Revitalizing America's Savings Institutions

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Federal Home Loan Bank Board:
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Revitalizing America's Savings Institutions

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Notice

Publication of the *Federal Home Loan Bank Board Journal* will cease with this issue.

Continued publication of the *Journal* is unnecessary inasmuch as the Bank System is intending to publish a new periodical that will initially be made available without charge to current subscribers of the *Journal.*

For a guide to locating statistics that have been carried in the *Journal*, see Appendix at p. 86.

Cover:
Headquarters building of the Federal Home Loan Bank Board, Washington, D.C.
Photo by Walter Smalling, Jr.

Revitalizing America's Savings Institutions

A Report of the Federal Home Loan Bank Board

Edwin J. Gray, Chairman

Washington : 1984

Federal Home Loan Bank Board

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

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

President of the Senate
Speaker of the House of Representatives

Dear Sirs:

Pursuant to Section 20 of the Federal Home Loan Bank Act, we are pleased to submit the annual report of the Federal Home Loan Bank Board for the calendar year 1983.

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

Respectfully,

Edwin J. Gray
Chairman

Donald I. Hovde
Board Member

Mary A. Grigsby

Mary A. Grigsby
Board Member

December 1984
Volume 17
Number 4

1983 Federal Home Loan Bank Board Annual Report

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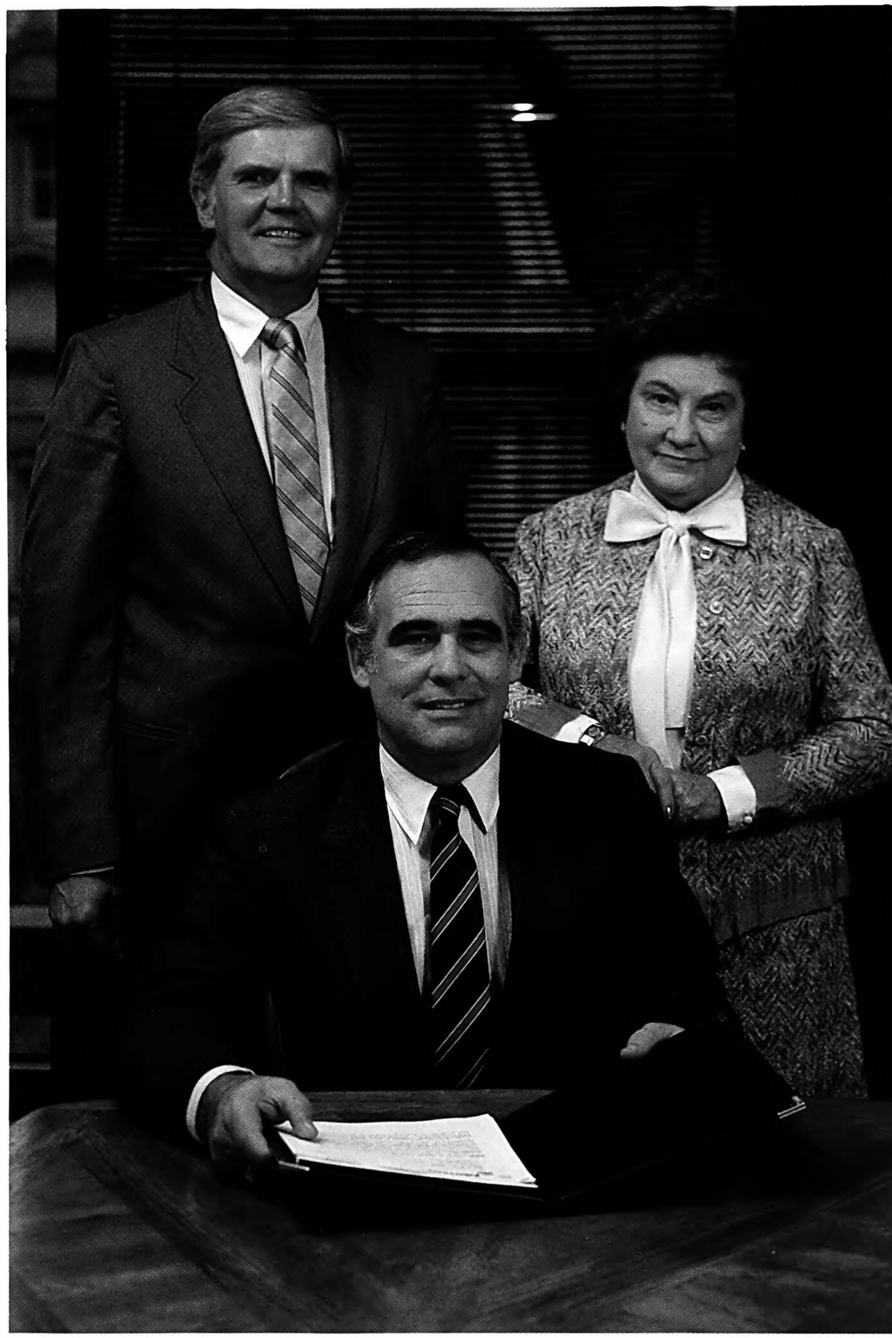


Chairman Edwin J. Gray (seated), Board Member Donald I. Hovde (left), and Board Member Mary A. Grigsby (right).

The Federal Home Loan Bank Board (FHLBB) is an independent federal agency established under the Federal Home Loan Bank Act of July 22, 1932. The Board is the federal government's regulatory agency for all federal savings and loan institutions, with authority to charter these savings and loans under the Home Owners' Loan Act of June 13, 1933.

The Board supervises the activities of the Federal Home Loan Bank System, the Federal Savings and Loan Insurance Corporation (FSLIC), and the Federal Home Loan Mortgage Corporation (Freddie Mac).

The Bank System, created by the Federal Home Loan Bank Act, is composed of 12 Federal Home Loan Banks (District Banks), which act as sources of credit to member institutions and provide a number of other ancillary services. Among the members of the Bank System are 1,553 federally chartered savings and loan associations; 1,487 state-chartered associations whose accounts are insured by the FSLIC; and other institutions, including 288 mutual savings banks and 2 life insurance companies. The nation's savings institutions industry is the major source of funds for home financing in the United States.

The Federal Home Loan Bank System is one of the nation's most powerful federal credit entities. The Federal Home Loan Banks hold assets of almost $90 billion and the member institutions of the System hold assets of about $789 billion. With a capital-to-assets ratio of nearly 10 percent, the Bank System debt is viewed by domestic and foreign investors as representing the highest possible credit standards next to the obligations of the U.S. Government itself. Within this nationwide financial system, about $5.7 billion in transactions are processed each business day. The basic purpose of the System remains what it was when Congress created it 52 years ago: to be a stable and accessible supplier of mortgage money to help house American families.

The Federal Home Loan Bank Board combines, under one regulatory body, the deposit insurance, credit supply, and regulatory functions of the Federal Home Loan Bank System.

The Federal Savings and Loan Insurance Corporation—a government agency created by the National Housing Act of 1934—insures individual accounts in FSLIC-insured institutions up to a maximum of $100,000. The FSLIC now protects $1,629.0 billion in funds in approximately 102.8 million savings accounts.

The Members of the Board serve as the Board of Directors of the Freddie Mac, which was established under the Emergency Home Finance Act of 1970 to operate a secondary market in conventional home mortgages.

The FHLBB is headed by a bipartisan Board of three Members who are appointed by the President and who must be confirmed by the U.S. Senate to serve full or unexpired portions of four-year terms. Present Board Members are Edwin J. Gray (Republican), Chairman of the Board; Donald I. Hovde (Republican), Board Member; and Mary A. Grigsby (Democrat), Board Member.

Mr. Gray was designated by President Ronald Reagan as Chairman of the Federal Home Loan Bank Board on May 1, 1983. Originally, Mr. Gray was nominated by President Reagan on February 17, 1983, as a Member of the Board and took office on March 24, 1983, to complete the remainder of a term expiring June 10, 1983. He was renominated to a new term of four years, which expires June 30, 1987.

Mr. Hovde was nominated on May 9, 1983, by President Reagan to be a Member of the Board. He was confirmed by the U.S. Senate on June 10, 1983, and was sworn in on June 13, 1983, to complete the remainder of a term expiring June 30, 1985.

Mrs. Grigsby was nominated by President Reagan on November 15, 1983, as a Member of the Board to serve a term expiring June 30, 1986. She was confirmed by the U.S. Senate on February 3, 1984, and was sworn in on February 14.

The Board's operating costs are borne entirely by the savings institutions industry through assessments made on the District Banks and the FSLIC, and through fees charged to institutions that are examined by the FSLIC. Thus, although the Board must restrict its expenditures to limits set by Congress each year, the Board receives no tax money and is self-supporting.

Office of the Chairman

It is with great honor and pleasure that I submit the Federal Home Loan Bank Board 1983 Annual Report to Congress.

In reviewing the challenges the savings institutions industry faced in 1983 and the progress made by the Federal Home Loan Bank Board, it is important to begin with the fundamental and historic mission of the industry: during the last half century, the savings institutions industry in America has been the single most important private sector force in the land for making us a nation of homeowners.

The first words of the landmark financial institutions deregulation law, the Garn-St Germain Act, in the preamble of the bill, reaffirm the intent of Congress:

> "An Act to revitalize the housing industry, by strengthening the financial stability of home mortgage lending institutions."

This point is critical to what a savings institution is today because others have argued that the Garn-St Germain Act, in effect, transformed savings institutions into commercial banks. This rationale undermines the entire regulatory apparatus of the Federal Home Loan Bank Board, the Federal Home Loan Bank System, and the Federal Savings and Loan Insurance Corporation.

In a decision of great significance in December 1983, the Vice President's Task Group on Regulation of Financial Services concurred, without a single dissenting vote, that savings institutions are unique and different from commercial banks and that they ought to be governed under a separate and distinct regulatory structure.

With that historic action as a backdrop, I will review the individual challenges and progress of 1983.

The overall health of the savings institutions industry improved slightly last year, primarily because of sharply lower market interest rates. However, savings institutions remain in a fragile condition and face a long and arduous road to recovery. The threat of future interest rate swings is a very real concern hanging over the industry. Survival is by no means assured.

The difficult and fragile transition that savings institutions now face has profound implications for the FSLIC fund. The fund is already under enormous stress due to the thrift earnings crisis of the 1980-1982 period. Absent strong remedial action, we foresee additional strains resulting from asset problems related to deregulation and unlimited access to brokered money.

The challenge of interest rate risk still looms large and the need to bring asset and liability maturities of savings institutions into closer convergence is as pressing as ever. But important progress on this front was made in 1983.

The most important action in this regard was the effort of this Board last year to emphasize the role of the adjustable rate mortgage (ARM) as the only real antidote to the deadly financial arsenic represented by the long-term, fixed-rate mortgage. When I assumed chairmanship of this Board in May 1983, two fixed-rate mortgages were being originated for every ARM loan made. In fact, the percentage of ARMs being made by savings institutions had dipped to 26 percent at that time. By last fall, a dramatic reversal occurred as the number of ARMs originated by savings institutions skyrocketed to nearly 60 percent. In my view, the shift to ARMs by lenders played a key role in helping the industry register a record mortgage lending volume of $138 billion last year.

At the same time, this Board continued to follow up on its commitment to assist savings institutions in their struggle against interest rate risk.

The use of the collateralized mortgage obligation (CMO), which was introduced under direction of the Board by the Federal Home Loan Mortgage Corporation (Freddie Mac) in 1983, has been particularly successful. This instrument enables savings institutions to sell off long-term assets and exchange them for a short-term bond backed by the same mortgages, allowing thrifts to use cash to make additional mortgages. In addition, Freddie Mac now is offering a *discount* CMO that is strictly limited to underwater mortgages. The Board estimates that about 45 percent of the industry's portfolios fall in that range.

As a result of another important program we initiated through the 12 Federal Home Loan District Banks, interest rate swaps are now available to the thrift industry on a wide-scale basis. Interest rate swaps are important because, in effect, they enable an institution to lengthen its maturities, thereby establishing a better match with its assets. Prior to this time, only a few institutions were able to use swaps because they require special expertise and a certain volume of transactions. With the assistance of the District Banks, those obstacles are now being overcome.

A sign that institutions are looking for ways to restructure and survive is their successful efforts to attract new capital. In 1983, 81 institutions converted to stock form, bringing $2.7 billion of badly needed capital into the industry. This one-year record exceeds the total number of conversions from all previous years. It also shows the confidence that investors have in the future of the savings institutions industry.

With deregulation has come great opportunity for thrift institutions to be successful. But for some institutions, there have been a number of growing problems. From a safety and soundness point of view, the Board is very concerned about the heavy focus on rapid deposit and asset growth by too many savings institutions today. These developments pose a serious threat to the future health of the savings institutions industry.

I believe that unchecked deposit growth through third-party money brokerages is predicated on what is, in effect, an open-ended government guarantee that was originally intended for depository institutions to benefit the small saver. The Board is not against third-party brokerage activities as such, but only as they constitute an abuse of the federal deposit insurance system. Until the advent of the new wave of money brokers, which coincided with the authority granted by Congress to depository institutions to offer money market deposit accounts, the sort of problem cases the FSLIC normally encountered derived from earnings spread difficulties. Those were serious problems, but they were solvable. However, as the use of third-party money brokers has proliferated, the nature of the toughest cases we face has now changed to investments in bad assets.

Growth-for-growth's sake on the asset side of the savings institutions' balance sheet gives serious reason for concern; there is virtually no correlation between such growth and even regulatory net worth levels at far too many FSLIC-insured institutions. As a fundamental principle, I believe savings institutions must earn their growth in the form of adequate net worth in order to support such growth.

In a similar and equally troubling vein, asset diversification beyond the options provided for in the Garn-St Germain Act create tremendous pressures on the FSLIC fund. When financing or investing in windmill farms, fast food restaurants, airlines, oil drilling operations, and a myriad of other novel and risky endeavors for thrifts begin to undermine, as we are seeing today, the very finite resources of the insurance fund, the industry as a whole is shaken. We at the Board have no problem with any asset diversification authorities a state may wish to establish—*if* such states are willing to underwrite the risk of those institutions' activities. However, I see no meaningful evidence that such states are willing to take on the insurance responsibility themselves.

Dealing effectively with important issues, which include the large number of low-rate mortgages still on the books, the low levels of capital in many institutions, and alarming signs of severe asset quality and explosive growth problems in a larger number of institutions, is the Board's most urgent task for 1984.

In conclusion, I would like to reaffirm my goal as Chairman of the Federal Home Loan Bank Board: to work aggressively and untiringly on behalf of a strong and sound system of housing finance in this country. This industry operates quite differently from the way the old did—it must operate differently to survive within a new economic environment. Nevertheless, I have every reason to believe that the new savings institutions industry will continue to fulfill successfully its role as the major source of housing finance for the country.

Edwin J. Gray
Chairman
Federal Home Loan Bank Board

Washington, D.C.
October 1984

Part I

Policymaking, Regulatory, and Legislative Developments

To achieve greater latitude in responding to rapidly changing economic conditions, the thrift industry benefited in 1983 from provisions of the Garn-St Germain Depository Institutions Act of 1982. The legislation gave federally insured thrifts new lending authority to help them generate additional income, market-rate deposit tools to facilitate access to consumer funds, and net worth certificates providing short-term aid to ailing associations. The Federal Home Loan Bank Board in 1983 gave advice to Congress in the drafting of further legislative proposals, now pending, designed to reform current regulatory structures for banks and thrifts.

Complementing the greater flexibility allowed by the Garn-St Germain Act, the Board took other action to strengthen the financial stability of home-mortgage institutions. To increase the thrift industry's net worth while protecting the FSLIC fund from further risk, the Board continued to promote adoption of its mutual-to-stock conversion program as a way to attract new capital and restructure portfolios. Some 35 savings and loan associations converted to stock form in 1983. The Board also directed the Federal Home Loan Mortgage Corporation (Freddie Mac) to develop adjustable-rate mortgage purchase programs that will appeal to consumers and provide thrifts with more interest-sensitive assets.

In its regulatory activities, the Board worked to improve thrift operations by requiring FSLIC-insured institutions to initiate interest-rate-risk management policies and defining more targeted policies for new insurance applicants. It also expanded and updated policies for industry restructuring, accounting, and oversight activities.

Federal Savings and Loan Insurance Corporation (FSLIC). Faced with new challenges imposed by increased industry deregulation, FSLIC's activities increased in volume and complexity in 1983. Although the number of cases resolved by FSLIC decreased from 77 to 53, the total assets of associations involved in the caseload remained high—$17.6 billion. The Corporation settled insurance in six associations, generating $5.75 million in income by transferring deposit accounts to institutions willing to pay a premium for them.

In expanding its efforts to prevent defaults, FSLIC has used income capital certificates, and improved programs to negotiate cost-saving interstate and interindustry mergers. Further savings were achieved through greater use of automation in the management of assets and financial assistance agreements. The Corporation also organized the Operations and Marketing Division to administer FSLIC subsidiaries, and redirected the investment fund to be more responsive to current demands and interest rates.

Office of Examinations and Supervision (OES). Charged with overseeing all FSLIC-insured institutions, OES instituted a system of automated technology to centralize its activities in Washington rather than relying on periodic financial reports from field personnel. Through a new "quarterly reporting" mechanism, OES has developed a computer-assisted financial viability analysis to detect individual institutions' financial problems in time to take preventive measures. Four of the 12 district examination offices had the system in place by year's end, with full implementation expected in 1984.

Although the number of FSLIC-insured institutions declined in 1983 because of mergers, the financial instability of many of them generated an increased workload for examiners. The training course for OES examiners was expanded, and the office's state training program attracted participation in 22 states.

The office revamped its regulatory policy and accounting procedures to conform to provisions of the Garn-St Germain Act, new reporting requirements, and other guidelines. OES supervised a pilot program to collect maturity and yield data for financial assets and liabilities, published a task force report on current value accounting, and completed revisions to the Board's regulations regarding stock conversions. The office handled 341 conversion filings in 1983.

Office of the General Counsel (OGC). The Board's legal office, charged with determining legal bases for securing mortgage credit for thrifts in home financing, provided advice to lawmakers in revising statutes affecting the governing powers of banks and savings institutions. It developed positions on the thrifts' use of brokered deposits and their access to full checking account authority, and on federal resumption of state due-on-sale laws. The office completed drafting regulations on new asset powers emanating from passage of the Garn-St Germain Act, as well as regulations on conflicts of interest and insurance eligibility of *de novo* institutions. OGC also tendered advice to the Vice President's Task Group on Regulation of Financial Services.

The substantial increase in industry capital more than tripled the number of mutual-to-stock conversions processed by OGC in 1983, generating $2.7 billion in new capital, while securities law filings rose to 3,300. In its investigatory capacity, the office completed 17 formal and 15 informal probes of insured institutions. Lawsuits were filed against a number of present and former officers accused of negligence or wrongdoing. The legal office continued to handle litigation on Board personnel, contract, and labor issues, and to oversee compliance with the Freedom of Information Act and the Government in the Sunshine Act. In protecting the stability of defaulting thrift institutions, the office's FSLIC divisions effected solutions for 46 firms with $17 billion in assets.

Office of Policy and Economic Research (OPER). The reduction in market rates early in 1983 was cited by OPER as the chief factor in the return to profitability experienced by the thrift industry, although economic recovery of the industry as a whole is by no means complete. Other factors included the continuing deregulation of deposits by the Depository Institutions Deregulation Committee and by provisions of the Garn-St Germain Act. Member thrift institutions saw net after-tax income of some $2 billion after losses of more than $4 billion in each of the previous two years. FSLIC-insured institutions registered a net deposit gain of $110.2 billion, tripling the comparable 1982 figure, and over-the-counter flow set a new record.

Mortgage loan repayments and cash loan repayments rose sharply, while borrowing by thrift institutions increased only slightly. Mortgage loans by thrifts in 1983 totaled $138.2 billion, a new record attributable to further declines in mortgage interest rates. Thrifts boosted their cash and investment securities holdings by $25.2 billion, another record, and the FSLIC-insured firms took 48 percent of net residential mortgage debt formation. Overall, the regulatory net worth of the institutions rose by $7.2 billion after two years of decline. Because of improved conditions, there were far fewer mergers—159—than in 1982.

