately $631,813,000 and $635,699,000 as of December 31, 1988 and 1987, respectively. Member reserve balances are included in other liabilities in the accompanying Combined Statements of Condition.

3. INVESTMENTS

Investments at December 31, 1988 and 1987 were as follows:

	.........1988.........	
	Amortized Cost	Market Value
	(In thousands)	
U. S. Treasury obligations	$ 694,999	$ 684,166
U. S. Government agencies	36,448	34,785
Federal funds sold	9,396,500	9,396,500
Term funds sold	2,387,400	2,387,400
Bankers' acceptance	84,155	84,152
Certificates of deposit - domestic	228,494	226,544
Certificates of deposit - Eurodollars	129,388	129,301
Participation in the FHLBanks' Consolidated Securities Fund	3,701,433	3,701,435
Other	322,397	321,180
Total	$16,981,214	$16,965,463

	1987 Amortized Cost	1987 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

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

The FHLBanks enter into purchases of securities under agreements to resell. The securities purchased under agreements to resell are held in safekeeping in the name of the particular FHLBank by the Federal Reserve Bank of New York. Should the market value of the underlying securities decrease below the market value required as collateral, the counterparty is required to place an equivalent amount of additional securities in safekeeping in the name of the FHLBank or the dollar value of the resale agreement will be decreased accordingly. The FHLBanks held no securities subject to resale agreements at December 31, 1988 and 1987.

At December 31, 1988, securities pledged as collateral for repurchase agreements and included in investments had a book value of $381,495,000 and a market value of $379,478,000.

4. ADVANCES TO MEMBERS

At December 31, 1988 and 1987, advances outstanding to members had weighted average interest rates of 9.04% and 8.75%, respectively, and mature at various dates, as summarized below:

Years of Maturity	...December 31, 1988..... Amount (In thousands)	Weighted Average Interest Rate
1989	$ 71,385,607	9.15%
1990	20,211,298	8.86
1991	19,741,153	8.62
1992	12,397,121	9.19
1993	12,862,196	9.38
1994 - 2008	16,165,681	8.88
Total	152,763,056	
Unamortized commitment fees (Note 1)	(1,570)	
Deferred net loss from hedging transactions (Note 1)	5,680	
Overdrawn demand deposit accounts	13,860	
Total	$152,781,026	

Years of Maturity	...December 31, 1987..... 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	22,175,003	9.08
Total	133,054,473	
Deferred net loss from hedging transactions (Note 1)	3,112	
Total	$133,057,585	

Outstanding advances are generally collateralized pursuant to a written security agreement by investment securities, first mortgage loans and FHLBank deposits and other collateral which is acceptable to the individual FHLBank. The capital stock of the FHLBanks owned by borrowing members is also pledged as additional collateral for outstanding advances. Generally, the FHLBanks permit a borrowing member to physically retain collateral assigned to the FHLBank provided that the member executes a written security agreement and agrees to hold such collateral for the benefit of and subject to the direction and control of the FHLBank. The FHLBanks may, however, require a member to place physical possession of such collateral with the FHLBank or its safekeeping agent.

Included in advances to members at December 31, 1988 were $4.9 billion of advances made by the FHLBank of Dallas which were collateralized solely by notes issued by FSLIC and $791,000,000 of advances also made by the FHLBank of Dallas which were secured solely by cash flows from FSLIC assistance agreements. In addition, at December 31, 1988 and 1987, the FHLBanks had outstanding uncollateralized advances totaling $57,072,000 and $542,089,000, respectively, which were guaranteed by FSLIC. Also, at December 31, 1988 and 1987, advances totaling $2,236,406,000 and $2,312,610,000, respectively, were guaranteed by FSLIC in addition to being collateralized by eligible collateral by the borrowers. (See Notes 14 and 17 for a discussion of matters related to the exposure to FSLIC.)

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 $290,414,000 and $308,493,000 at December 31, 1988 and 1987, respectively, and mature between 1990 and 2008.

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	$630,000,000
Cincinnati	200,000,000
Total	$830,000,000

The loans are fully collateralized by first mortgage loans, originated by savings institutions and held by the respective FHLBank and have been made in accordance with the Federal Home Loan Bank Act.

The FHLBank of New York loan is payable in installments of $70 million each year from 1989 through 1993. The remaining principal balance of $280 million is payable January 1, 1995. Interest on the loan accrues at .20% above the FHLBank of New York's cost of funds.

The FHLBank of Cincinnati 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 .25% above the interest cost of consolidated obligations.

Interest and principal payments on this obligation of FSLIC have been made on time in the past and the FHLBanks expect them to be made on time in the future. (See Note 14)

7. LOANS TO AND BORROWINGS FROM OTHER FEDERAL HOME LOAN BANKS

The outstanding balance of borrowings among FHLBanks was $418,000,000 and $633,000,000 at December 31, 1988 and 1987, respectively. Interest rates ranged from 10.00% to 12.15%, and 6.50% to 12.15% at December 31, 1988 and 1987, respectively, with loan maturities ranging from 1989 through 1994.

8. INVESTMENT IN AND ADVANCES TO FEDERAL HOME LOAN MORTGAGE CORPORATION

The investment in FHLMC is stated at cost and consists of 100,000 shares of $1,000 par value non-voting common stock redeemable at par by FHLMC, which represents all of the common stock outstanding. FHLMC paid a cash dividend approximating $8,735,000 in 1988, $5,837,000 in 1987 and $5,302,000 in 1986 to the FHLBanks on their investment in FHLMC common stock.

Proceeds from certain consolidated obligations have been advanced to FHLMC by the FHLBank of New York. These advances are evidenced by notes receivable from FHLMC. The following is a summary of these advances at December 31, 1988 and 1987:

	..............Bonds...........	
Years of Maturity	Weighted Average Interest Rate	Amount Outstanding
1993-1997	7.59%	$700,000,000

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 FHLMC 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 FHLMC.

9. CONSOLIDATED OBLIGATIONS

Consolidated obligations are the joint and several obligations of the FHLBanks and consist of consolidated bonds and discount notes. Consolidated bonds are issued to raise long-term funds and range from less than one year to thirty years in maturity. Consolidated bonds also include medium-term bonds and optional principal redemption bonds. The optional principal redemption bonds may be redeemed in whole or in part at the discretion of the FHLBanks on predetermined call dates. Discount notes are issued to raise short-term funds and are issued at less than their face amount and redeemed at par when they mature. The outstanding consolidated obligations of the FHLBanks including the pass-throughs to FHLMC (see Note 8) were approximately $136,967,766,000 and $116,777,804,000 at December 31, 1988 and 1987, 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 at December 31, 1988 and 1987.

The following is a summary of the FHLBanks' net consolidated obligations at December 31, 1988 and 1987 (in thousands):

	December 31, 1988	
	..................Bonds..................	
Years of Maturity	Weighted Average Interest Rates	Amount
1989	8.06%	$ 36,040,585
1990	8.61	20,956,219
1991	8.34	20,545,350
1992	9.09	10,470,500
1993	9.02	14,919,499
1994 - 1998	8.58	12,657,546
Total		115,589,699
Bond premium (Note 1)		17,104
Bond discount (Note 1)		(7,689)
Forward exchange contract		2,871
Deferred net loss from hedging transactions (Note 1)		(11,962)
Total		$115,590,023

	........Discount Notes........	
	Book Value	Par Value
Due within one year	$20,923,325	$21,440,550

December 31, 1987

Years of Maturity	..................Bonds.................. Weighted Average Interest Rates	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
Total		96,540,020
Bond premium (Note 1)		22,003
Bond discount (Note 1)		(8,188)
Forward exchange contract		(8,131)
Deferred net loss from hedging transactions (Note 1)		(11,783)
Total		$96,533,921

	.........Discount Notes.........	
	Book Value	Par Value
Due within one year	$19,849,121	$20,245,915

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 an effective interest rate 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, 1988 and 1987.

10. CREDIT AVAILABLE FROM THE U. S. TREASURY

Section 11(i) of the Federal Home Loan Bank Act authorizes the Secretary of the Treasury, in his discretion, to extend credit to the FHLBanks aggregating not more than $4,000,000,000, the terms, conditions, and interest rate to be determined by the Secretary of the Treasury. There were no outstanding borrowings from the U. S. Treasury during the two-year period ended December 31, 1988.