As the Board's chief analyst and economic adviser, OPER continued to expand its resources for monitoring these developments and recommending policy to continue the recovery of the savings institutions industry. The office is the Board's representative on the Depository Institutions Deregulation Committee and helped develop the new quarterly financial data reports.

Office of District Banks. As chief liaison between the Board and the 12 District Banks, the office engineered a number of moves to promote home financing by the System. These included implementation of loan authority under the Garn-St Germain Act, employing hedging techniques to reduce the District Banks' interest rate risk, and revising regulations by which District Banks offer maturities. The office helped initiate the issuance of standby letters of credit by the Banks and authorization to engage in interest rate swaps with the 12 District Banks. Under liberalized provisions of the Garn-St Germain Act, the office assumed added responsibility for applications for permission to organize new federal institutions.

Office of Congressional Relations (OCR). As chief liaison between the Board and Congress, OCR tracked legislative developments and made arrangements for informed Capitol Hill testimony by Board officials on current and pending legislation affecting the health of the thrift industry.

Federal Savings and Loan Insurance Corporation

by Peter O. Stearns, Director

The year 1983 was one of challenge for the Federal Savings and Loan Insurance Corporation (FSLIC). Cases requiring FSLIC intervention were larger and more complex than any in the Corporation's history. New types of problems emerged as the industry operated in an increasingly deregulated environment. FSLIC met these challenges by developing new strategies and streamlining its operations. Total assets of the FSLIC grew to $8.3 billion (see Chart 1) and the Corporation reported net income of $47 million, although the backlog of unresolved cases continued to grow.

From 1934 to 1979 the FSLIC provided assistance in only 124 cases, 13 of which were severe enough to close the association and make insurance payments to insured depositors. During 1980 and 1981, the FSLIC gave assistance in 42 cases, and in one case settled insurance through a cash payout. The FSLIC resolved 77 cases in 1982.

Although economic conditions improved for the industry in 1983, the FSLIC resolved 53 cases in 1983. Total assets of the associations involved in these cases averaged $333 million. For all cases prior to 1983, this average was $193 million. Charts 2 and 3 present the cumulative number of assets of FSLIC assistance cases over the past 50 years.

Although 1983 saw a decrease in the number of cases resolved, the volume of assets remained high while the complexities of new problem cases increased significantly. The most important change was a major shift in the types of problems affecting associations. The majority of cases in 1980-1982 were primarily the result of losses due to spread problems. During the first quarter of 1983, however, these problems began to ease as a general reduction in the interest rate levels was reflected in earnings statements. At this time, serious asset quality problems began to emerge in the FSLIC caseload, partially as a result of deregulation of the industry. Chart 4 illustrates this change.

Chart 1.— Total Assets of FSLIC 1934 to 1983

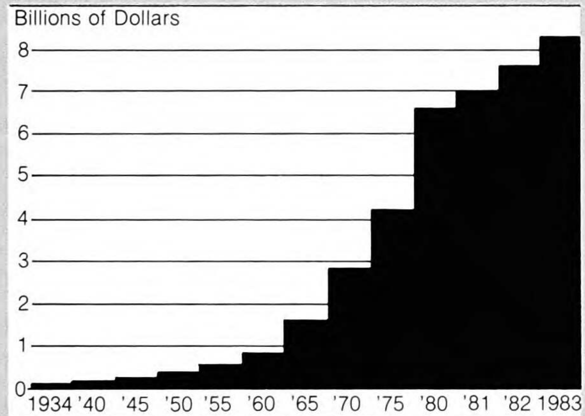


Chart 3.— Cumulative Total Assets of FSLIC-Assisted Cases

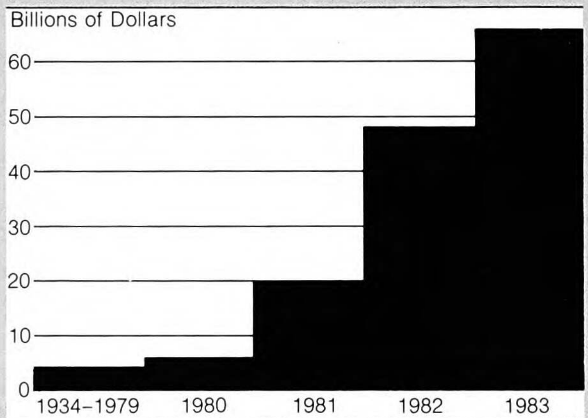


Chart 2.— Cumulative Number of FSLIC-Assisted Cases

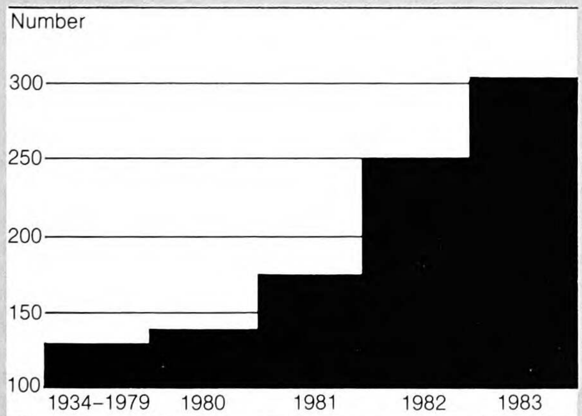


Chart 4.— Additions of New Cases to FSLIC Caseload

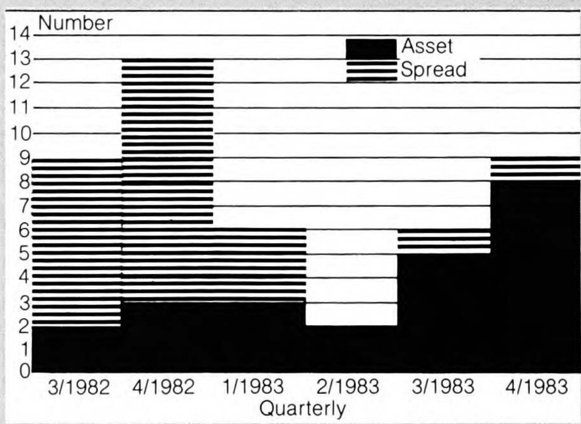


Chart 5.—
Relative Assistance Costs
Various Types of Solutions
January 1981 to December 1983

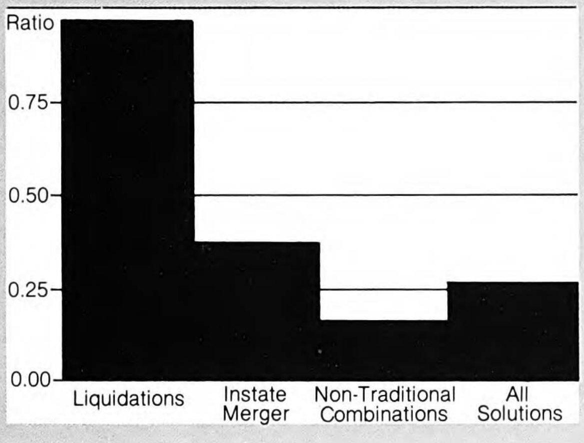
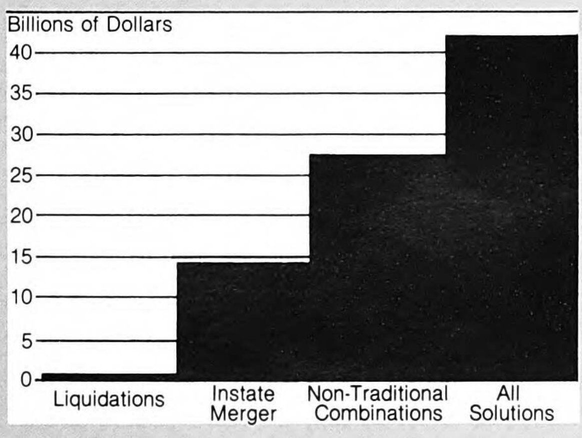


Chart 6.—
Assets by Type of Solution
January 1981 to December 1983



Since 1981, the cost effectiveness of FSLIC transactions has improved dramatically. Traditionally, the FSLIC used three primary default prevention techniques: the purchase of problem assets; assisted mergers; and contributions. By 1981 it was apparent that the adequacy of the FSLIC's reserves could not be maintained with these techniques. In order to resolve the problems and maintain the insurance fund, the FSLIC introduced new alternatives to its default prevention techniques such as: mergers, use of income capital certificates, and the ability to negotiate interstate and interindustry mergers. In 1983, the most significant cost savings to the Corporation were through interstate and interindustry acquisitions.

The first FSLIC-assisted interstate transaction occurred in September 1981. Since that time, 23 FSLIC-assisted interstate transactions have been accomplished, involving 16 different host states and the District of Columbia. During the same period, three interindustry transactions also were consummated. Chart 5 demonstrates the relative assistance costs of these two alternatives as compared with the other solutions used by the FSLIC. Chart 6 presents the assets of the associations by types of solutions. The savings generated by these alternatives have been essential to the success of the FSLIC in fulfilling its congressional mandate.

Competition in the bidding process is greatly increased in interstate and interindustry transactions. Attracted by opportunities for geographic expansion or the creation of new lines of business, bidders request far less assistance. Chart 5 shows the dramatic reduction in the assistance costs achieved with these approaches.

In addition to the savings generated by the mix of alternatives used for resolving problem cases, the FSLIC also made major gains in reducing the cost of administering its programs.

Major accomplishments of the FSLIC in 1983 were:

1. Resolution of 53 cases involving $17.6 billion in total assets;
2. Decentralization and improvement of FSLIC computer analysis techniques;
3. Settlement of insurance in six associations through the transfer of insured accounts, resulting in $5.75 million in premiums to the FSLIC paid by acquiring associations;
4. Streamlining of asset management activities;
5. Organization of the Operations and Marketing Division to manage FSLIC-controlled subsidiaries and mergers;
6. Streamlining the management of financial assistance agreements; and
7. Redeployment of the investment fund to minimize exposure to interest rate increases and to maximize its value in times of greatest demand.

Resolution of Problem Cases

The number of transactions and the volume of assets handled by the FSLIC in default prevention activities continued at record levels during 1983: 53 cases involving $17.6 billion in total assets. Chart 7 presents a three-month moving average of the number of associations requiring FSLIC assistance during 1983. These cases constituted almost 37 percent of all assets ever resolved with FSLIC assistance.

These transactions represented an estimated savings of $2.4 billion over the cost of liquidation, and $1.4 billion over solution ratios achieved prior to 1981. The alternatives now used by the FSLIC have averaged savings of more than 75 percent of the estimated present value costs of liquidation, which represents three times the level of savings prior to 1981 (see Chart 8).

Decentralization and Improvement of FSLIC Computer Analysis Techniques

During 1983, the FSLIC financial forecasting models were released to the 12 District Banks. The Analysis and Evaluation Division staff conducted seminars in each district on the methodology for performing analysis of problem institutions, including analysis of a supervisory conversion, viability, and liquidation.

The FSLIC's existing viability model was recently converted into a user friendly language—interactive financial planning system (IFPS)—to facilitate the ongoing modifications necessary to keep pace with changes in the industry. FSLIC began developing a new financial model written in IFPS based on the upcoming changes in the quarterly report. The additional information available from the quarterly report will allow more individualized and, therefore, more accurate analysis of savings institutions. Furthermore, alternative interest rate scenarios and support solutions will be analyzed almost simultaneously while providing a complete statistical analysis of the results. The new model will have direct access to the Board data base and will conduct many of the calculations that analysts presently perform manually.

The FSLIC is planning to implement the IFPS viability model on personal computers in the early part of 1984. This version of the viability model will be available to analysts in the District Banks. This will further the process of decentralizing the initial analysis of problem institutions without increasing the burden to the Board's existing computer facility.

Chart 7.—
Number of Associations
Resolved Requiring FSLIC Assistance
3 Month Moving Average

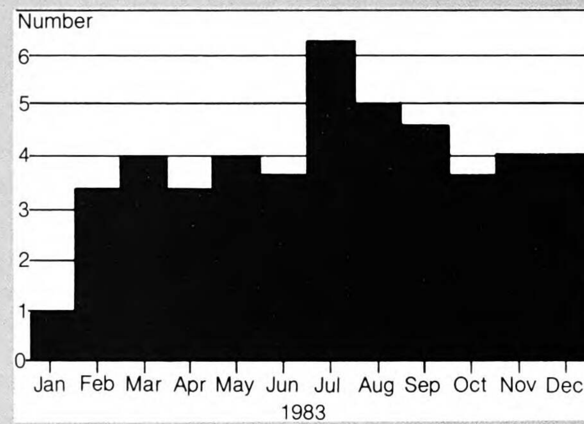
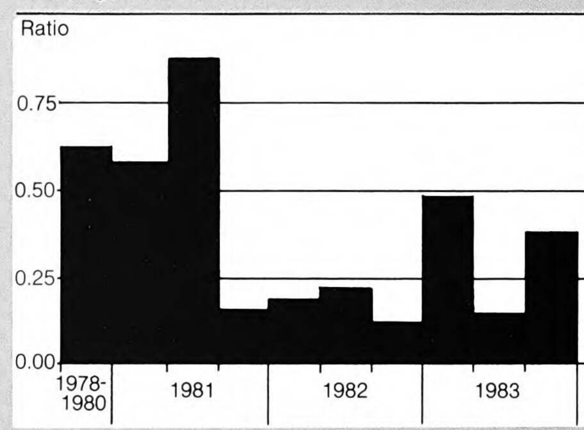


Chart 8.—
Present Value Expenditures
Relative to Estimated Liquidation Costs
Problem Case Solutions
January 1978 to December 1983



Insurance Settlement Through Transfer of Insured Accounts

When all other solutions for assisting a troubled institution have been exhausted, the FSLIC must settle insurance. In 1983, six institutions—one-third of all insurance settlement cases in the Corporation's history—required the appointment of the FSLIC as receiver for the purposes of liquidation due to the deteriorated state of their financial conditions or the lack of available resolution options (see Table 1).

The Insurance Division improved and streamlined the transfer of accounts approach first used in 1982 in these cases. Savings deposits of more than $295 million, representing 32,000 insured accounts, in the six associations were immediately transferred to other FSLIC-insured institutions. The transfer of insured accounts in this manner allowed insured depositors access to their accounts with minimum disruption and also enabled the FSLIC to obtain a premium from the institution assuming liability for the accounts. During 1983, FSLIC obtained premiums of nearly $6 million on the transfer of accounts.

Streamlining of Asset Management Activities

During 1983, FSLIC acquired assets totaling $15.9 million and liquidated $414.3 million, a net reduction of $398.4 million. The breakdown of assets under FSLIC management is shown in Table 2.

The cash receipts from these assets exceeded $552 million and net income exceeded $162 million. A cash distribution in the amount of $35.6 million was paid to creditors by the Economy Savings and Loan Association receivership—the first major liquidating dividend in 12 years.

During 1983 the management of assets was streamlined and decentralized to provide flexibility in dealing with the record 15 new receiverships occurring during the year. By year-end, assets in receivership managed by the FSLIC totaled $397 million, an increase of 74 percent over the prior year.

Table 1.—FSLIC Liquidation Cases, 1983

Liquidated Association	Total Savings (millions)	Date
Valley First FS&LA, El Centro, California	$ 32.6	01-14-83
Manning S&LA, Chicago, Illinois	$117.9	02-03-83
Antioch S&LA, Antioch, Illinois	$ 53.0	07-08-83
Cleveland Community Savings Company, Cleveland, Ohio	$ 30.1	10-28-83
State S&LA, Clovis, New Mexico	$ 44.5	11-04-83
Metro FS&LA, Lake Charles, Louisiana	$ 17.2	12-02-83
	$295.3	

Table 2.—FSLIC-Managed Assets, 1982-1983

	Assets Managed (millions) 12/31/83	Assets Managed (millions) 12/31/82
Loans and contracts (net)	$ 271.3	$ 306.3
Real estate	$ 6.8	$ 2.5
GNMAs and Freddie Mac participation certificates	$ 777.6	$1,110.9
Other investments/assets	$ 9.8	$ 35.0
Service corporations	$ 15.1	$ 24.3
Total	$1,080.6	$1,479.0

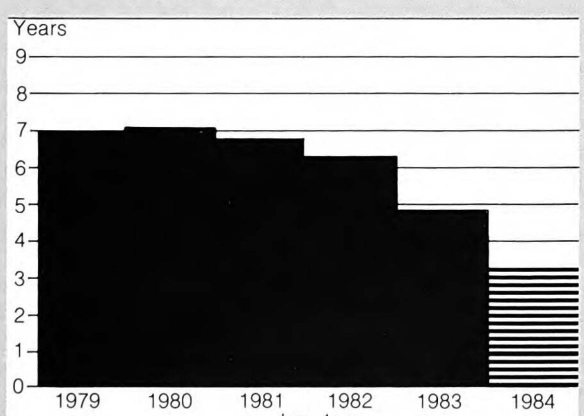
Organization of the Operations and Marketing Division

The Operations and Marketing Division (OMD) was established in August 1983 to manage FSLIC-controlled subsidiaries and mergers. The division was assigned responsibility for supervision of five very large and troubled insured institutions temporarily controlled by the FSLIC. OMD assisted these troubled institutions, totaling $18 billion in assets, in achieving recovery or finding other satisfactory solutions. The major accomplishments were:

1. Board approval of a recapitalization plan for First Federal Savings Bank (FFSB) of Puerto Rico, with a direct FSLIC guarantee of up to $200 million in the association's subordinated notes and a plan under which FFSB will repay $35 million in income capital certificates by 1989; and
2. A full field analysis of the assets held by First Savings Corporation, a subsidiary of First Federal of Chicago, comprising approximately 90 real estate joint ventures in seven states, valued at more than $200 million. In the acquisition of First Federal by a subsidiary of Citicorp, this detailed onsite study was critical in evaluating alternatives to obtain the least costly solution for the FSLIC and in negotiating and implementing the assistance agreement.

In addition, OMD has formulated new policies and procedures for the more effective management and investment of cash funds acquired in receiverships, which should result in significant savings to the FSLIC. OMD has also developed more effective marketing techniques for liquidating large segments of real property acquired through receiverships.

**Chart 9.—
Average Maturity of
FSLIC Securities Portfolio**



Streamlining the Management of Financial Assistance Agreements

During 1983, the Financial Assistance Division (FAD) took on 32 new assistance cases involving 45 disappearing associations with more than $12.2 billion in assets. The continued growth in the number of assistance cases challenged FAD to maintain its effectiveness. The information needs associated with the administration of these financial assistance agreements increased rapidly. The division faced this challenge by automating its accounting system to more effectively process the greatly expanded volume of transactions.

As a result of their wider availability and lower cost, micro-computers were acquired for use in increasing the accuracy and efficiency of performing complex financial analysis, accounting transactions, and data processing. FAD also developed a cash-flow model on the micro-computer which projects yield assistance commitments and is based on current interest rate forecasts.

The division also continued to focus on identifying agreements which could be re-negotiated or terminated early. This reduced FSLIC's contingent liabilities and caseload. For example, one such agreement was re-negotiated to remove the interest sensitive features. This change capped the risk exposure for the FSLIC and lowered the costs of the agreement, potentially saving the FSLIC millions of dollars.

Redeployment of the Investment Portfolio

The FSLIC achieved unprecedented success in the shortening of maturities within the investment portfolio in 1983 (Chart 9). This strategy places the investment portfolio in a countercyclical position to that of the thrift industry. Simply stated, the interest income generated by the fund will move in greater correlation to the interest rate environment, which will supply the FSLIC with additional resources in time of greater demand.

Outlook for 1984

Even though the caseload of the FSLIC remains at near record levels, the Corporation continues to be strong. In anticipation of additional cases, especially those involving institutions unable to cope with the changing deregulated environment, the FSLIC will continue to develop new techniques to deal with increasing asset quality problems.

Receivership Addendum to Annual Report

Receivership Activities

The FSLIC, in operation of liquidating receiverships, is responsible in the management and sale of assets of the closed association for the best obtainable price within a reasonable period of time. This provides rapid cash return to the creditors, and FSLIC as subrogee to the insured accounts. A summary of all operating receivership cases follows:

Economy Savings and Loan Association, Chicago, Illinois

Assets (millions)		
12/31/83	Acquisition 12/31/82	Change
$13.4	$55.2	($41.8)

The FSLIC, as receiver, sold the major portion of the loan portfolio of some $36 million of Economy Savings and reduced other assets by $6 million. This enabled Economy to pay creditors a liquidating dividend of $35.6 million.

North Kansas Savings Association, Beloit, Kansas

Assets (millions)		
12/31/83	Acquisition 12/31/82	Change
$35.1	$35.0	$0.1

Major litigation of problem loans has impeded the FSLIC, as receiver, in its liquidation efforts and has delayed conversion of assets to cash. Cash flow primarily has been used in payment of FHLBank advances at the current rate of $70,000 per month.

Valley First Federal Savings and Loan Association, El Centro, California

Assets (millions)		
12/31/83	Acquisition 01/14/83	Change
$33.4	$39.6	($6.2)

The FSLIC, receiver for Valley First, liquidated participations at a $1 million profit and repaid all FHLBank advances outstanding ($7 million). This has freed its loan portfolio of $16.0 million from collateralization and made the portfolio available for sale during 1984.

Manning Savings and Loan Association, Chicago, Illinois

Assets (millions)		
12/31/83	Acquisition 02/03/83	Change
$132.1	$132.1	$0.1

Major litigation is affecting the liquidation of assets by FSLIC as receiver. A strong cash position, however, has been attained and an early partial liquidating dividend is planned for 1984 in the approximate amount of $34.0 million.

Antioch Savings and Loan Association, Antioch, Illinois

Assets (millions)		
12/31/83	Acquisition 07/08/83	Change
$54.2	$60.3	($6.1)

Immediate liquidation efforts of FSLIC, as receiver, produced cash revenues that have permitted repayment of $6.6 million in FHLBank advances. A small part of the $36.0 million loan portfolio still collateralizes a remaining advance of $1.0 million which carries a prepayment penalty provision. The receiver will be offering the loan portfolio for sale early in 1984 to provide cash for a liquidation distribution to creditors.

Cleveland Community Savings Company, Cleveland, Ohio

Assets (millions)		
12/31/83	Acquisition 10/28/83	Change
$32.0	$32.8	($0.8)

The FSLIC was appointed receiver in the latter part of 1983 and has been evaluating the assets in preparation for marketing them in 1984. A significant portion of the assets of Cleveland Community is of questionable value. At this time, amounts to be realized through liquidation are materially affected. It is anticipated, however, that the viable portion of the loan portfolio will be marketed in the first half of 1984.

State Savings and Loan Association, Clovis, New Mexico

Assets (millions)		
12/31/83	Acquisition 11/03/83	Change
$44.6	$45.2	($0.6)

Major litigation efforts by the FSLIC, as receiver, have been instituted to recover funds for the benefit of the receivership. The loan portfolio of State Savings will be marketed in 1984 to produce an estimated $7.0 million cash, which will be available for distribution to creditors.

Metro Federal Savings and Loan Association of Lake Charles, Louisiana

Assets (millions)		
12/31/83	Acquisition 12/02/83	Change
$25.7	$28.9	($3.2)

Metro Federal was placed in receivership in December 1983. The FSLIC, as receiver, is currently analyzing the assets to establish a liquidation plan to be effected in 1984. The major portion of the loan portfolio appears marketable, although cash recovery may be affected due to the change of required market yields.

Office of Examinations and Supervision

by William J. Schilling, Director

The Office of Examinations and Supervision (OES) has the responsibility for examining and supervising all institutions chartered by the Federal Home Loan Bank Board or insured by the Federal Savings and Loan Insurance Corporation (FSLIC) on behalf of the Board and the Federal Home Loan Banks (District Banks). Through examinations and computer-assisted surveillance of institutional financial data, OES field examiners and supervisory staff in Washington are responsible for determining the financial safety and soundness of insured institutions and, particularly, for identifying those institutions representing increased risk to the assets of the FSLIC. Additionally, examiners have responsibility for reviewing compliance of insured institutions with applicable federal law and Board regulations. Finally, OES staff, in conjunction with staff from other Board offices, the District Banks, and state regulatory departments, participates in determining and carrying out corrective supervisory actions as required in the cases of individual institutions.

The year 1983 was one of evolutionary change for OES. The Board saw the need to strengthen the role of the Washington staff of OES as advisers to the Board and as implementors of Board policy. In addition, the Board refocused OES field efforts from the traditional role of periodic financial examination and supervision. Taking its place was a restructured examination process using modern data processing as a principal tool to achieve a reduction of onsite examinations, while developing meaningful data controls that would signal early supervisory or operational problems within an institution. Concurrently, examiner training will become more sophisticated to allow examiners to become proficient in the analysis of an institution's business planning process, to be able to review an increasingly complex array of business activities, and to analyze the extent of director participation in the operating plan.

Computer-Assisted Financial Viability Analysis

Traditionally, the concerns of the examiner and supervisor have focused on the areas of asset quality and regulatory compliance. These were appropriate areas of concern when the industry was closely regulated and protected from competition on the liability side of the balance sheet. As recent experience has proven, new economic forces have created a new area of major concern—the sensitivity of asset-liability duration mismatches to changes in short-term interest rates. During the past several years, many institutions with little or no asset quality problems and a history of regulatory compliance experienced severe financial reverses, as a result of funding fixed-rate, long-term loans with what were essentially demand deposits.

With this experience in mind and with the advent of a new quarterly financial reporting system to replace the monthly and semiannual reports previously used to gather necessary financial information from the industry, OES contracted with a private firm to determine the optimum extent to which data from the quarterly reports could be used as a means of appraising the financial condition of individual institutions. The premise underlying this study was that an individual institution's financial viability can be assessed or evaluated by means of a thoughtfully targeted, computer-assisted analysis of its operating and financial performance. Through greater use of technology and more focused use of examiners, this process will also allow OES to identify deteriorating financial positions early enough to institute appropriate remedial action in conjunction with district supervision. By identifying specific areas of concern, the new system will enable OES to react promptly to potential and emerging problems. Of equal importance is the ability to monitor and chart an institution's progress in restructuring its balance sheet and operating policies and practices. This study has resulted in the design of various financial analyses, which will be computer-generated from the quarterly reports and will serve as an excellent foundation for the new examination approach.

As an institution proceeds on its restructuring program, the new system will allow OES to monitor its activities and arrive at decisions as to whether progress is satisfactory. This type of ongoing review and analysis will quickly identify specific areas that require special attention. Thus, OES will be able to schedule onsite examinations when and where they are needed and structure the scope so that the time, energy, and talent of the examiners can be devoted to relevant matters.

Although the new computer-assisted examination process will permit OES to track an institution's financial condition more effectively, it was not intended to permit examiners to review the quality of an institution's loans. That has to be done onsite at the institution by both examiners and qualified Board appraisers.

As of the end of 1983, four of OES' 12 district examination offices had developed and implemented test versions of the new examination approach. OES anticipates that all 12 offices will have implemented the new approach by mid-1984.

OES has already made considerable progress in modernizing its operations by adopting new technology over the past several years. In 1980, for example, examiners had to use hard copy financial reports received monthly and semiannually from an association to analyze an institution's financial condition. Examination reports were manually typewritten or typed on antiquated word processing equipment. In Washington, histories of association examinations were kept in a manual card file and little management information was available on the field examination process.

Today, on the other hand, examiners have available, through remote terminals, five years of monthly and semiannual financial data on all institutions, along with programs to screen and manipulate these data. Examination reports are now typed on high-speed word processing equipment and can be transmitted electronically in an instant to any examination office in the country. Field offices and OES Washington staff have detailed files available on-line on all supervisory examinations for the past five years, as well as programs that prepare management reports on examination cycles and processing.

Enhancing Headquarters Staff Structure

In keeping with the Board's overall goal of decentralization of supervisory activities, it was apparent that a refocusing of Washington staff activities was in order. The previous organization involved a deputy director for examinations and a deputy director for supervision. Both exercised a policy development and operations control role. There was also a deputy director for programs.

The role and responsibilities of the regional directors were blurred. There was no clear definition of either responsibility or authority with regard to the examination and supervision functions.

In order to remedy this situation, OES was reorganized and the regional directors were given total responsibility for coordinating district examination activities and the supervisory role of the Federal Home Loan Banks. The regional directors became assistant directors-regional operations, reporting directly to the director. They assumed both management and policy implementation responsibility for their assigned districts.

The roles of the deputy director-examinations and the deputy director-supervision were merged into one position with responsibility for the development of new policies affecting both the examination and supervisory processes. The role of the deputy director-programs was changed to deputy director-programs and administration, with the responsibility for all operational staff programs supporting the OES role, including training, budget, and the issuance of accounting procedural directives.

Supervision

As has been the case in recent years, supervisory activities during 1983 were focused on the problems of those institutions whose adverse operating trends had resulted in depleted capital to the point of near insolvency. A variety of methods was used to attempt to resolve these problems with a minimal cost to the FSLIC including, but not limited to, supervisory conversions to the stock form of ownership, other forms of outside capital infusion, the purchase of net worth certificates as authorized by the Garn-St Germain Depository Institutions Act of 1982, and assisted and unassisted mergers.

During 1983, the number of mergers, including both voluntary and supervisory, decreased substantially from the previous year. While the number of supervisory mergers, including both FSLIC-assisted and unassisted mergers, also declined substantially, the number of FSLIC-assisted mergers, on a percentage basis, increased relative to total supervisory mergers.

As the industry continues to restructure and consolidate, the role of supervision becomes critical. The increased flexibility of institutions to attract and invest funds has mandated the use of increasingly intense monitoring of operations and balance sheet positions, particularly the asset/liability maturity structure, the use of hedging instruments, and the volume and investment of brokered savings.

Examinations

The year 1983 was one of continuing change in the workload for the Board's examiner staff. Because of the decreasing number of institutions—as a result of mergers—the overall number of full examinations continued to decline, as in prior years (see Table 1). At the same time, working days per examination continued to increase and the number of special examinations or field visits increased, due primarily to the relatively poor financial condition of a large number of institutions and the growth in the average asset size of examined institutions (see Table 2).

Table 1.—Supervisory Examinations: Number of Examinations and Asset Volume Examined by Asset Size Class, Calendar Years 1981, 1982, and 1983

Asset Size (in millions)	Number of Examinations			Assets Examined (in millions)		
	1981	1982	1983	1981	1982	1983
Federal and State-Chartered, OES Examined:						
Under $10	95	70	51	$ 594	$ 482	$ 299
$10-25	281	220	136	4,907	3,822	2,473
$25-50	367	325	227	13,456	11,871	8,406
$50-100	424	391	279	30,520	28,762	19,902
$100-500	567	530	440	118,868	115,380	95,334
Over $500	131	155	130	150,518	257,525	219,183
Total	1,865	1,691	1,263	$318,863	$417,842	$345,597
State-Chartered, Joint Examined:						
Under $10	142	107	68	$ 922	$ 779	$ 452
$10-25	245	225	174	4,144	3,873	3,050
$25-50	263	223	155	9,672	8,129	5,667
$50-100	269	224	195	19,333	15,808	13,812
$100-500	329	269	222	66,451	54,800	45,221
Over $500	58	61	54	100,118	80,293	62,930
Total	1,306	1,109	868	$200,640	$163,682	$131,132
Total Examinations	3,171	2,800	2,131	$519,503	$581,524	$476,729

Training

The continuing complexity of institutions' financial operations, and the new asset powers authorized under the Garn-St Germain Depository Institutions Act of 1982, precipitated an expansion of examiner training in 1983 to maintain the Board's high examination standards. The number of course subjects taught under the national training program increased from three to five in fiscal year 1983. The demand for this training was so great that the number of sessions taught was double that of 1982, training nearly 1,200 persons during the year.

While the training effort was previously concentrated in technical areas required to conduct examinations, the scope was expanded with two new courses to increase analytical skills used to judge the safety and soundness of savings institutions. The curricula included the application of analytical finance, financial statement analysis, advanced accounting principles for specific savings institutions industry problems, and a greater emphasis on asset and liability management. The new training in these areas proved to be so successful and well received by participants and OES management that the training was made mandatory for all examiners; the number of individuals trained during the year approached 500.

A third new course, developed totally with in-house resources, deals in a highly technical way with various financial instruments and the futures and options markets. Development of a course was begun to train examiners in commercial lending and includes the risk-reward relationships associated with business lending and corporate finance, as well as credit management and monitoring.

The training career path begun in 1982 was expanded to include four core courses that all OES examiners are required to attend during their first three years of employment. This multi-year scheduling of training and the modernization of the training operation through computerized scheduling and statistical analysis assisted the training staff in doubling the amount of training given without an increase in the permanent staff size.

The Board's state training program achieved significant results in 1983. Twenty-two states now participate in the full training career path under the state training program. Specialized programs were presented in data processing and advanced asset and liability management.

The changes in the industry, and the resultant need for training, led to an increase in participation by the Federal Home Loan Banks and other Board office personnel in OES training courses. At the same time, more than 600 state examiners attended Board courses under the state training program which provides funding for training state examiners.

Table 2.—Supervisory Examinations: Average Time Per Examination and Per $1 Million of Assets by Asset Size Class, Calendar Years 1981, 1982, and 1983

Asset Size (in millions)	Working Days Per Examination			Working Days Per $1 Million of Assets		
	1981	1982	1983	1981	1982	1983
Federal and State-Chartered, OES Examined:						
Under $10	18.2	17.0	20.0	2.9	2.5	3.4
$10-25	20.5	24.5	22.6	1.2	1.4	1.2
$25-50	26.5	27.6	29.2	0.7	0.8	0.8
$50-100	35.4	34.5	36.4	0.5	0.5	0.5
$100-500	56.5	56.6	60.7	0.3	0.3	0.3
Over $500	114.6	126.4	146.4	0.0	0.0	0.0
Average	42.5	46.5	52.7	0.2	0.2	0.2
State-Chartered, Joint Examined:						
Under $10	12.8	13.3	16.2	2.0	1.8	2.4
$10-25	16.5	16.8	19.6	1.0	1.0	1.1
$25-50	20.0	19.7	21.2	0.5	0.5	0.6
$50-100	29.2	29.1	30.3	0.4	0.4	0.4
$100-500	46.5	43.3	47.8	0.2	0.2	0.2
Over $500	118.7	109.0	115.6	0.1	0.1	0.1
Average	31.5	31.0	35.2	0.2	0.2	0.2
Total Average Time	38.0	40.4	45.6	0.2	0.2	0.2

Policy Guidelines

The major regulatory changes in which OES staff directly participated in 1983 are as follows: implementation of the Garn-St Germain Depository Institutions Act, the authority for the principal supervisory agent to renew forebearances up to five additional years after the initial forebearance period, and developing necessary changes in the financial reporting requirements and brokered deposits. OES staff prepared and issued internal staff guidance memoranda relating to: approved certificate forms for various new savings/deposit accounts; Regulations D, E, G, and Z; deferral and amortization of losses; changes in Consumer Price Index; profit recognition for sale of loan servicing rights; and retail repurchase agreements. Finally, a handbook for examiners was written regarding the Garn-St Germain Act.

Accounting

During 1983, the Chief Accountant's Section dealt with significant accounting issues such as gains on sales of real estate, acquisition, development and construction loans, purchase accounting, loan fees, deferred loan losses, collateralized mortgage obligations, trusts for investment in mortgages, defeasance of debt, and others. This section responded to the Financial Accounting Standards Board (FASB) on various exposure drafts that have a potential impact on the savings institutions industry. This section also contributed significantly to the issuance of various R and T memoranda.

As part of the new quarterly reporting system, the Chief Accountant's Section coordinated a pilot program to test a part of the new report that collects maturity and yield data for financial assets and liabilities. This section also participated in a task force on current value accounting which issued a report in April 1983. The report suggested that the Board collect interest rate sensitivity data from institutions in lieu of pursuing current value accounting.

The Chief Accountant's Section also completed a project resulting in major revisions to the Board's regulations governing the information disclosure requirements in connection with conversions from mutual to stock form of ownership and filings under the Securities Exchange Act of 1934. The amendments make the Board's disclosure requirements substantially similar to those required by the Securities and Exchange Commission.

During 1983, conversions and Securities Exchange Act filings were received at an unprecedented rate. The section reviewed and opined on 341 conversion filings and amendments thereto. In addition, the following numbers of Securities Exchange Act filings were received: 100 Form 10s (initial registration statements), 158 Form 10Ks (annual reports), and 531 Form 10Qs (quarterly reports).

The Change in The Savings and Loan Control Act Of 1978

This report is required by Section 407(q)(15) of the National Housing Act on the Change in Savings and Loan Control Act of 1978.

The Change in Savings and Loan Control Act of 1978 (the Act), Title VII of the Financial Institutions Regulatory and Interest Rate Control Act of 1978 (Public Law 95-630) (FIRIRCA), was signed into law on November 10, 1978, effective March 10, 1979. The Act was adopted as a companion to the Change in Bank Control Act of 1978, Title VI of FIRIRCA. Both pieces of legislation were designed to fill a perceived gap in the federal regulatory structure to cover acquisitions of control of existing, federally insured, stock financial institutions and holding companies primarily by individuals or groups of individuals.

Under the Act, a prospective acquiring "person" must give at least 60 days' prior written notice to the Federal Savings and Loan Insurance Corporation (FSLIC) before acquiring control of an insured institution or savings and loan holding company. The formal notice must contain biographical and financial information on the acquiring person, a description of the proposed transaction including financing arrangements, copies of any tender offers or proxy solicitations, and any contemplated changes in the management or corporate structure of the institution or holding company to be acquired.

The FSLIC may disapprove a proposed acquisition based on such factors as likely anticompetitive effects; the unsatisfactory financial condition of the acquiring person; the questionable competence, experience, or integrity of the acquiring person or proposed management; and the neglect, failure, or refusal of the acquiring person to provide all information required by the FSLIC. Any person whose proposed acquisition has been disapproved is entitled to a written statement of the basis for disapproval; an agency hearing in accordance with the Administrative Procedures Act; and eventual review by an appropriate U.S. Court of Appeals. A complete formal notice that has not been disapproved within the 60-day disapproval period, or any extension thereof, is deemed approved by operation of law, and the underlying acquisition may then be consummated without further FSLIC involvement.

The term "control" is defined in the Act as the power, directly or indirectly, to vote 25 percent or more of any class of voting securities or to direct the management or policies of an insured institution or savings institution holding company.

By regulation, the FSLIC has established a presumption that acquisition of more than 10 percent, but less than 25 percent, of any class of voting securities of certain large, publicly traded institutions would amount to acquiring control. Failure to rebut this presumption would mean that a formal notice would have to be filed.

The regulations now provide that any notice under this Act shall be for the information of the FSLIC and the appropriate state supervisory authority and shall not be disclosed publicly except in accordance with other statutory requirements, such as the Freedom of Information Act.

Consistent with the statutory exemption from notice for transactions subject to the Savings and Loan Holding Company Act Amendments of 1968, FSLIC regulations also exempt mergers and other types of acquisitions subject to regulations adopted by the FSLIC pursuant to Section 403 of the National Housing Act or by the Federal Home Loan Bank Board pursuant to Section 5(d)(1) of the Home Owners' Loan Act of 1933. In accordance with the legislative history, the FSLIC and the banking agencies have also exempted from the prior notice requirements acquisitions of control resulting from *bona fide* gifts, inheritances, and foreclosures, although post-acquisition reports are required in these cases.