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, at the FHLBank's discretion, be redeemed at par value by the 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, as authorized by the individual Boards of Directors.

In 1988, 1987 and 1986, dividends were permitted only to the extent of current year's net income, after the legal reserve transfer, and the unrestricted DSR and the amortized portion of the restricted 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, which, among other things, provides for the recapitalization of 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 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 DSR balance from December 31, 1985. Capital distributions made by the FHLBanks to FICO during 1988 and 1987 were $341,500,000 and $155,500,000, respectively, and at December 31, 1988, the FHLBanks' cumulative distribution limitation was approximately $2,594,000,000.

If a FHLBank has reached its cumulative limitation, the Act provides that all other FHLBanks not at their distribution limitations, share in the capital distribution to FICO equivalent to the other FHLBanks' shortfall. FHLBanks with shortfalls are required to purchase capital stock 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 shortfalls by any FHLBanks during 1988 and 1987.

The redeemable nonvoting and nondividend-bearing capital stock of FSLIC purchased by FICO is redeemable by the year 2026 with funds accumulated in an equity return account maintained by 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 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 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 (see Note 17). Upon the earlier redemption of the capital stock of 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.

12. FINANCIAL INSTITUTIONS RETIREMENT FUND AND THRIFT PLAN

The FHLBanks participate in two multiemployer plans; the Financial Institutions Retirement Fund (FIRF) and the Financial Institutions Thrift Plan (FITP). Substantially all officers and employees of the FHLBanks 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 years ending June 30, 1988 and 1989. 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 $630,000 in 1988, $5,423,000 in 1987 and $8,185,00 in 1986. FIRF does not segregate its assets, liabilities or costs by participating employer. As a result, disclosure of the accumulated benefit obligations, 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 $5,541,000 and $3,740,000 and $3,200,000 to the FITP in 1988, 1987 and 1986, respectively.

13. COMMITMENTS

Commitments for advances to members totaled $3,097,900,000 at December 31, 1988 and $3,722,380,000 at December 31, 1987. In addition, one FHLBank has an open line of credit for advances to an institution totaling $1 billion. At December 31, 1988, the unused commitment under this line of credit was $195,000,000. Commitments generally are for periods up to one year. Outstanding standby letters of credit were approximately $2,293,081,000 at December 31, 1988. The letters of credit are fully collateralized at the time of issuance, similar to advances to members.

Net rental costs of approximately $35,061,000 in 1988, $34,127,000 in 1987 and $30,118,000 in 1986 for premises and equipment have been charged to other operating expenses. Future minimum rentals are as follows (in thousands):

	Premises	Equipment	Total
1989	$ 21,738	$ 8,260	$ 29,998
1990	21,037	4,745	25,782
1991	18,789	2,595	21,384
1992	14,945	1,327	16,272
1993	11,651	134	11,785
1994 - 2001	31,459	17	31,476
Total	$119,619	$17,078	$136,697

Lease agreements for the FHLBank premises generally provide for increases in the basic rentals resulting from increased property taxes and maintenance expenses.

Interest Rate Swaps - An interest rate swap is a contractual interest exchange agreement in which, for a predetermined period, one party agrees to make periodic fixed interest rate payments to another party in return for receiving variable interest rate payments. At December 31, 1988 the FHLBanks had outstanding interest rate swap agreements with notional principal amounts totaling $6,816,689,000 in which the FHLBanks paid the fixed rate and received the variable rate; and $15,770,324,000 in which the FHLBanks received the fixed rate and paid the variable rate. For interest rate swaps outstanding at December 31, 1988, the fixed rates to be paid by the FHLBanks are between 6.47% and 14.27% and the FHLBanks are to receive interest at fixed rates between 6.32% and 14.37%.

The variable rates to be paid by the FHLBanks are between 5.75% and 9.77% and the FHLBanks are to receive variable rates between 6.13% and 9.77%. The agreements have expiration dates between July 6, 1989 and October 10, 1994.