The regulations now provide that the presumption of control is limited to transactions where a person would acquire the power to vote 10 percent or more of any class of voting securities of an insured institution that has voting securities that are registered under the Securities Exchange Act of 1934 (the 1934 Act) and that are actively traded. Also, the notification of a subject institution has been eliminated with respect to the filing of either a notice of a proposed change in control (notice) or a rebuttal of the presumption of control. Further, as discussed above, the public disclosure of a notice has been eliminated, except upon the consent of the acquiring person, consummation of the transaction, disapproval of the proposed acquisition, or when the Notice otherwise became public. Additionally, except with respect to disapproval of the notice, the director of the Office of Examinations and Supervision, with the concurrence of the General Counsel, or their designees, has been delegated authority to take action under the regulations with regard to any institution or holding company that has a class of voting securities registered under the 1934 Act, and the principal supervisory agent has been delegated authority with regard to any institution or holding company that does not have a class of voting securities registered under the 1934 Act.

Provisions regarding the period of review, additional information required to be filed with a notice, and waivers have been clarified, along with the procedures to disapprove a notice and to assess a civil penalty for any willful violations. These provisions are intended to lessen the regulatory burden on acquiring persons and to provide more efficient procedures for the review and processing of a notice.

Experience With the Act

The savings institutions industry remains predominantly mutual rather than stock in organization; consequently, FSLIC administration of the Act has generally been uneventful. As of year-end 1983, 108 formal notices had been filed; 7 of those were pending cases from 1982. Of that total, 63 were approved, 15 withdrawn, and 30 remained pending. The FSLIC did not disapprove any acquisition of control during 1983.

Three attempts were made to rebut the regulatory presumption of control. One attempt to rebut the presumption was successful; one was not rebutted; one was pending at the end of 1983.

Of the 101 formal notices of change in control filed in 1983, 55 related to institutions with less than $50 million in assets, 22 to institutions with assets between $50 million and $100 million, 18 to institutions with assets between $100 million and $500 million, and 6 to institutions over $500 million.

Fifty-eight notices, or 57 percent of the total, originated in one Federal Home Loan Bank District—Dallas—reflecting the large number of stock institutions in Texas. No notices were received in two Federal Home Loan Bank Districts—District 3 (Delaware, Pennsylvania, West Virginia) and District 6 (Indiana and Michigan).

The figures would appear to reveal that the Act has had far less impact on acquisitions of control in the savings institutions industry than in the commercial banking industry, where federal regulators have received hundreds of formal notices. Moreover, what effects the Act did have on savings institutions acquisitions appear to have been confined to smaller institutions located primarily in Texas. For the most part, the notices on which the FSLIC did act presented no difficult informational problems. Post-acquisition experience has generally been unexceptional. Nine notices were processed in conjunction with supervisory transactions.

Net Worth Certificate Program

Section 204 of Title II of the Garn-St Germain Depository Institutions Act of 1982 requires the Board to report to Congress annually on net worth certificate purchases and the conditions imposed on institutions participating in the program. Sixty-four institutions have issued net worth certificates totaling $88.9 million from the inception of the program through December 31, 1983.

Institutions that are participating in the program are subject to standard conditions and restrictions that are contained in the master agreement for FSLIC purchase of net worth certificates. These are:

1. The submission of a business plan that addresses —in a manner satisfactory to the FSLIC—operating and financial plans, and plans for asset and liability management;
2. A commitment by the institution to abide by its plan;
3. A written agreement to comply with all supervisory requests while participating in the program, including outstanding supervisory directives;
4. A prohibition against opening any new branch offices and, without prior approval of the FSLIC, relocating an existing branch;
5. A prohibition against the payment by a stock institution of cash dividends to holders of its equity securities;
6. Limitations on the incurrence of debt obligations and the making of capital expenditures without prior FSLIC approval;
7. A prohibition against entering into any new contract, or modifying any existing contract with a holding company, without prior approval by the FSLIC; and
8. An agreement in writing to the Board's method of calculating the number of months remaining to insolvency.

Office of the General Counsel

by Norman H. Raiden, General Counsel

In 1983, the major effort of the Office of General Counsel (OGC) has been to assist the Federal Home Loan Bank Board in the restructuring and strengthening of the thrift industry to ensure the continued availability of financing for homes. In this regard, OGC developed legal bases for maintenance of an independent functional and operational framework for thrifts, while enhancing the ability of that industry to continue to fulfill its traditional role as the principal supplier of mortgage credit to the American public.

In keeping with these goals, OGC's Legislation Division prepared Board comments on a number of legislative proposals designed to reform statutes governing powers of banks and federal thrifts. In its testimony, the Board has emphasized that thrifts are not, nor do they seek to become, banks. Testimony has also stressed that the new asset and limited commercial lending authorities conferred upon thrifts by the Garn-St Germain Depository Institutions Act of 1982 are to serve as supplementary tools of diversification for thrifts to enable them to better cope with future periods of economic instability and interest rate volatility in order to continue to be able to fulfill their principal housing finance mission.

Other major issues developed by the Legislation Division were the role and purpose of brokered deposits with regard to the financial stability of thrifts, the need to provide thrifts with full checking account authority to bolster deposits for housing finance investment, and the regulatory structure of federal preemption of state due-on-sale laws.

The major activity of the Policy and Projects Division during 1983 was the drafting of final regulations implementing the new asset powers. This project began in late 1982, after passage of the Garn-St Germain Act, with the drafting of proposed regulations, and went forward in 1983 with analysis of the comment letters, substantial modifications of the regulatory language and approach, and approval by the Board of final regulations drafted by the division. Under the new regulations, federally chartered associations are permitted to invest without limitation in residential real property loans and to invest up to 40 percent of assets in nonresidential real estate loans. These regulations also implemented authority to engage in commercial lending and operating leases and expanded the authority of federally chartered institutions to invest in commercial paper and corporate debt securities. The Policy and Projects Division also drafted opinions, legal memoranda, and related documents on a variety of topics, including account insurance coverage of pooled deposits, brokered deposits, reserves, lending, and Federal Home Loan Bank System questions, as well as prepared proposed and final regulations on conflicts of interest and insurance eligibility of *de novo* institutions.

Industry restructuring was advanced by legal analyses of interstate and interindustry acquisition issues and by regulations drafted by the Corporate and Regulatory Structure Division concerning *de novo* stock charters, branching, management interlocks, and a comprehensive revision of federal charters and by-laws. The division also assisted the Board in developing positions on federal financial institution regulatory restructuring in connection with the agency's participation in the Vice President's Task Group on Regulation of Financial Services. With most standard application processing functions delegated to the Federal Home Loan Banks, the Corporate and Regulatory Structure Division provided legal advice concerning nonstandard corporate applications, including holding company acquisitions, mergers, service corporation activities, charter conversions, subordinated debt, sale of branches, corporate titles, charter and by-law amendments, insurance of accounts, and trust powers; counsel was provided to the Federal Home Loan Banks, prospective applicants, and the private bar on these matters. In connection with the review of applications, the division expedited processing and developed flexible and innovative solutions to problems of corporate structure and function in an effort to strengthen the industry's role as the nation's primary provider of home financing.

The Board's goal of restructuring and strengthening the thrift industry received significant support in 1983 by a sizable increase in industry capital. The Securities and Corporate Analysis Division of OGC processed 108 mutual-to-stock conversions, which was 3½ times the number approved in 1982; conversions raised $2.7 billion in new capital. Approvals included new types of conversions authorized in 1983 by regulations drafted by the division: holding company conversions, merger conversions, and modified conversions. Other regulations prepared by the division included clarified charter and by-law provisions, and proposed uniform disclosure requirements for securities offerings; the latter are currently applied to *de novo* institutions. The division also reviewed Change In Control Act submissions and applications for subordinated debentures and mutual capital certificates.

Securities law enforcement activities of the division increased in 1983 with review of 3,300 filings under the Securities Exchange Act of 1934. Some 300 stock associations are covered by the 1934 Act, and the division reviewed 100 registration statements of new publicly owned stock institutions, as well as proxy solicitation, tender offers, and ownership statements. The division also monitored recently converted institutions' compliance with post-conversion restrictions, charter and by-law amendments, and hostile takeover attempts and proxy fights, advising the Board on appropriate regulatory protections for institutions subject to these activities.

The Enforcement Division of OGC is responsible for assisting the agency in securing compliance by insured institutions and their management, directorate, and controlling persons with pertinent laws, regulations, and safe and sound operating practices. During 1983, the division completed 17 formal and 15 informal investigations of problems at insured institutions; 13 final cease-and-desist orders were obtained, 2 of which were issued against controlling persons of institutions. Seven of these final orders were preceded by temporary cease-and-desist orders to halt serious violations and unsound practices that threatened serious financial harm to the institutions involved. In addition, 21 savings and loan officials were named in formal orders of removal and/or prohibition in 1983. Another contested removal action was litigated in 1983 and now awaits a final Board decision.

As a result of the Enforcement Division's investigations of defaulted institutions, numerous civil lawsuits were initiated in 1983 against negligent or wrongful actions by directors and officers of institutions in an effort to recover a portion of the losses experienced by the FSLIC from its merger or liquidation of such institutions. Recommendations made by the division for the initiation of similar actions were approved by the Board in 1983 and await filing of complaints by fee counsel. In other enforcement actions, division attorneys secured the appointment of two conservators for institutions in an unsound condition, defended certain of their cease-and-desist actions, enforced investigative subpoenas in U.S. District Courts, and assisted the Office of Examinations and Supervision in the resolution of several cases without the need for formal enforcement action.

In 1983, the Litigation Division of OGC brought a number of actions for damages on allegations of negligence, fraud, or mismanagement against former officers and directors of institutions in FSLIC receivership. In other matters, the director obtained a ruling that the banking commissioner of Oklahoma could not regulate the advertising practices of federal associations. The division also successfully defended challenges to agency actions, including approvals of branch applications and holding company applications. In its most significant victory of the past year, the Litigation Division successfully defended a challenge to the Board's appointment of the FSLIC as receiver for Biscayne Federal Savings and Loan Association in Miami, Florida. Overturning an adverse ruling by the trial court, the 11th Circuit Court of Appeals ruled that the Board has very broad authority to deal with troubled and defaulting thrifts and acted appropriately in placing Biscayne, which was insolvent, in receivership. (*Biscayne Federal Savings and Loan Association* v. *FHLBB,* 720 F.2d 1499 (1983))

Litigation pertaining to internal agency function, such as Merit System Protection Board cases, equal employment opportunity actions, labor/management issues, and contract problems, are handled by the Board's in-house counsel—the Administrative Division of OGC. That division also oversees agency compliance with the Freedom of Information Act and the Government in the Sunshine Act, and advises on employee ethics questions.

The Board's efforts at preservation and restoration of defaulting thrift institutions rely heavily upon the FSLIC divisions of OGC. In 1983, the divisions worked out solutions for 46 institutions comprising more than $17 billion in assets, including 11 interstate acquisitions, 4 conservatorships, and 15 receiverships. These OGC divisions also advised the FSLIC regarding the administration of receiverships and the preparation of assistance agreements. The divisions drafted the new Voluntary Assistance Merger Program regulations for delegation of some FSLIC assistance cases to the District Banks and assisted in processing supervisory conversions authorized by the Garn-St Germain Act.

Office of Congressional Relations

by Mary Ellen Taylor, Director

The Office of Congressional Relations (OCR) is the formal link between Congress and its committees and the Federal Home Loan Bank Board. The office is a crossroads, communicating Board policy to key actors on Capitol Hill and receiving congressional input on matters affecting the savings institutions industry. Office personnel continually interact with representatives, senators, and their staffs and exchange thoughts and information on subjects of importance to the thrift industry.

OCR is in the unique position of being the focal point for interaction between the Board and Congress. It does not serve as a buffer for the Board, but as an intermediary on matters of mutual concern and responsibility. The office works closely with the Legislation Division of the Office of the General Counsel in carrying out the liaison function. The offices coordinate in drafting and analyzing legislation, writing Board testimony, and generally dealing with Congress in the most effective manner. Additionally, OCR is assisted by several other offices in the handling of congressional inquiries. Expeditious response to such requests fosters understanding and respect between the Board and Congress.

The year 1983 saw the implementation of the powers granted thrifts under the Garn-St Germain Depository Institutions Act of 1982. The Board was asked to testify before both chambers of Congress on a variety of issues of concern to Members, such as interest on demand deposits, general oversight, mortgage foreclosures, and domestic financial services.

The U.S. Treasury Department initiated legislation affecting the powers of depository institutions in mid-1983 (S. 1609), and this bill was later modified and incorporated into the omnibus financial institutions reform legislation (S. 2181) introduced by Senator Jake Garn shortly before the November 18 adjournment. Also at that time, Senator William Proxmire introduced a more limited financial institutions reform bill. At the close of the 98th Congress, these and several related bills—*e.g.,* measures to impose a moratorium on cross-industry acquisitions, provide for payment of interest on demand deposits and reserves, preemption of certain state usury ceilings, etc.—were awaiting consideration by the House and Senate Banking Committees.

Chairman's Activities

President Reagan appointed Edwin J. Gray as Chairman of the Federal Home Loan Bank Board on May 1, 1983, and soon thereafter Chairman Gray began a systematic effort to acquaint Members of Congress with important issues in the savings institutions industry and with the concerns of the Board. Chairman Gray held numerous meetings with Members of Congress and with committee chairmen, with particular emphasis on the House and Senate Banking Committees, which have major responsibility for Board and thrift industry activities. The Chairman testified before congressional committees regularly throughout the year.

Among the Chairman's key appearances before committees of Congress were the following:

- May 5, 1983, before the Subcommittee on HUD-Independent Agencies of the Senate Committee on Appropriations. The Chairman presented the Board's fiscal year 1984 budget request, which, at $67,440,000, represented only a slight increase over the 1983 revised estimate. His policy statement dealt with: (1) the economic status of the thrift industry in 1982; (2) performance and supervisory actions of the Federal Savings and Loan Insurance Corporation (FSLIC); (3) the enactment and implementation of recent legislation; (4) the Board's regulatory (and deregulatory) activities; (5) the development of improved supervisory monitoring procedures; and (6) the Board's equal employment efforts.

- September 13, 1983, before the Senate Committee on Banking, Housing, and Urban Affairs. The Chairman discussed the distinct and separate roles of thrift institutions and commercial banks in our nation's financial system. He urged the Committee "to reaffirm, as successive Congresses have effectively done for the past 50 years, the principal housing finance role of the thrifts and the separate regulatory apparatus which governs their operations." He urged the Committee "to proceed with extreme caution with respect to any proposals which would deprive thrifts of critical sources of capital and income. In this connection, the Board believes that any legislative proposals that ignore the troubling consequences which could ensue for the thrift industry, now and in the future, could undermine both the health of the nation's housing sector and the general stability of our overall financial system." He said that the "new thrift powers were not intended by Garn-St Germain to transform thrifts into commercial banks." Legislation referred to in the Chairman's testimony was not passed in the 98th Congress.

- October 27, 1983, before the Subcommittee on Financial Institutions Supervision, Regulation and Insurance of the House Committee on Banking, Finance and Urban Affairs. The Chairman addressed issues relating to deregulation of demand deposits and the use of brokered funds by third parties in depository institutions. He stated that "legislative proposals for further deregulation of demand deposits offered by insured financial institutions . . . would take an important further step in the deregulatory process by removing the current prohibition on payment of interest on demand deposits by insured institutions. While this action will undoubtedly exert some downward pressure on earnings of these institutions in the short-term, the Board believes that the resulting benefits in competition and consumer choices far outweigh any short-term disadvantages." He emphasized that the Board "strongly disagrees with those who claim that broadening the liability powers of federal thrifts would in any sense confer an 'unfair' advantage on thrifts in relation to banks," adding that proposed legislation would, to the contrary, "for the first time allow thrifts to compete on an *equal* basis with banks for customer funds."

  On the subject of insured third-party brokered funds, the Chairman noted that, as of June 30, 1983, nearly 3 percent of the total deposits in FSLIC-insured institutions were brokered funds, representing $16 billion out of a total of $620 billion deposited in those institutions on that date. Furthermore, he noted, the total amount of brokered deposits in thrifts shot up 75 percent in just 6 months, and "there is strong reason to believe that the unrestricted use of such funds by thrifts could grow exponentially in the future." The Chairman stressed that "the long-term ramifications of such an eventuality could produce results which would fundamentally alter the character of the depository institution as we have known it in our society." While acknowledging the initiative and creativity that money broker firms have shown in their endeavor, he nonetheless stressed the need for Congress to closely monitor the use of brokered funds by depository institutions "to assure that the use of these brokered deposits does not constitute the means for bringing about irresponsible growth of the deposit base of a troubled institution and, thereby, impose an undue risk on the federal insurance funds."

- November 9, 1983, before the Subcommittee on General Oversight and Renegotiation of the House Committee on Banking, Finance and Urban Affairs. The Chairman discussed the current condition of the savings institutions industry. "While the overall health of the industry has improved during the last year, due chiefly to falling interest rates earlier in the year, thrifts remain gravely vulnerable to interest rate swings. The survival of thrifts is by no means a sure thing." The Chairman pointed out that thrifts are now in a very fragile transition, and the industry's ability to absorb more losses is highly questionable. Given these facts, the Chairman stressed the importance of addressing two broad policy concerns. "First . . . it is imperative that thrifts take advantage of the current reduced interest rate environment to plan ahead and begin now to restructure. It is the Bank Board's purpose to create a regulatory climate which is conducive to the restructuring process, and to the effective, prudent use of the new Garn-St Germain Act powers as a supplemental source of contra-cyclical income, as a part of that process." The second concern for industry survival is "preserving the legal framework of the Federal Home Loan Bank System and thrift powers. . . . Preserving this regulatory structure is vital because the attractiveness of a thrift charter must be maintained and *enhanced,* not reduced or diminished, so that the flow of new capital into the industry will be encouraged." The Chairman concluded by stressing the importance of the Garn-St Germain Act to the health of the nation's housing sector and the general stability of the nation's financial system. He reiterated the "true purpose" of the Garn-St Germain Act and the mission of the Federal Home Loan Bank Board: ". . . to work to preserve the industry's historic mandate, and to maximize the prospect that the industry can survive and prosper—to continue the proud tradition, established over a half century now, of service to the American people."

Office of Policy and Economic Research

by Eric I. Hemel, Director

The thrift industry rebounded in 1983 after two years of extensive operating losses, deposit outflows, and sharply curtailed mortgage lending. It returned to profitability, had deposit inflows in record amounts, and extended an unprecedented amount of mortgage credit. Progress was also made in restructuring assets and liabilities to reduce interest rate risk. But profitability during 1983 was modest by historical standards, and continued near-term profitability is contingent on no significant increase in market interest rates from the reduced levels that prevailed in 1983. (For a summary of sources and uses of funds by institutions 1974 to 1983 see Table 1.)

The industry turnaround resulted primarily from the sharp reduction in market rates that occurred between mid-year 1982 and early 1983, but also reflected the further deregulation of deposits by the Depository Institutions Deregulation Committee (DIDC) and the provisions of the Garn-St Germain Depository Institutions Act of 1982.

Earnings

FSLIC-insured institutions had net after-tax income of about \$2.0 billion in 1983, in sharp contrast to the \$4.3 billion loss a year earlier and the record \$4.6 billion loss in 1981. Last year's profits represented a return on assets of 0.27 percent; this was the best return since 1980, but well below profitability in the 1960s and 1970s. Return on assets was slightly lower in the second half of the year than in the first half, reflecting primarily reduced profits on the sale of assets.

Net operating income after cost of funds was negative in the first half of the year, but turned positive in the last six months, as gross operating income rose more than did the cost of funds. The gross return on industry assets in 1983 was 10.93 percent, up from 10.82 percent in 1982, while cost of funds declined from 11.38 percent to 9.83 percent because of the sharp drop in short-term market interest rates (see Chart 1).

**Chart 1.—
Key Operating Ratio, 1976-1983
(Percent)**

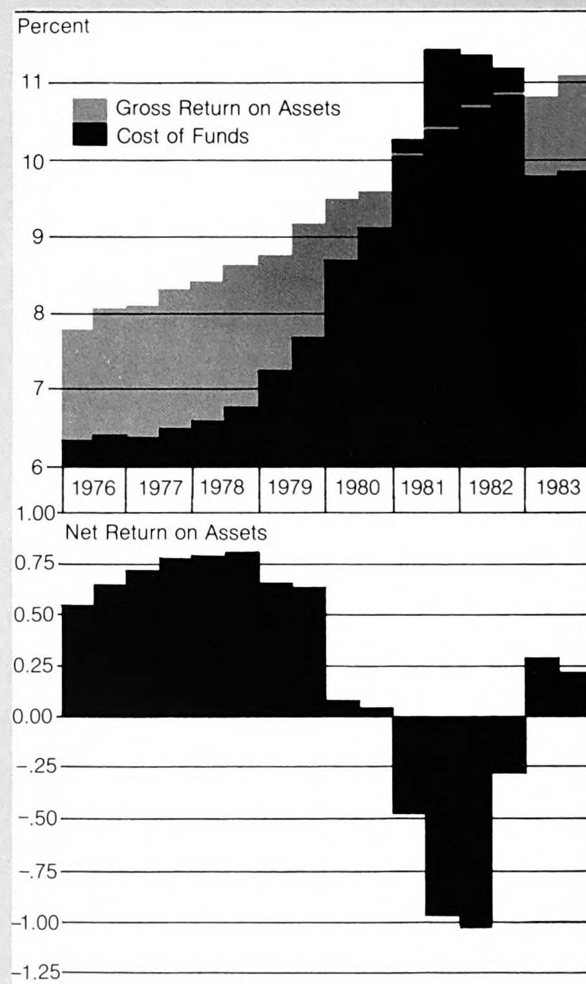


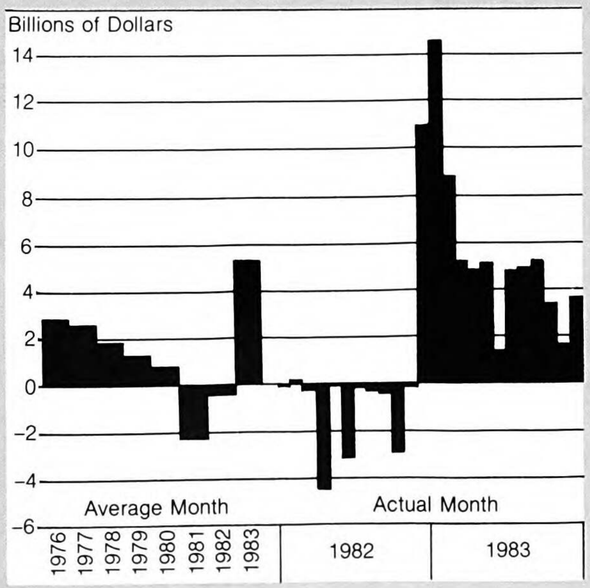
Table 1.—Sources and Uses of Funds, FSLIC-Insured Institutions, 1974-1983
(Millions of Dollars)

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
SOURCES, TOTAL .	$51,357	$73,280	$97,202	$125,655	$131,062	$124,473	$108,520	$83,243	$150,552	$246,904
Net increase in deposits	15,595	42,051	49,729	50,193	44,175	38,894	40,956	13,411	37,270	110,213
Net new deposits received	4,669	29,298	34,369	32,003	23,462	15,029	10,669	-25,405	-6,425	63,224
Interest/dividends credited	10,925	12,752	15,360	18,189	20,713	23,865	30,287	38,816	43,695	46,990
Loan dispositions	26,735	33,188	45,684	62,314	67,683	68,041	56,528	47,043	96,565	127,630
Net loan repayments	23,230	27,981	37,235	48,468	52,198	49,712	40,672	34,430	43,131	72,231
Loan sales	3,505	5,207	8,449	13,846	15,485	18,329	15,856	12,613	53,434	55,399
Net increase in borrowing	7,601	-4,045	-1,560	8,443	15,014	12,347	9,576	24,550	8,608	576
Net increase in FHLB advances .	6,530	-3,958	-1,824	4,230	12,081	8,454	6,721	15,889	964	-6,697
Net increase in other borrowings	1,071	-87	264	4,213	2,933	3,893	2,855	8,661	7,644	7,273
Net increase in other liabilities ...	82	780	1,147	1,590	393	1,673	778	3,121	10,482	1,290
Net increase in net worth	1,344	1,306	,2,202	3,115	3,796	3,518	680	-4,882	-2,373	7,197
USES, TOTAL	51,357	73,280	97,202	125,655	131,062	124,473	108,520	83,243	150,552	246,904
Gross mortgage loans disbursed ..	45,384	60,437	88,205	116,735	118,412	111,919	85,009	64,992	73,197	171,894
Gross mortgage loans made	38,050	53,798	77,103	105,287	108,273	98,730	71,270	52,333	53,357	138,203
Less net increase in loans in process	-1,431	1,905	1,696	3,050	843	-1,176	-784	-2,143	3,473	12,114
Loans purchased ..	5,903	8,544	12,798	14,498	10,982	12,013	12,955	10,516	23,313	45,805
Net increase in cash and securities	2,112	7,445	4,766	3,366	5,683	1,611	10,777	4,771	20,076	25,244
Net increase in regulatory liquidity	1,265	6,992	4,333	2,304	4,342	1,147	8,433	177	20,717	14,729
Net increase in other investment securities	847	453	433	1,062	1,341	464	2,344	4,594	-641	10,515
Net acquisitions of government-insured mortgage-backed securities, etc.				2,329	3,607	3,882	7,230	6,330	30,837	27,990
Net increase in nonmortgage consumer loans	3,861	5,398	4,231	1,136	339	2,206	1,813	1,609	2,776	6,788
Net increase in other assets				2,089	3,021	5,035	3,691	5,541	23,666	14,989

Deposits

An unprecedented response to the money market deposit account (MMDA) introduced in December 1982, the elimination of rate controls on additional types of deposits, and lower market interest rates combined to produce a record deposit inflow to thrift institutions in 1983.

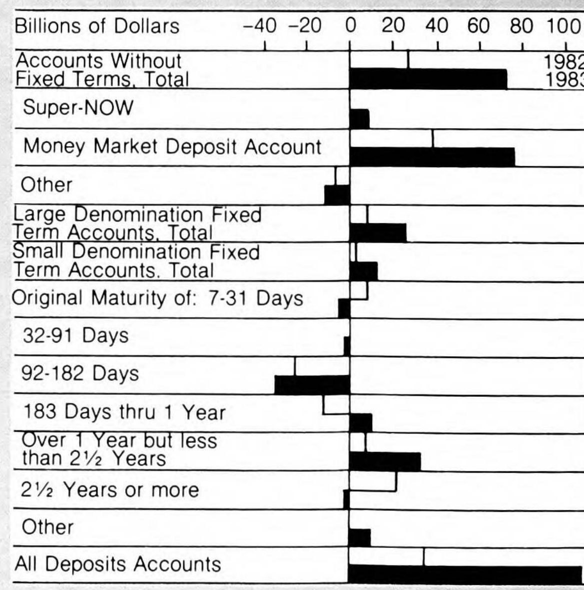
Chart 2.—Net New Deposit Receipts, 1982-1983



FSLIC-insured institutions posted a record net deposit gain (including interest credits) of $110.2 billion in 1983, twice the prior high of $50.2 billion attained in 1977 and three times the 1982 net inflow. Net new deposits received were $63.2 billion last year, in sharp contrast to the $6.4 billion of net withdrawals experienced in 1982. The 1983 over-the-counter flow was an all-time high, surpassing the $34.4 billion of net new deposit receipts in 1976. Interest credited to accounts, however, increased only moderately, from $43.7 billion in 1982 to $47.0 billion.

The DIDC made changes to the deposit account rate ceiling regulations on three occasions last year. On January 5, 1983, the Super-NOW account—a no-ceiling transaction account—was authorized. Additionally, the indexed ceiling on 7-31 day certificates was removed.

Chart 3.—Changes in Deposit Balances, 1982-1983



Effective April 1, 1983, the minimum maturities on variable-ceiling and no-ceiling certificates were reduced by one year, the former from 2½ to 1½ years and the latter from 3½ to 2½ years. Finally, the DIDC eliminated rate ceilings on all certificates with original maturities of over 31 days, effective October 1, 1983.

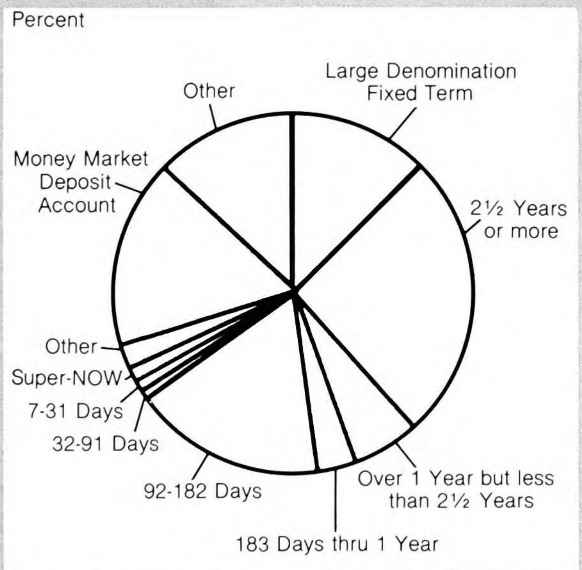
Deposit flow was in record amounts early in the year, as thrifts attracted funds from money market mutual funds and the securities market by offering attractive rates on the newly authorized MMDAs. Receipts then tapered off to a more moderate, but still substantial, volume through September, and slowing further during the final quarter of the year primarily as a result of slower growth in large denomination accounts (see Chart 2).

Growth in MMDAs was the most important factor in deposit flow to institutions in 1983. Such balances increased $77.6 billion during the year, with virtually all of the rise concentrated in the first quarter. Super-NOW accounts attracted $7.4 billion during the year. In contrast, balances in all other accounts without fixed terms declined $11.5 billion (see Chart 3).

Large denomination certificates of deposit (CDs) ($100,000 minimum balance) rose $24.7 billion, up from the $8.0 billion increase in 1982. Most of the growth in large denomination certificates was in broker-originated deposits. Balances in this type of account (including some in denominations of less than $100,000) rose from $9.3 billion at the end of 1982 to $28.7 billion at year-end. They thus accounted for nearly 5 percent of December 1983 deposits, up from 1.7 percent a year earlier.

Among retail certificates, there was a shift from shorter to longer maturity accounts. Earlier in the year, this reflected the transfer of funds from short-term certificates into market rate MMDA and Super-NOW accounts. Later in the year, growth was in longer maturity accounts because of the availability of competitive

Chart 4.—Composition of Deposits, December 31, 1983



yields stemming from the changed rate control regulations. Balances in retail CDs with original maturities of 7-31 days declined $5.1 billion over the year, those in the 32-91 day range decreased $2.2 billion, and balances in 92-182 day accounts declined $34.3 billion. In contrast, balances in 183 day-1 year accounts increased $10.5 billion, those in 1 to 2½ year CDs rose $33.3 billion, but consumer CD balances in accounts with an original maturity of at least 2½ years were down $0.5 billion.

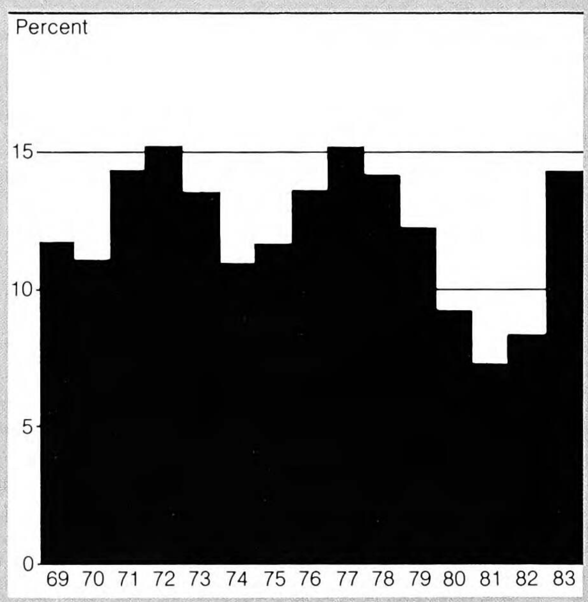
At year-end 1983, retail certificates with original maturities of 2½ years or longer represented 27 percent of total deposits, followed by 92-182 day CDs at 19 percent and MMDAs with a 17 percent share. Jumbo CDs and low-rate passbook/transaction accounts each had a 12 percent share. Intermediate maturity retail certificates in the 1-2½ year range accounted for 6 percent, and those in the 183 day-1 year range accounted for 3 percent of total deposits. Short-term (less than 3 months) CDs represented 1 percent of deposits, as did Super-NOW accounts (see Chart 4).

Mortgage Loan Repayments

Mortgage loan repayments, a major source of thrift industry funds, increased sharply in 1983 and were in record volume in absolute terms. The improvement reflected the general recovery in the housing market, a sharp increase in home sales, a refinancing activity that more than tripled, and an increase in short-term construction lending.

Cash loan repayments increased 72 percent from 1982 to 1983 to total $71.3 billion, topping the $50 billion of cash repayments recorded in 1978, the prior record. Repayments as a percent of average mortgage balances outstanding rose from 8.5 percent in 1982 to 14.3 percent in 1983, only slightly less than the peak of 15.1 percent reached several times in the 1970s (see Chart 5).

Chart 5.—Mortgage Turnover Rate,* 1969-1983



*Net loan repayments as a percent of average mortgage holdings.

Borrowings

Thrift institutions increased their borrowings only slightly during the past year. Indeed, the rise was the smallest since 1976, when borrowing actually declined. Net repayments were made early in the year when deposit flow was strongest and mortgage lending seasonally light, but these were marginally offset by subsequent new borrowings.

The $0.6 billion increase in thrift borrowings in 1983 compares with an $8.6 billion increase during the prior year. The $98.5 billion of borrowings outstanding at the end of 1983 represented 12.03 percent of total assets, down from 13.14 percent a year earlier.

Federally insured thrifts repaid $6.7 billion of Federal Home Loan Bank advances in 1983, in contrast to a $1.0 billion increase in such borrowing outstanding in 1982. Institutions had last been repayers of advances in 1976.

Borrowings from all other sources, however, increased again last year. Following a sharp decline in January, outside borrowings increased in 9 of the remaining 11 months. To a large extent, the January reduction reflected the transfer of funds from retail repurchase agreements (which are included in other borrowings) to the newly authorized MMDA and Super-NOW deposit accounts. For the entire year, non-Federal Home Loan Bank borrowings increased $7.3 billion, only slightly less than the $7.6 billion rise in 1982 (see Chart 6).

Chart 6.—Borrowings, 1982-1983
(Billions of Dollars)

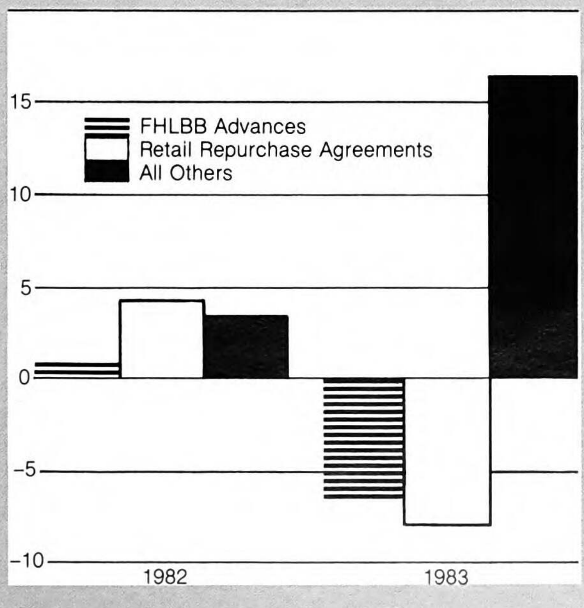
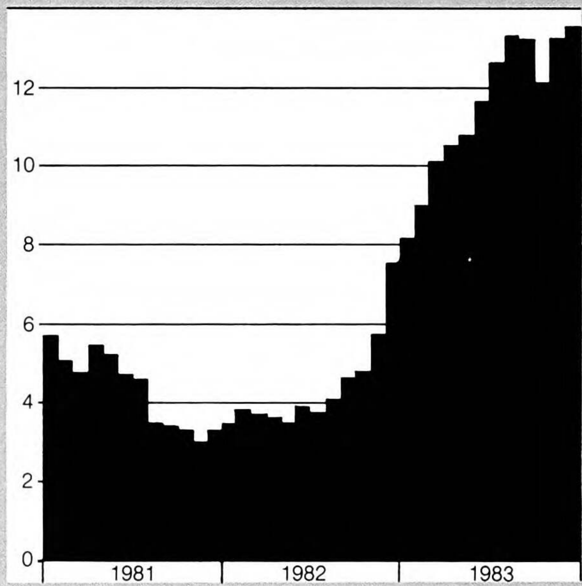


Chart 7.—Mortgage Loans Closed, 1981-1983
(Seasonally Adjusted, Billions of Dollars)



Mortgages

Record deposit flows, sharply lower mortgage interest rates, housing demand unfulfilled during the earlier period of high interest rates, and the implementation of adjustable rate loan programs contributed to a record extension of mortgage credit by thrift institutions in 1983. Lending activity was significantly higher for loans on all property types than in 1982. Adjustable rate loans represented about two-fifths of all conventional loans made for purchasing single-family homes and a sizable portion of total lending. Moreover, the relative importance of adjustable rate mortgage lending rose sharply during the latter part of the year.

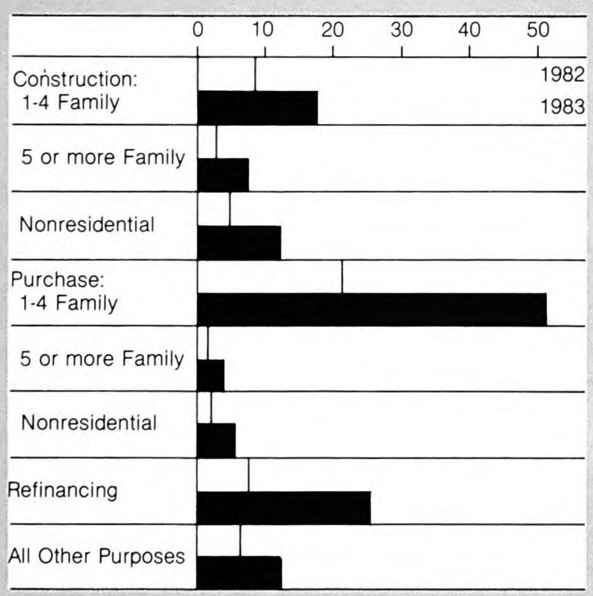
The $138.2 billion in mortgage loans originated by thrifts in 1983 topped the previous high of $108.3 billion in 1978 by a substantial margin. The volume in 1983 was 2½ times the number of loan closings in 1982.

Lending activity, which had improved during late 1982, was strong throughout all of 1983. Monthly mortgage lending volume, measured on a seasonally adjusted basis, surpassed prior peaks early in the year and was in record or near-record amounts in all subsequent months. The $15.0 billion of closings ($13.4 billion on a seasonally adjusted basis) during December was the largest monthly volume ever (see Chart 7).

Contributing to this record mortgage activity was a further decline in mortgage interest rates. The average effective interest rate on conventional loans closed by thrift institutions for purchases of single-family homes was 13.90 percent in December 1982. A year later, the average was 12.40 percent. On an annual basis, the effective rate averaged 12.75 percent in 1983, down from 15.28 percent the previous year, and 14.90 percent in 1981.