Net interest expense (income) on interest rate swaps was approximately $(28,247,000), $5,208,000 and $3,647,000 for the years ended December 31, 1988, 1987 and 1986, respectively, and was charged (credited) to income from investments.

14. CONTINGENCIES

As described in Note 9, each FHLBank has joint and several liability for the consolidated obligations issued by all FHLBanks. Accordingly, should one or more of the FHLBanks be unable to repay their participation in the consolidated obligations, the other FHLBanks could be called upon to repay a portion of such obligations. As described below, an uncertainty exists with respect to the ability of certain members to repay their advances to the FHLBank of Dallas and, accordingly, causes an uncertainty as to collectibility of certain assets of that FHLBank which could significantly affect its financial condition.

At December 31, 1988, the FHLBank of Dallas had outstanding advances to members of $4.9 billion that were collateralized by notes issued by FSLIC and $791 million of advances secured by cash flows from FSLIC assistance agreements. Because of the significant reliance on FSLIC obligations by certain of these members, their ability to repay their advances is uncertain and in the event of default, the ultimate collectibility of these advances will depend upon the ability of FSLIC to repay its obligations and perform under the terms of existing assistance agreements. However, because of the financial insolvency of FSLIC it is doubtful that FSLIC will be able to continue to meet all of its obligations without Congressional action to recapitalize FSLIC or otherwise provide for those obligations (see Note 17).

The amount of advances collateralized by FSLIC notes and assistance agreements exceeded the capital of the FHLBank of Dallas by approximately $4.0 billion at December 31, 1988. Because of the uncertainties involved, it is not possible to estimate the liability, if any, to any particular FHLBank or the FHLBank System as a whole that may result from the above matters. Accordingly, no provision for loss relating to this contingency has been made in the accompanying combined financial statements as of December 31, 1988.

At February 22, 1989, the FHLBank of Dallas had outstanding advances to members of approximately $6.9 billion that were collateralized by notes issued by FSLIC and approximately $1.9 billion of advances secured by cash flows from FSLIC assistance agreements. All amounts in this paragraph are unaudited.

15. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

The FHLBanks paid interest of approximately $8,141,442,000 and $6,711,655,000 for the years ended December 31, 1988 and 1987, respectively. The FHLBanks are not required to pay any income taxes.

For purposes of the statements of cash flows, the FHLBanks consider cash on hand and due from banks as cash or cash equivalents.

16. EXTRAORDINARY ITEM - EARLY RETIREMENT OF DEBT

During 1988, the Boston and Seattle FHLBanks retired $385,700,000 in the aggregate of their consolidated obligation bonds prior to their scheduled maturities resulting in a combined net gain of $4,332,000.

During 1987, the Indianapolis and Seattle FHLBanks retired $324,000,000 in the aggregate of their consolidated obligation bonds prior to their scheduled maturities resulting in a combined net loss of $10,408,000.

During 1986, the Seattle FHLBank retired $75,000,000 of its consolidated obligation bonds prior to their scheduled maturities resulting in a net loss of $15,604,000.

17. SUBSEQUENT EVENTS

On February 22, 1989, the Secretary of the Treasury submitted to the Congress the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA"), which was introduced as Senate Bill No. S. 413 and as House Bill No. HR 1278. Under FIRREA, the Bank Board would be abolished and its authority and functions, including its authority to supervise and regulate the FHLBanks, would be transferred to the Chairman of the Federal Home Loan Bank System, which System would be a bureau of the Department of the Treasury.

FIRREA provides for FSLIC to be dissolved within 60 days of enactment of FIRREA, and for its insurance function to be transferred to a newly-created thrift industry insurance fund administered by the Federal Deposit Insurance Corporation ("FDIC"). FIRREA provides that on the date of FSLIC dissolution, all FSLIC assets, debts, obligations, contracts and other liabilities (other than certain guarantee obligations which are to be transferred to the Resolution Trust Corporation) would be transferred to the FSLIC Resolution Fund ("FRF") a separate fund that is to be managed by the FDIC. FIRREA provides that, to the extent that funds available to FRF from the assets so transferred and from certain other sources specified in FIRREA are insufficient, the Secretary of the Treasury shall, subject to the availability of appropriations, provide such excess funds determined by the FDIC and the Secretary of the Treasury to be necessary for FRF purposes.

FIRREA also provides for the formation of the Resolution Funding Corporation ("REFCO"). REFCO would function as a financing vehicle similar to the Financing Corporation. REFCO would issue debt obligations in a principal amount of up to $50 billion, the proceeds of which would be used to provide funds for the resolution and disposition of insolvent thrift institutions for which a receiver or conservator is appointed within three years following the enactment of FIRREA.

FIRREA provides that, to the extent not used to purchase capital stock in the Financing Corporation (see Note 11), the FHLBanks' retained earnings as of December 31, 1988, plus up to $300 million of the increase in the retained earnings of the FHLBanks in each year thereafter through December 31, 1991 (or such later date as necessary to defease the principal amount of REFCO's debt obligations), are to be used to purchase capital stock in REFCO. In addition, in each year until all of REFCO's debt obligations have been repaid, the FHLBanks would be required to pay interest on REFCO's debt obligations in an annual amount that, unless a lesser amount is needed because funds are available from other sources, would be equal to $300 million minus any amount that the FHLBanks use in that year to purchase capital stock in either the Financing Corporation or REFCO. The FHLBanks would also be required to pay REFCO administrative expenses, including the issuance costs of REFCO debt obligations.

In addition to the foregoing, FIRREA would alter the corporate governance of the FHLBanks and make extensive changes to the regulatory system governing thrift institutions.

FIRREA may be modified by Congress and Congress may consider other proposals for the resolution of the problems of FSLIC and the thrift industry that have been, and continue to be, made. It is not possible at this time to assess the full impact that FIRREA, or any modification to FIRREA, would have on the FHLBanks.

In conjunction with the proposed FIRREA legislation, FSLIC, the Federal Reserve Banks ("FRBs") and the FHLBanks have jointly established a special interim lending arrangement (the Joint Lending Program) to meet the liquidity needs of troubled thrifts that have exhausted their access to normal liquidity sources, such as FHLBank advances, prior to enactment of FIRREA. Under the Joint Lending Program, the FRBs and FHLBanks would participate equally in the loans required by such thrifts, and FSLIC would advance 10% of such loans, up to a maximum of $700 million under a special borrowing arrangement from the U. S. Treasury. Loans made under the Joint Lending Program would be guaranteed by FSLIC and collateralized by assets held by FSLIC.

Under FIRREA, FSLIC guarantees of loans made under the Joint Lending Program would be assumed by the Resolution Trust Corporation, the entity established under FIRREA for managing the orderly resolution of insolvent thrift institutions formerly insured by FSLIC. FIRREA also contemplates the repayment of all such loans by the Resolution Trust Corporation (utilizing its resources, including funds raised by REFCO) one year following the date of enactment of FIRREA. To date, no funds have been advanced under the Joint Lending Program by any FHLBank. While it is not possible at this time to determine what loans ultimately may be made under the Joint Lending Program, it does appear likely that some funds may be advanced prior to enactment of FIRREA.

18. LITIGATION

On April 17, 1989, a member institution filed an action against the FHLBank of San Francisco alleging, among other things, illegal disclosure of confidential information and interference with business expectations. The plaintiff in this action has requested injunctive relief, compensatory damages in excess of $50,000,000 and punitive damages in an amount not less than $100,000,000. Management of the FHLBank of San Francisco believes there are substantial legal and factual defenses to the claims that have been asserted and intends to contest the action vigorously. Management of the FHLBank of San Francisco believes this litigation will not have a material adverse effect on the financial position of the FHLBank of San Francisco or the combined FHLBanks.

Federal Home Loan Bank Board Chairman M. Danny Wall (seated center) with the Bank Board executive committee (from left): James E. Boland Jr., Darrel W. Dochow (standing), Gregory D. Rothwell, Mary Creedon, S.G. Frank Haas III, Jordan Luke (standing), Stuart D. Root, and Karl T. Hoyle.

Federal Home Loan Bank Board
1989