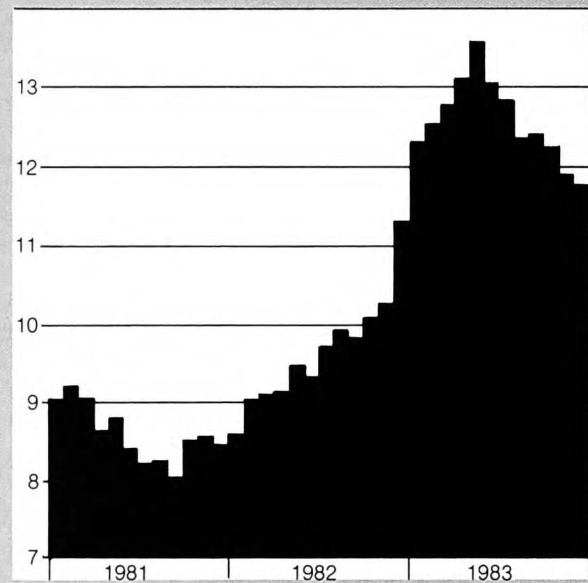
Mortgage lending increased substantially from the depressed 1982 amounts for all loan purposes and for all property types. Moreover, virtually every property/loan purpose volume was at an all-time high, surpassing the 1977–78 levels. The only 1983 funds that were not in record volume were originations on 1–4 family properties for both construction and purchase. Total construction lending increased to $38.7 billion, loans for purchasing property rose to $61.4 billion, and loans closed for other purposes rose to $12.9 billion (see Chart 8).

Chart 8.—Mortgage Lending by Type, 1982-1983
(Billions of Dollars)



Secondary mortgage market activity also increased last year, principally on the purchase side. Gross purchases of mortgages almost doubled from $23.3 billion in 1982 to $45.8 billion, while gross sales inched up from $53.4 billion to $55.4 billion. Consequently, the net sales position of thrift institutions declined from $30.1 billion in 1982 to $9.6 billion in 1983.

Chart 9.—Liquidity, 1981-1983
(Ratio-percent)



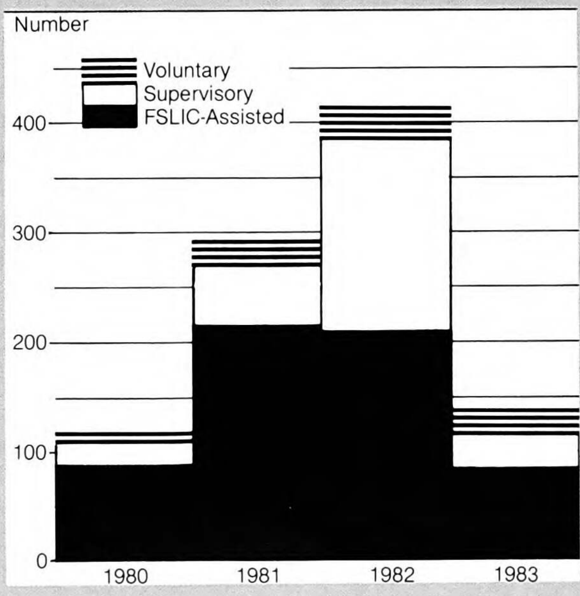
The reduction in net mortgage sales in 1983 reflected primarily a smaller volume of "swaps," the exchange of mortgages for mortgage-backed securities issued by the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (Freddie Mac) for restructuring purposes. As a consequence, the rise in holdings of mortgage-backed securities by thrifts slowed to $28.0 billion during the past year from $30.8 billion in 1982.

Cash and Investment Securities

Thrift institutions increased their holdings of cash and investment securities by a record $25.2 billion in 1983, up from the prior high of $20.1 billion in 1982. Most of the rise in holdings occurred early in the year, when deposit flows were heaviest and mortgage lending seasonally low.

Investments in short-term securities that qualify as liquid assets increased by a record $12.5 billion in the first quarter of 1983, reflecting response to the influx of MMDA funds. Sizable growth continued into the second quarter, then tapered off as deposit flow slowed and mortgage lending increased. Reflecting these developments, the aggregate industry liquidity ratio (liquid assets as a percent of deposits plus short-term borrowings) increased from 11.29 percent at year-end 1982 to a record 13.61 percent at the end of May 1983. The ratio declined during the remaining seven months to 11.72 percent at year-end (see Chart 9).

Chart 10.—Industry Share of the Residential Mortgage Market, 1973-1983



Holdings of nonliquid investment securities rose by a record \$10.5 billion in 1983, in contrast to the \$0.6 billion decline during the prior year. The largest quarterly gain was posted during the final three months of the year.

Cash and investment securities consisted of the following major components as of September 30, 1983, the latest date for which data are available: U.S. government securities, 18 percent; deposits in commercial banks, 14 percent; federal funds loans, 13 percent; federal agency securities, 12 percent; Federal Home Loan Bank deposits, 9 percent; corporate debt, 6 percent; deposits in thrift institutions, 6 percent; and commercial paper, 4 percent.

Industry Share of the Mortgage Market

FSLIC-insured institutions significantly increased their share of net residential mortgage debt formation in 1983. The industry accounted for 48 percent of the net increase in residential debt during the year, up significantly from the depressed 7 percent share in 1982 and the largest proportion since 1977. The year-to-year improvement reflected the sharp increase in funds available to thrifts for mortgage lending (see Chart 10).

Nonmortgage Loans

Nonmortgage loans held by FSLIC-insured institutions rose \$6.8 billion in 1983, up from \$2.8 billion in 1982 and \$1.6 billion in 1981. This large pick-up in nonmortgage lending reflected both the sharp rise in funds available for lending and association use of the expanded lending authority provided by the Garn-St Germain Depository Institutions Act of 1982. The \$22.9 billion in nonmortgage loans outstanding at the end of December 1983 represented 2.8 percent of total assets.

Regulatory Net Worth

The regulatory net worth of FSLIC-insured institutions rose by \$7.2 billion in 1983, following two years of sharp decline. This reflected a variety of developments. One was the shift from net operating losses (which reduce net worth) to net income (which is added to net worth). There was also a large increase in funds added to net worth from the sale of stock. Indeed, approximately \$2.7 billion was added to net worth from the sale of stock by institutions converting from mutual to stock form of organization.

Also contributing to the growth in regulatory net worth were inclusion of about \$0.6 billion of appraised equity capital, resulting from new single-time appraisals of the fixed assets of institutions as provided by a regulatory change made in 1982, and approximately \$0.5 billion of capital assistance from the FSLIC. Such capital assistance was primarily in the form of net worth certificates issued by institutions in exchange for promissory notes issued by FSLIC pursuant to the Garn-St Germain Depository Institutions Act of 1982.

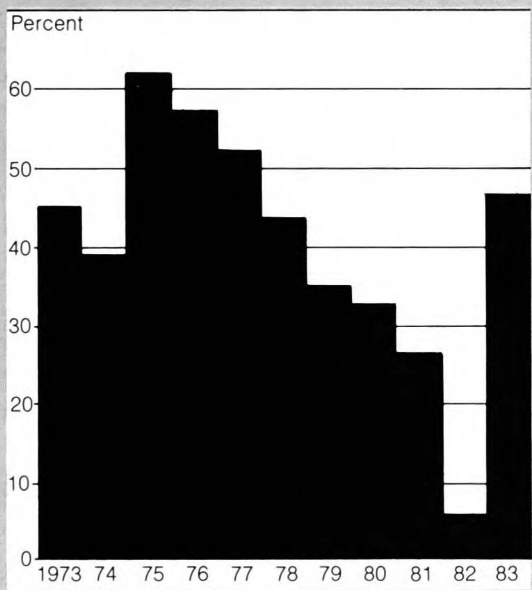
As a result of the rise in net worth in 1983, the ratio of regulatory net worth to total assets of FSLIC-insured institutions rose from 3.66 percent at year-end 1982 to 4.03 percent at the end of December 1983. This was the highest since January 1982, but still well below earlier levels.

Industry Consolidation and Structure Changes

As a result of the improvement in conditions and prospects and of earlier mergers, thrift industry consolidation slowed in 1983. The Board approved 138 mergers in 1983, resulting in the disappearance of 159 institutions, whereas it had approved a record 425 mergers (483 disappearing institutions) in 1982. Of the mergers approved last year, 23 were FSLIC-assisted, down from 44 in 1982; 31 were of a supervisory nature but without assistance, down from 166 in 1982; and 84 were voluntary, down from 215 (see Chart 11).

Significant changes also occurred in industry structure last year. The number of FSLIC-insured institutions with stock form of organization increased from 755 at the end of 1982 to 780 at the end of 1983, as a result of conversions and new charters; over the same period, the number of FSLIC-insured mutual institutions declined from 2,594 to 2,403 because of conver-

Chart 11.—Mergers Approved by Board by Type, 1980-1983



sions and mergers. The number of FSLIC-insured savings banks rose from 6 at year-end 1982 to 143 at the end of 1983, in large part because of the simplified procedures for converting from a savings and loan association to a savings bank authorized by the Garn-St Germain Depository Institutions Act of 1982. Over the same period, the number of FSLIC-insured savings and loan associations declined from 3,343 to 3,040 as a result of conversions and mergers.

Policy and Research Activities

The Office of Policy and Economic Research (OPER) continued to use a combination of permanent staff, visiting academic economists, and a limited amount of contract research to provide the Board with background analyses and policy advice. Major activities are described below.

Simulation Modeling. OPER has devoted substantial resources to the continued development and enhancement of various analytical tools in order to improve office capability to evaluate policy issues and project industry activity. Research and development efforts have focused both on macro-economic issues and micro-viability analysis of individual associations.

OPER currently uses numerous models to support research and planning efforts. The models range from a macro-economic model of the savings institutions industry to firm-specific accounting models. These tools are used in concert to evaluate the effect of proposed legislative or regulatory actions. During the past year, this system has been used extensively to project the scope and magnitude of the problems facing the FSLIC under various economic scenarios.

DIDC Liaison and Analysis. The director of OPER is the Board's principal representative on the DIDC staff. The director and other OPER staff members propose and evaluate DIDC initiatives and make policy recommendations to the Board Chairman with respect to DIDC issues.

Over the past year, the Office of Policy and Economic Research has been extensively involved with the DIDC staff in an effort to provide the industry with a more competitive liability structure without further jeopardizing its precarious earnings position.

OPER is responsible for providing the committee and committee staff with analyses of the current state of the savings institutions industry and the effect of proposed deregulation actions under various economic environments. In addition, the OPER staff is periodically responsible for preparing DIDC memoranda and evaluating public comment on DIDC proposals.

Quarterly Reports Task Force. Beginning on March 31, 1984, FSLIC-insured institutions will report financial data to the Board on a quarterly basis in lieu of semi-annual reports previously submitted. As a member of the Quarterly Reports Task Force, OPER helped develop these reports, which will provide information on the interest rate maturity and repayment characteristics of an institution's interest-bearing assets and liabilities. This new report will accomplish two objectives. First, every FSLIC-insured institution will have to examine its interest rate risk exposure. The new reporting requirement is crucial to the survival of the industry, because recognition of a problem is the first step to its ultimate solution. Second, the Board will be able to monitor the industry's interest rate risk exposure. In addition, the information from the new reporting system will enable the Board to take appropriate regulatory action in order to facilitate the continued restructuring of the industry.

Deposit Insurance Study. The Garn-St Germain Depository Institutions Act of 1982 mandated a comprehensive review of the provision of deposit insurance. The key concern addressed by the study was the provision of federal deposit insurance to an industry that has been substantially deregulated and which has received expanded asset and liability powers. Published as the *Agenda for Reform,* the study is available through the Government Printing Office, Superintendent of Documents, Washington, DC, 20402. The publication costs $6.50 per copy, and carries Stock No. 012-000-00034-1.

Research Grants Program. In 1982, OPER began a research grants program. Under this program, scholars at colleges and universities across the country compete for research grants to study the problems and prospects for the thrift industry. In 1983, six grants were awarded; recipients, their affiliation, and titles of projects are shown in Table 2. The grants program appears to be a cost-effective way to focus some of the best minds of the country on solutions to complex problems in the thrift industry.

Publications and Conferences. The *Housing Finance Review,* a scholarly journal that was begun in 1982, attained an international readership of 1,600 individuals and libraries. Topics covered in 1983 included policy discussions on deposit insurance reform, deregulation and new powers in the savings institutions industry, and economic effects of the enforcement of the due-on-sale clause in home mortgages.

The *Review* gained a respectable position among economic research publications. After the close of volume two (October 1983), Freddie Mac undertook the responsibility of publishing the *Review,* and the Board is no longer involved in its publication.

The office published seven research working papers in 1983, pursuant to its policy of making available the results of significant research by office staff and others. A variety of statistical publications continued to be made available to the public.

On May 31 and June 1, 1983, this office, in conjunction with the Bank System, again sponsored the eleventh annual meeting of the American Real Estate and Urban Economics Association. The AREUEA meetings provide a forum for presenting research in the real estate and mortgage area. Approximately 200 were in attendance.

Table 2.—1983-1984 Grant Recipients

Recipient	University Affiliation	Working Paper Title
Richard Bookstaber	Brigham Young University, Provo, Utah	The Comparative Efficiency of Contract and Market Hedging for Thrift Institutions
James Brickley and Christopher James	University of Utah, Salt Lake City, Utah	The Relationship Between Market-Based Measures of Risk and the Balance Sheet Composition of S&Ls
Robert Geske	University of California, Berkeley, California	Empirical Test of Bond Option Models
John J. McConnell	Purdue University, West LaFayette, Indiana	Evaluating an S&L's Servicing Portfolio
Donald J. Puglisi	University of Delaware, Newark, Delaware	Asset Allocation Models Immunization Strategies for S&Ls: Alternative Specifications
Kerry D. Vandell	Southern Methodist University, Dallas, Texas	An Improved Methodology for Mortgage Loan Underwriting

Office of District Banks

by S. G. Frank Haas III, Director

Chart 1.—System Weighted Average Rate on Advances and Cost of Consolidated Obligations

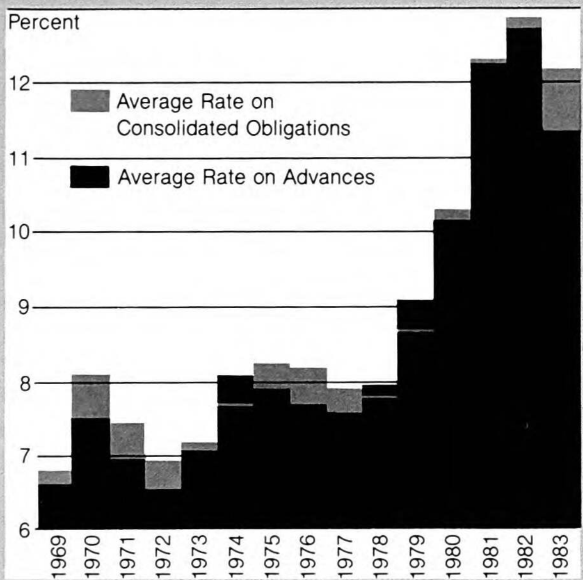
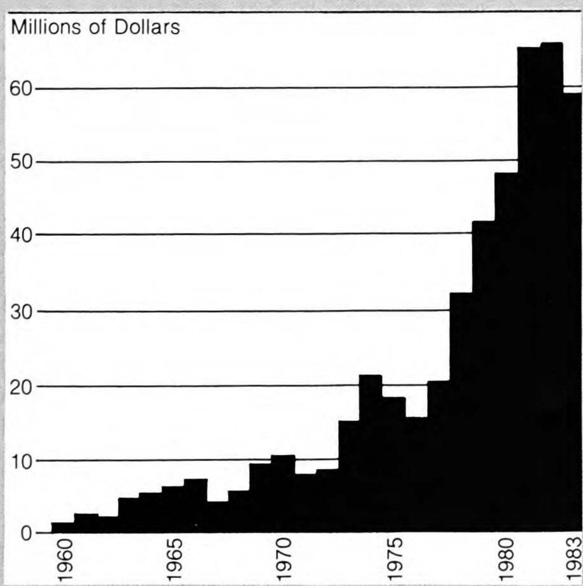


Chart 2.—FHLBank System Advances Outstanding At Year-end



The Office of District Banks (ODB) oversees the operations of the 12 Federal Home Loan Banks (District Banks) and acts as liaison between the District Banks and the Federal Home Loan Bank Board.

Financial Operations of the District Banks

The primary function of the District Banks is to make needed funds available to member thrift institutions in the form of loans or advances. The District Banks make advances to their members for a variety of business purposes, primarily for home financing. The primary source of funds for the District Banks is consolidated obligations in the form of bonds and discount notes that are the joint and several obligations of all 12 District Banks. In addition to the advances function, the District Banks accept deposits from members and provide members services, such as the processing of their NOW account transactions and the safekeeping of securities and economic analyses. Chart 1 illustrates the system weighted average rate on advances and the cost of consolidated obligations between 1969 and 1983.

Federal Home Loan Bank advances outstanding reached an all-time peak of $69.7 billion in July 1982, and declined gradually to $66.0 billion by year-end 1982. This downward trend continued throughout most of 1983 as a result of the infusion of deregulated deposits into member thrift institutions. Total District Bank advances outstanding in 1983 amounted to $59.0 billion (see Chart 2).

In contrast to the previous year when maturing consolidated obligations were basically replaced with new issues, the level of consolidated obligations as of year-end 1983 was reduced to $49 billion from $56 billion as of year-end 1982. The Board made a concerted effort to match the maturities of new consolidated obligations issued to the maturities of the District Banks' assets in order to reduce the District Banks' interest rate risk.

Deposits in District Banks from member thrift institutions totaled $11.8 billion at year-end 1983, down from the $14.7 billion at the end of 1982. Capital stock and retained earnings increased $344 million to $7.7 billion at year-end 1983.

The Federal Home Loan Banks' 1983 combined net income totaled $731 million. Dividends paid out to members in 1983 totaled $536 million.

Loans to the Federal Savings and Loan Insurance Corporation

Early in 1983, ODB worked with the Office of the General Counsel on the implementation of the authority granted the Federal Home Loan Banks under the Garn-St Germain Depository Institutions Act of 1982 for the District Banks to make loans to the Federal Savings and Loan Insurance Corporation (FSLIC). The regulation, which was adopted by the Board in February 1983, directs the District Banks to establish in their credit policies a category of advances secured by a written guarantee of repayment by the FSLIC and authorizes the District Banks to make loans directly to the FSLIC.

Hedging Policy Revisions. Since 1982, the Board has had in effect a hedging policy for the District Banks that authorizes them to use various hedging techniques to manage their interest rate risk. In August 1983, the Board amended this policy to authorize the District Banks to purchase options on debt instruments and options on financial futures in order to provide the District Banks with additional flexibility in their hedging activities.

In conjunction with that amendment, the Board's advances policy guidelines were amended to explicitly permit the District Banks to offer optional takedown, rate guarantee commitments for advances.

Maximum Maturity of Advances. Effective January 1, 1983, the Board's regulations and policy guidelines on advances were revised to require the District Banks to offer members advances with maturities of up to 10 years.

In September 1983, the Board established a broader advances policy by adopting revisions to regulations that authorize, but do not require, the District Banks to offer advances with maturities of greater than 10 years and up to 20 years.

Standby Letters of Credit. In November 1983, the Board adopted a new policy authorizing the District Banks to issue standby letters of credit on behalf of their members in order to facilitate certain business transactions of members.

Interest Rate Swap Guidelines. One of the most important Board initiatives was its recent adoption of policy guidelines that authorize the District Banks to engage in interest rate swap transactions with members. An interest rate swap is an agreement between two parties to exchange fixed-rate and variable-rate payments for a specified period of time. An interest rate swap between a member institution and a Federal Home Loan Bank provides the member with an effective means of more closely matching its assets and liabilities, and thus is an important financial tool to reduce the institution's interest rate risk.

Late in 1983, ODB participated, along with the Office of Policy and Economic Research and the Office of Finance, on a task force to develop policy guidelines to authorize the District Banks to participate in interest rate swap transactions with their member institutions. The final interest rate swap policy guidelines were adopted by the Board in February 1984 and establish flexible guidelines for the District Banks to engage in interest rate swap transactions.

Chartering and Insuring *De Novo* Thrift Institutions

During 1983, ODB participated in several initiatives that involved the amendment of the Board's regulations and policies pertaining to *de novo* federal association charter and insurance of accounts applications. These amendments were the result of the Board's implementation of the Garn-St Germain Depository Institutions Act of 1982 and changes in the powers and structure of the thrift industry.

The Garn-St Germain Act authorized the Board to charter federal savings and loan associations or federal savings banks in either the mutual or stock form. This new authority empowered the Board, for the first time, to charter on a *de novo* basis federal stock savings and loan associations and mutual or stock federal savings banks. Appropriate regulatory amendments and procedures necessary to implement the Board's new chartering authority were adopted in the spring of 1983. The first application for a *de novo* federal stock savings bank charter was approved by the Board in August 1983, and the first *de novo* federal stock savings and loan charter application was approved in October 1983.

In addition to expanding the types of federal charters available to organizers of new thrift institutions, the Garn-St Germain Depository Institutions Act of 1982 broadened the investment powers of federally chartered associations. A number of states, in response to these new powers, amended their thrift laws to liberalize the investment authority of state associations. In view of these changes, the Board, in the fall of 1983, directed staff to conduct a comprehensive review of its regulations and policies for insurance of accounts of *de novo* institutions to ensure that such requirements adequately guard against risk to insured associations and the FSLIC. ODB participated on the Board staff task force responsible for reviewing the Board's insurance requirements for *de novo* institutions and for developing recommendations for appropriate regulatory and policy amendments to reduce the risk exposure of insured associations, as well as the FSLIC.

This effort culminated in the adoption in December 1983 of several amendments to the requirements for insurance of accounts for *de novo* institutions. The most significant of these amendments strengthened the initial capital requirements for *de novo* institutions, and require an insurance applicant to submit a business plan describing its management, operations, investments, and financial projections for the first three years of operations. The Board also established a rule limiting investments by *de novo* institutions in service corporation subsidiaries and the acquisition of real estate to 10 percent of their assets. The rule also amended the statutory reserve and net worth requirements for *de novo* applicants for insurance to provide for increased reserve amounts and to delete provisions permitting the calculation of reserves on a 5-year-

Table 1.—Office of District Banks: Applications Processed, 1973 to 1983

Type of Application	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Branch Offices	1,228	1,149	891	754	650	794	804	634	503	289	398
Organization of New Federal Associations	37	47	14	10	16	16	16	9	8	4	10
Insurance of Accounts	48	72	62	71	69	31	43	72	48	27	43
Voluntary Mergers	128	136	119	88	43	46	38	109	217	215	84
Miscellaneous	365	431	350	474	261	266	318	339	239	163	162
Total	**1,806**	**1,835**	**1,436**	**1,397**	**1,039**	**1,153**	**1,219**	**1,163**	**1,015**	**698**	**697**

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

average basis and the building of reserves over a 20-year period.

Application Trends

For each of the major types of thrift institution applications reviewed by ODB, the 1983 application volume reflected a reversal of the trends seen in recent years (see Table 1). These changes are in part due to the improvements in economic conditions during the past year and to implementation of the Garn-St Germain Depository Institutions Act of 1982.

After three successive years of increasing merger activity, the volume of voluntary merger applications filed with the Board dropped sharply in 1983. A total of 84 voluntary merger applications was approved by the Board in 1983, 61 percent less than the 215 voluntary mergers approved by the Board in 1982 (see Table 2). Last year's voluntary merger activity represents the lowest level of such applications since 1979.

While 1983 merger activity was down from previous years, applications for federal association branches, federal association charters, and FSLIC insurance of accounts rose sharply over 1982.

Applicants by federally chartered savings and loan associations and savings banks to establish branch offices increased 38 percent, up from 289 branch applications in 1982 to 398 branch requests in 1983 (see Table 3). Despite this increase, however, branching activity by federal associations during 1983 remained substantially below the levels prior to 1980. Thirteen of the branch applications (3 percent) approved in 1983 were filed by interstate institutions for a location outside the institution's home office state.

Applications for permission to organize new federal associations also increased last year. The Board approved the organization of 10 new federally chartered associations in 1983, compared with only 4 such applications in 1982. Eight of the organizing groups approved by the Board will organize federal stock savings banks, while two groups requested federal stock savings and loan association charters. The new federal associations will be located in Connecticut, Florida (2), Georgia, Missouri, Nebraska, South Carolina, Texas, and Virginia (2).

In 1983, there was a substantial rise in the volume of applications for insurance of accounts filed with the Board. During 1983, the Board approved 43 requests for FSLIC insurance of accounts, up 59 percent from the number of such applications (27) in 1982. Seven of the applications were filed by operating institutions located in Connecticut, Maine, New York (2), Florida, North Carolina, and Ohio. The remaining applications were submitted by *de novo* state-chartered institutions. Of these new state institutions, 27 (75 percent) are chartered in California, 3 are located in Texas, 2 are in South Carolina, and the remainder will operate in Florida, Michigan, Minnesota, and New Mexico.

During 1983, the Board received 183 conversion applications from state and federal thrift institutions. These applications included 23 requests from state-chartered savings banks to convert to a federal savings bank charter (19 of these institutions retained their FDIC insurance), 34 applications by state-chartered savings and loans to convert to federal savings and loan association charters, and 126 requests by federal savings and loan associations to convert to federal savings banks.

Federal Savings and Loan Advisory Council

by John M. Buckley, Jr., Executive Secretary

In 1935, Congress established the Federal Savings and Loan Advisory Council. The purpose of the Advisory Council is to provide the Federal Home Loan Bank Board with discussion and advice regarding the major questions facing the savings institutions industry. This includes providing the Board with an opportunity to hear an analysis of all sides of an issue by competent individuals representing different perspectives of the industry.

The Council, by law, has 24 members: 12 are elected by the members of the 12 Federal Home Loan Banks and 12 are appointed by the Board. While the terms are for one year, members may be reelected or reappointed. In addition to the elected and appointed members, past presidents of various trade associations related to the thrift and housing finance industry are invited to participate as *ex officio* members.

The Council, which is authorized to meet twice a year or more frequently if the Board so desires, met three times during 1983.

The Advisory Council develops its agenda topics as a result of a discussion with the Board Chairman, Board Members, and the members of the Council's agenda committee. The next step is to assign a committee, consisting of Council members and key Board staff, to each topic. These committees prepare issue papers on each agenda topic before the Council meets. In addition, ideas on the topics are solicited from the savings institutions industry and the public at large through the elected Council members.

Officers	Affiliation
○ Dr. Maurice Mann, council chairman	vice chairman of A G Becker Paribas, Inc., San Francisco, California
• Julian J. Miester, council vice chairman	president of Southern Savings Association, New Orleans, Louisiana
○ John W. Creighton, Jr., agenda committee chairman	vice president of Weyerhauser Company, Tacoma, Washington

Other Members	Affiliation
■ Bernard J. Carl	lawyer with William & Connolly, Washington, DC
■ Andrew S. Carron	senior fellow with The Brookings Institution, Washington, DC
○ Kellogg Chan	president of East-West Federal Savings and Loan Association, Los Angeles, California
■ Ladd Christensen	president of Petro Source, Inc., Salt Lake City, Utah
• Douglas A. Clarke	vice chairman of Glendale Federal Savings and Loan Association, Glendale, California
• Paul K. Clarkin	president of American Federal Savings and Loan Association, Pueblo, Colorado
• James Clarkson	chairman of the board and president of First Federal Savings and Loan Association, Oakland, Michigan
• Andrew R. Evans	chairman of the board of First Federal Savings and Loan Association, Pittsburgh, Pennsylvania
■ Henry D. Forer	S&L accounting issues specialist with Deloitte Haskins & Sells, Miami, Florida
■ Gerald L. Friedman	consultant on financial matters relating to the investment community, Milwaukee, Wisconsin
○ Herbert Gray	chairman of Mutual Bank for Savings, Boston, Massachusetts
○ Roy G. Green	executive vice president of the Washington Division of the US League of Savings Institutions, Washington, DC
• Thomas H. Hamilton	president of Collective Federal Savings and Loan Association, Egg Harbor City, New Jersey
■ John E. Horne	former chairman of the Federal Home Loan Bank Board, Washington, DC

After the Council discusses each agenda topic, specific recommendations are voted on. These recommendations are then discussed with the Board, providing the Board with an opportunity to hear the pros and cons of each given issue. The agenda topics primarily consist of emerging macro issues of immediate concern to the Board.

During fiscal year 1983 the following topics were discussed: mark to market accounting, new asset and liability powers, new patterns in residential mortgage lending, sources of capital for mutual associations, current value reporting, the role of the Board in the current and future economic and regulatory environment, and performance evaluation systems for District Banks. The exploration and discussion of these important topics provided significant contributions to the Board.

Besides the discussion of the aforementioned topics, two special subcommittees were formed to provide advice to the Board on two particularly critical issues. The first committee was established to review a proposal to have the thrift industry adopt a new current value accounting system. The purpose of the new accounting system was to ensure that savings institutions books would provide a more accurate description of the actual situation, particularly with regard to interest rate risk. This was a very controversial proposal, and was strongly opposed by the industry inasmuch as it would entail massive changes. After reviewing the proposal, the subcommittee decided that the main objective could be achieved, without requiring massive changes, by installing a new reporting system that would include the basic information. This proposal was eventually adopted by the Board and was incorporated into the new quarterly report.

The second special subcommittee formed by the Council during 1983 provided the Board with an in-depth analysis of the effects on the industry of ownership of savings and loan associations by securities firms. The subcommittee prepared an in-depth analysis of the questions and options involved in this major issue, but did not adopt a formal recommendation.

Other Members	Affiliation (continued)
• Kenneth E. Kamberg	president of Coral Gables Federal Savings and Loan Association, Coral Gables, Florida
■ Ron Kessler	lawyer with Jones Day Reavis and Poque, Dallas, Texas
○ William B. Lewis	deputy commissioner of the Division of Savings and Loan Associations, Trenton, New Jersey
○ Fred Napolitano	president of Napolitano Enterprises, Virginia Beach, Virginia
○ Robert B. O'Brien, Jr.	chairman and president of Carteret Savings and Loan Association, Morristown, New Jersey
■ Helen F. Peters	officer of Merrill Lynch, New York, New York
■ Dr. R. Bruce Ricks	joint ventures real estate consultant in Portola Valley, California
• Harold E. Scales	chairman of the board of Anchor Savings and Loan Association, Madison, Wisconsin
■ James C. Schmidt	president of Great American Federal Savings and Loan Association, San Diego, California
• Robert J. Schreiner	president of Home Savings and Loan Association, Waterloo, Iowa
• Donald B. Shackelford	chairman of the Board of State Savings Company, Columbus, Ohio
○ Robert J. Spiller	president and chief executive officer of Boston Five Cents Savings Bank, Boston, Massachusetts
• Robert F. Stoico	president and chief executive officer of First Federal Savings and Loan Association, Fall River, Massachusetts
• Christopher J. Sumner	president of Western Savings and Loan Company, Salt Lake City, Utah

• Elected
■ Appointed
○ Ex-Officio

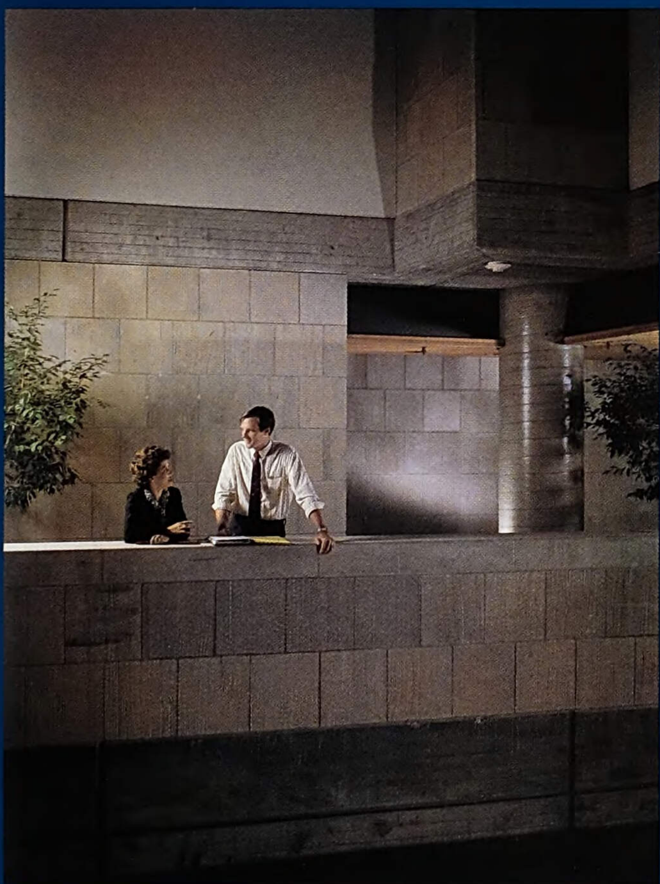
Table 2.—Summary of Voluntary Merger Applications By District Banks and State, 1982-1983

District Bank and State	1983	1982
Boston		
Connecticut	1	1
Massachusetts	0	2
New Hampshire	0	1
New York		
New Jersey	2	3
New York	0	2
Pittsburgh		
Pennsylvania	12	16
West Virginia	2	0
Atlanta		
Alabama	1	6
District of Columbia	0	2
Florida	1	7
Georgia	2	11
Maryland	0	1
North Carolina	6	8
South Carolina	0	22
Virginia	1	4
Cincinnati		
Kentucky	3	2
Ohio	7	15
Tennessee	3	2
Indianapolis		
Indiana	3	6
Michigan	1	3
Chicago		
Illinois	3	8
Wisconsin	2	11
Des Moines		
Iowa	2	6
Minnesota	0	7
Missouri	3	3
North Dakota	0	3
Dallas		
Arkansas	0	7
Louisiana	0	3
Mississippi	2	3
New Mexico	0	3
Texas	12	11
Topeka		
Colorado	3	3
Kansas	6	2
Nebraska	0	5
Oklahoma	1	1
San Francisco		
Arizona	1	1
California	2	21
Nevada	0	1
Seattle		
Montana	0	1
Oregon	0	0
Washington	2	1
Total	84	215

Table 3.—Summary of Facility Applications By District Banks and State, 1982-1983

District Bank and State	1983	1982
Boston		
Connecticut	7	2
Massachusetts	3	2
New York		
New Jersey	9	4
New York	21	10
Puerto Rico	7	4
Pittsburgh		
Pennsylvania	5	5
West Virginia	5	1
Atlanta		
Alabama	5	2
District of Columbia	0	2
Florida	96	69
Georgia	11	7
Maryland	6	4
North Carolina	9	6
South Carolina	15	4
Virginia	8	6
Cincinnati		
Kentucky	4	0
Ohio	7	7
Tennessee	3	2
Indianapolis		
Indiana	5	3
Michigan	0	1
Chicago		
Illinois	10	6
Wisconsin	7	1
Des Moines		
Iowa	4	0
Minnesota	6	1
Missouri	4	0
North Dakota	1	1
Dallas		
Arkansas	15	3
Louisiana	6	16
Mississippi	2	3
New Mexico	1	2
Texas	23	13
Topeka		
Colorado	8	1
Kansas	1	3
Nebraska	3	0
Oklahoma	17	7
San Francisco		
Arizona	9	9
California	43	76
Nevada	3	1
Seattle		
Alaska	0	1
Hawaii	2	1
Idaho	1	1
Oregon	4	1
Washington	1	0
Wyoming	1	1
Total	**398**	**289**

Part II Financial Developments, Housing Activities, and Secondary Markets



After a period of heavy losses triggered by inflation and high short-term interest rates, the thrift industry enjoyed demonstrable gains in the first half of 1983. The return to profitability was aided by a sharp reduction in market interest rates, which also served to stimulate housing activity. And although these gains were vitiated somewhat as interest rates began to rise again in the summer of 1983, the thrifts could still point to a modest recovery by year's end.

The introduction of money-market deposit accounts helped boost deposit flow to savings and loan institutions early in 1983 and, despite subsequent decreases, the flow continued to be substantial into 1984. The continuing recovery was aided by deregulation and the competitive interest rates on deposits that it generated.

Despite the upswing, however, the thrift industry remains vulnerable to the fluctuations of the national economy, especially the continuing threat of rising interest rates. Monitoring the economic factors affecting the credit and capital of the savings institutions industry and its housing investments are the Board's Office of Finance, Office of Community Investment, Neighborhood Reinvestment Corporation, and Federal Home Loan Mortgage Corporation.

Office of Finance. The Office of Finance, with five divisions, is the intermediary between the Bank System and the financial community and serves as counselor for financial services to the 12 District Banks.

The Debt Management Division issues the Bank System's consolidated obligations. In 1983, total bond sales registered slightly less than $11 billion, the first decrease in outstanding bonds since 1976. Faced with volatile and often offsetting factors throughout most of the economy—low inflation versus higher interest rates, primarily—the management of debt issuance in 1983 was facilitated by a fairly stable market situation that let the System step up the debt extension plan introduced in 1982. The System also used its discount note program for short-term market purchases at a time when discount notes were converted to the Federal Reserve's book entry system. The new issue yield curve was expanded from one month to 30 years, and a separate dealer group was formed for longer-term securities.

The Financial Planning Division initiated a number of services for the District Banks, including an automated futures reporting system, a cash-hedging tracking system, a program for interest rate swaps, and a first-time use of options by the Banks.

The Investment Division invests liquidity portfolios of the consolidated securities fund, which in 1983 averaged $2.7 billion a day. The division continued to explore further mechanisms for Bank System investments.

Expanding its automated services, the Information Management Division gave District Banks access to an electronic mail system, developed a comprehensive futures tracking system, and provided an integrated computer program to facilitate the transmittal of information to the Finance Office.

The Administrative Services Division, which managed the sale of $230 million in Government National Mortgage Association securities in 1983, also oversaw the relocation of the headquarters of the Office of Finance.

Office of Community Investment (OCI). In addition to continuing activities designed to promote thrift industry involvement in community housing, OCI in 1983 assumed responsibility for international activities, consumer affairs, civil rights, and Community Reinvestment Act compliance. Under the international program, the office provided technical assistance to thrift-related industries in Costa Rica, Jamaica, and India, trained a number of housing finance representatives from abroad, and administered the Board's contract with the U.S. Agency for International Development for technical assistance. Centralizing the Board's civil rights, consumer, and Community Reinvestment Act functions within OCI allowed the office to streamline and computerize procedures for ensuring that the Board and its affiliates are in compliance with relevant statutes and orders, and for handling allegations of violations in those areas.

In its ongoing direction of pension fund use in community investment, OCI benefited from a liberalized Labor Department ruling regarding the investment of Employee Retirement Income Security Act funds in mortgage-related securities, while seeking further remedial legislation. The office helped design a plan to steer $13.6 million in U.S. Energy Department deposits to minority-owned savings institutions, and administered the fifth and final year of the Community Investment Fund, which by mid-1983 had generated loans for some 571,000 housing units for low- and moderate-income consumers. OCI also provided technical assistance on funding for savings institutions housing projects and continued to coordinate thrift industry compliance with the Home Mortgage Disclosure Act.

Office of Neighborhood Reinvestment. Through its Neighborhood Housing Services (NHS) programs, the Board works with member thrift firms and local communities to revive declining neighborhoods. While individual projects in the program are by nature small-scale and long-term, in the aggregate they reflect a vigorous impact on the nation's community life. By the end of 1983, the program had attracted $1.7 billion in local reinvestment and generated an additional $860 million in related investments. Projects were active in nearly 200 neighborhoods in 135 cities, benefiting more than two million residents. Among a variety of NHS activities designed to complement primary neighborhood reinvestment funding is the urban lender program, which provides technical assistance and education to ensure full realization of redevelopment projects.

Federal Home Loan Mortgage Corporation. The Corporation—universally known as Freddie Mac—boasted its best year in 1983, citing record earnings of $221.1 million and paying the Federal Home Loan Banks $34.5 million—another record—in dividends. The Corporation, which seeks to develop a secondary market in conventional mortgages, introduced two major programs in 1983, one to help thrifts restructure portfolios and shorten asset maturities, and another to generate capital from new investment sources. To aid thrifts further, Freddie Mac set up a program to encourage adjustable-rate mortgages, offered a discount collateralized mortgage obligation at optimal prices, and expanded training programs for savings institutions executives.

Office of Finance

by Austin C. Dowling, Director

The Office of Finance, with five operating divisions, serves the needs of the Federal Home Loan Bank System in areas ranging from investments to debt issuance to providing financial planning and expertise. Policies and activities are coordinated with each of the 12 Federal Home Loan Banks (District Banks), the Federal Savings and Loan Insurance Corporation (FSLIC), and other offices within the Board.

Debt Management Division

The Debt Management Division is responsible for issuing the consolidated obligations for the Bank System. The prevailing market environment at the beginning of 1983 offered an auspicious outlook for the System's financing. The early signs of economic recovery had started to appear and the equity market had responded with a sustained rally. Of greater significance to the System, however, was the impact of the newly authorized money market deposit accounts (MMDA). Commercial bank certificate of deposit issuance in the money market dropped substantially during the first month of 1983. Most importantly, the MMDA-generated surge in member deposits foretold the probability of greatly reduced financing requirements for the year.

This relatively positive atmosphere continued through the first half of 1983, further fueled by the collapse of OPEC's price structure and extremely low inflation figures. During this period, the federal funds rate hovered in the 8.40 to 8.85 percent range and the bellwether U.S. Treasury 30-year bond ranged from 10.27 to 11 percent. While the burgeoning Treasury supply, federal deficits, and international debt situation had been evident throughout, these factors did not move to the forefront of market psychology until after the Federal Reserve Board's apparent tightening of monetary policy in late May. This sharp reversal in tone was subsequently subjected to additional uncertainty by the delay in the reappointment of Chairman Paul Volcker, which then coincided with a prolonged surge in money supply.

Interest rates peaked in early August 1983 and remained near those levels for about a month, until a sudden drop in money supply, combined with lowered fourth-quarter Treasury borrowing estimates, began to overcome the mixed economic signals and lack of retail investors. However, volatility and investor speculation increased through the end of the year, as the market was buffeted by sharply higher federal funds rates (9.20 to 9.65 percent in the period from September to December 1983), uncertainty regarding congressional action on the debt ceiling, heavy year-end Treasury supply, and a suddenly robust recovery. These negative factors were countered by nominal money supply growth, a foreign debt-led flight to quality, and the lowest inflation rate in years.

Overall, the factor that most facilitated debt issuance in 1983 was the relative stability of the markets. For instance, in 1982, the 6-month Treasury bill traded from 7.70 to 14.35 percent and the 30-year bond ranged from 10.33 to 14.00 percent. In contrast, the trading ranges during 1983 were 7.62-9.71 percent, and 10.27-12.15 percent, respectively. This decreased volatility allowed greater control over financial planning and provided the Bank System with the opportunity to expand the debt extension program initiated in late 1982. As a result, bonds sold in 1983 averaged over 6¾ years in maturity, up from 3⅓ years in 1982 and 2½ years in 1981. Total sales for the year were just under $11 billion, a $5.1 billion net paydown, representing the first decrease in outstanding bonds for the System since 1976. This small issue size also worked to effect a considerable narrowing of the required spreads over Treasuries to 24 basis points. The resultant average new-issue cost fell over 200 basis points to 11.13 percent.

The System also availed itself of market opportunities through its short-term funding vehicle—the discount note program. Although total sales fell from more than $16 billion in 1982 to $11 billion in 1983, the District Banks were able to refine their asset-liability management and request specific monthly maturities throughout the 30-360 day schedule. In addition, the cost required dropped nearly 3 percent, to 8.87 percent. The customer base was further enhanced by the long-awaited conversion of discount notes to the Federal Reserve's book-entry system.

The Debt Management Division arranged the private placement of some obligations in 1983 in order to best meet the specific financing needs of the Federal Home Loan Banks. In addition, future financing requirements were addressed through a study, which identified alternative structures, costs, and potential markets for the long-term debt that may be required to fund advances out to 20 years. The division also assisted the Savings and Loan Advisory Council, District Bank personnel, and the Board with an investigation of the applicability of interest rate swaps to either member institutions or the Bank System.

The market-advisory service provided to the District Banks to assist in the pricing of advances was greatly enhanced through the expansion of the new issue yield curve to include maturities from one month to 30 years. Finally, the management and subsequent performance of the consolidated bond selling group was improved through the establishment of a separate selling group for longer-term securities. The positive impact of this move will become more evident should the Bank System issue a 10- to 20-year security. Active management and evaluation of dealer performance in the consolidated obligation selling groups are a continuing process performed by the Debt Management Division.

Financial Planning Division

The Financial Planning Division is responsible for recommending the amounts and maturities of consolidated obligations based on the Federal Home Loan Banks' needs. It is also charged with conducting financial research and designing and implementing financial reporting systems to aid in planning and coordination within the Federal Home Loan Bank System. Since 1982, the System's goals of matching asset/liability maturities and of extending the maturity of advances available to members have guided the activities of this division.

In 1983, the Financial Planning Division provided substantial help and expertise to the District Banks for their use of cash and futures hedging. A computerized financial futures reporting and monitoring system was developed, implemented with the aid of the Information Management Division, and made available to the District Banks. The system tracks each financial futures transaction, provides an explanation of its purpose, and calculates the profit or loss on a daily basis. A cash-hedging tracking system was also developed by modifying the existing portfolio management system. Training seminars in financial futures and options were organized and presented to financial officers of the District Banks and Board personnel.

The use of options by the District Banks was allowed for the first time in 1983. Options are another tool for hedging to control the risks when assets and liabilities cannot be matched exactly. The Financial Planning Division developed guidelines for the use of options by the Federal Home Loan Banks, as well as designed a reporting system.

The monthly advances reporting system is now available by computer to all District Banks. It provides needed financial information on advances not previously available on a systemwide basis. It also integrates the detailed advances data with investment, deposit, bond, discount note, and interbank transaction data to enable better planning by the Federal Home Loan Banks.

A policy for interest rate swap participation by the Federal Home Loan Banks and letters of credit for members' interest rate swaps was formulated in conjunction with the Office of District Banks and the Office of Policy and Economic Research. Interest rate swaps provide members with an opportunity to better match asset and liability maturities through the exchange of fixed-rate payment streams for variable-rate payment streams with another party. The entrance of the Federal Home Loan Banks into the swap market should enable more thrifts to use this relatively new asset/liability management tool. To acquaint the Board and the Federal Home Loan Banks with the concept and practice of interest rate swaps, the division has organized educational seminars with leading swap market participants.

Currently under development is an asset/liability simulation model. It will coordinate all the financial information on advances, investments, bonds, and discount notes from other automated data bases. Each District Bank will be able to project its own financial statements, as well as detailed asset/liability management and risk reports.

Investment Division

The Investment Division has continued to perform its investment and advisory functions. The division invests the liquidity portfolios of the Consolidated Securities Fund (CSF) and the portfolio of the Federal Savings and Loan Insurance Corporation (FSLIC). The Consolidated Securities Fund is a pool comprising 20 percent of each of the District Banks' liquidity portfolios. Through 1983, the average daily size of the CSF was \$2.7 billion. The average monthly trades processed numbered 1,200. With the average transaction size of \$79 million, the daily trading volume approached \$5 billion.

Research was undertaken to determine additional investment vehicles for the Bank System. Time deposits, Yankee certificates of deposit, and federal fund sales to domestic banks domiciled outside the United States were considered. Alternative clearing facilities were investigated for clearing physical securities for the Bank System.

The division works closely with the director and staff of the FSLIC to devise its investment strategy. A major restructuring program for the FSLIC portfolio was implemented to shorten its average maturity. This will lead to a lessening in the volatility of the value of the portfolio. The division has also acted in concert with the Administrative Services Division in the sale of Government National Mortgage Association (Ginnie Mae) securities that the FSLIC had received in merger and acquisition cases.

Information Management Division

The Information Management Division is responsible for the progress in making intersystem telecommunications available to the Federal Home Loan Bank System. Data processing services and other programming needs are provided for other divisions and for the Federal Home Loan Banks by this division. During 1983, the electronic mail system was made available to the Federal Home Loan Banks, enabling each to send and receive messages from the other District Banks and the Office of Finance. The system has been used to notify other District Banks and make requests concerning the availability of and rates for interbank advances. A comprehensive futures tracking system was designed and implemented to allow the Federal Home Loan Banks to enter and account for hedge-related futures contracts and cash/margin transactions on a daily basis. The Ginnie Mae sales system was developed to perform all the accounting functions associated with the sale of Ginnie Mae securities. The division also wrote programs to be used on the IBM personal computer. One program simulates line-edit processes in order to allow the Federal Home Loan Banks to enter and edit data prior to transmittal of the data to the Office of Finance.

Two important challenges were successfully met in 1983. First, the move of the Office of Finance into new quarters was accomplished with no interruption in service to the Federal Home Loan Banks. Second, discount note obligations were changed from physical securities to book-entry securities in December 1983. The necessary changes to the in-house computer systems and the ability to interface with the Federal Reserve Bank of New York's wire system for sending these securities were accomplished and were ready when required.

The Information Management Division is helping the Financial Planning Division to develop the asset/liability model that will be made available to the Federal Home Loan Banks. The District Banks will be able to enter assumptions to test sensitivity of income and make forecasts for certain balance sheet items, interest rates, and market yields for specified time intervals.

Administrative Services Division

The Administrative Services Division performs general office services for the Office of Finance. Its responsibilities also include accounting, budgeting, and personnel operations. The division has been responsible for servicing Ginnie Mae securities and other mortgage securities acquired by the FSLIC. The sale of Ginnie Mae pools with a total value of $230 million in $1 million lots was prepared and executed in 1983. Guidelines established by the Public Securities Association were followed in order to establish deliverable lots. Procedures were also established to ensure good delivery when the pools were sold.

This division responded to a request by the FSLIC to reevaluate the cost of approximately 1,500 Ginnie Mae securities as of their original purchase date. A listing was provided by certificate reflecting the difference between the original book value and the revised value.

One major project of the Administrative Services Division during 1983 was the relocation of the Office of Finance to another building in December. The division was responsible for the negotiation of the lease, the purchase of furniture, and the task of physically moving into the new space.

Office of Community Investment

by Richard Tucker, Director

In 1983, the Office of Community Investment (OCI) broadly expanded its assistance to the Federal Home Loan Bank System and the thrift industry in their effort to serve as America's housing partners. In addition to its ongoing work regarding pension funds, minority associations, and the Community Investment Fund, OCI also took over responsibility for consumer affairs, civil rights, and Community Reinvestment Act compliance. OCI was also called upon to coordinate the Federal Home Loan Bank Board's international activities, including the administration of its contract with the U.S. Agency for International Development (USAID).

Pension Plan Funds

OCI continued to lead the Board's efforts to facilitate ways in which pension plan funds can be used by the thrift industry to increase investment in communities.

OCI has become an active participant in the Pension Working Group sponsored by the U.S. Department of Housing and Urban Development (HUD).

International Technical Assistance Division

OCI has been given responsibility for handling the Board's international activities. This includes administration of the Board's contract for international technical assistance with the USAID. Onsite technical assistance has been provided to Costa Rica, Jamaica, and India. Training programs have also been devised for delegations from other countries visiting the United States.

Minority Assistance Development Division

OCI continues to provide specialized assistance to the 75 minority-owned institutions in the Bank System. Working with the American League of Financial Institutions and the U.S. League of Savings Institutions, OCI assisted in developing a plan that will enable the Department of Energy to deposit $13.6 million in minority thrifts.

OCI has provided technical assistance to the California Office of Small and Minority Businesses, which is seeking permission from the state legislature to establish a minority bank deposit program like that of the federal government.

Community Investment Fund

As it concluded its fifth and final year of operation, the Community Investment Fund (CIF) continued to encourage creative lending efforts. Since June 1978, more than 1,337 members have used about $7.9 billion in advances to leverage loans totaling $19.4 billion, accounting for approximately 571,515 housing units.

- About one-half of the participants used CIF money in conjunction with government programs to produce some 191,600 housing units.
- CIF, in conjunction with state programs, has produced another 63,697 housing units.
- Private partnerships, including Neighborhood Housing Services, have resulted in 22,508 units, and 75,145 units have been rehabilitated in targeted low- and moderate-income areas.
- A number of lenders has chosen to pass through the favorable rate in the form of below-market-rate loans on 8,026 units.
- A total of 7,350 units has been produced in low- and moderate-income rural areas.

More than 80 percent of lenders using CIF now have community lending specialists and nearly as many have begun or augmented affirmative marketing programs. More than two-thirds have used CIF for counseling offices in low- and moderate-income areas. These achievements occurred without using federal dollars. Participants discovered new business opportunities.

Since the formal conclusion of the CIF, two Federal Home Loan Banks—Dallas and Boston—have developed plans for continuing a CIF-style program on their own.

Processing HMDA

On behalf of the Board, OCI coordinated the thrift industry's compliance with the Home Mortgage Disclosure Act (HMDA). Some 2,069 institutions regulated by the Board were required to file a home mortgage loan disclosure statement.

Technical Assistance

OCI was frequently called upon to provide various kinds of technical assistance. OCI worked with the Federal Home Loan Bank of New York to arrange with the Federal National Mortgage Association (Fannie Mae) a Tri-Party Participation Program that will yield approximately $2.7 million in housing funds for Atlantic City, New Jersey.

OCI provided support to the President's Task Force on Housing that resulted in the thrift industry's community investment efforts being cited extensively in the Task Force publication, *Investing in America.*

OCI worked extensively with HUD staff and their consultants in the rental rehabilitation program. OCI provided technical assistance and recommended material for HUD to use in conducting six regional symposia on private/public partnership.

Consumer Affairs and Civil Rights

In a July 1983 reorganization, the Board's Division of Consumer and Civil Rights (DCCR) was transferred to OCI, which handled these functions prior to 1980. OCI provides direct guidance to the supervisory agents in the Federal Home Loan Banks who handle consumer complaints for the Board and the district office personnel who coordinate the examination of institutions for compliance with civil rights and consumer requirements.

A principal DCCR activity was to resolve complaints that consumers filed with the Board against regulated institutions.

In 1983, DCCR also worked to provide consistent and cost-effective Board enforcement of consumer protection and civil rights laws. For the second full year, the Board monitored the compliance of insured institutions with civil rights laws with the aid of the fair lending data system, also known as the Loan Application Register/Data Submission Report System.

The Board also participated in an interagency study to explore ways to eliminate duplication and inconsistency among the civil rights paperwork requirements on depository institutions.

In addition, OCI reviewed the efficiency of Board requirements for disclosure statements in connection with loans and savings accounts. Subsequently, Board staff issued supervisory memoranda covering this subject.

The Community Reinvestment Act

Responsibility for monitoring institutions with unsatisfactory nondiscrimination and CRA ratings was transferred to OCI during 1983. This function was previously carried out by OES regional directors.

Under streamlined application procedures adopted in December 1982, the Board continued to take into account the CRA performance of all institutions filing applications subject to CRA. Furthermore, regular examinations of insured institutions included evaluation of their efforts to meet the credit needs of their communities, including low- and moderate-income neighborhoods.

The Board received CRA-related protests and held argument hearings in connection with seven applications on which it took action. In each case, the Board determined that grounds for protest had been resolved, were adequately rebutted, or were without merit. However, the Board attached CRA-related conditions to six other applications approved in 1983.

Altogether, the Board processed approximately 900 CRA-covered applications during the year. Of 1,913 associations subject to regular examination in 1983, some 87 were considered to have good or excellent performance in meeting the credit needs of their communities. Only 14 received unsatisfactory CRA ratings.

Office of Neighborhood Reinvestment/ Neighborhood Reinvestment Corporation

by William A. Whiteside, Director

With continuing leadership from thrift institutions, Neighborhood Housing Services (NHS) programs have been at work improving the health of the nation's neighborhoods for more than a decade.

NHS programs are active in 195 neighborhoods in 135 cities and communities. More than 2 million residents call NHS neighborhoods home.

Each NHS is designed to create a more confident, self-reliant neighborhood with normal investment and reinvestment patterns. NHS works to achieve positive neighborhood change by reversing decline; encouraging reinvestment by current homeowners; reducing risk for lenders, insurers, and others doing business in the neighborhood; and generally upgrading the quality of neighborhood life for those who live in the NHS neighborhood, as well as those who could.

The NHS programs grew out of a pilot effort in Pittsburgh, Pennsylvania, and developed with the assistance of the Federal Home Loan Bank System. The programs are private, locally controlled and financed, nonprofit corporations. Each is governed by a working partnership of residents, business and financial leaders, and local government officials. The Office of Neighborhood Reinvestment (ONR) was established by the Board to provide administrative support to the programs. In 1978, Congress enacted legislation establishing the Neighborhood Reinvestment Corporation as a nonprofit public corporation, which receives administrative support from ONR.

Rejuvenating America's Neighborhoods

Across the country, hundreds of financial leaders are playing a key role in bringing renewed pride and vitality to once declining neighborhoods through NHS.

Each NHS begins with the hope of a healthier neighborhood. At the heart of each self-help program is a partnership of residents, business leaders, and local government representatives, each contributing the resources at his/her disposal to make the NHS partnership work. These resources—in addition to time, hard work, and greater cooperation with neighbors—include loans and other business services and the capital improvements necessary to turn around declining neighborhoods.

Demonstrable Achievements

At the close of fiscal year 1983, NHSs had generated over $1.7 billion in local reinvestment, with funds provided primarily by residents, private lenders, and local governments. An estimated $707 million had occurred in spinoff rehabilitation, and close to $152 million in capital improvements.

During fiscal year 1983, NHSs also succeeded in maintaining and slightly increasing their overall operating budget over the previous year, raising approximately $14 million from local sources. At the same time, they successfully assisted thousands of clients who were no longer "bankable" because of high interest rates.

Thrift institutions played a critical role in continuing their support of NHS programs and local revitalization activities. In 1983, more than 390 savings institutions joined in supporting NHS along with more than 580 banks, 260 corporations and small businesses, 137 insurance companies, 60 utility companies, and 80 foundations. Savings institution executives also contributed thousands of volunteer hours, serving on NHS boards of directors and providing managerial skills and financial expertise.

NHSA Secondary Market

As a significant resource to NHS programs, Neighborhood Housing Services of America (NHSA) generates strong private sector support for their local initiatives. With the help of Neighborhood Reinvestment, NHSA was created in 1974 as a national nonprofit organization to meet the shared needs of NHS programs and, in particular, to develop and operate a national NHS loan purchase program for NHS revolving loan funds.

In 1982 and 1983, insurance company below-market commitments to the NHSA secondary market increased almost five-fold. The Prudential Insurance Company of America agreed to purchase $5 million in notes from NHSA to establish a first mortgage loan purchase fund to facilitate treatment of problem properties in NHS neighborhoods. The Employers Insurance of Wausau and the Aetna Insurance Company both entered into agreements with NHSA to purchase notes backed by NHS home improvement loans. Wausau's agreement is for $500,000 and Aetna's for $4 million. Recently, these companies were joined by the Allstate Insurance Company, which has made a formal commitment to purchase $4 million in notes.

Neighborhood Reinvestment grants to NHSA have provided loan purchase capital, operating funds, and funds to cover the differential between NHS loan yields and the below-market rate of the notes. By October 1983, these grants had enabled NHSA to use its agreements with Equitable, Prudential, Wausau, and Aetna to purchase more than $8 million in loans from more than 70 NHS programs.

The NHSA secondary market enables local NHS programs to leverage their revolving loan fund dollars, and that has become an increasingly important planning tool in developing strategies for neighborhood impact. NHSA in 1983 made over $2 million in forward commitments to purchase first mortgage loans to turn problem properties into neighborhood assets.

Complementary Impact Activities

Ten NHS neighborhoods have now achieved self-reliance. Many others, close to achieving their original goals, have identified new improvement priorities now that basic NHS core service delivery is in place. These priorities include geographic expansions to one or more new neighborhoods, and programmatic expansions, which include strategies to enhance the impact already achieved.

To encourage local initiatives in meeting these challenges, Neighborhood Reinvestment supports a range of strategies designed to complement existing NHS activities and to fill specific and still unmet neighborhood needs.

Central to the program is a partnership approach similar to that of NHS. Property owners, tenants, community leaders, and representatives of local financial institutions serve with local government officials on an apartment improvement program (AIP) partnership committee. A building evaluation committee, working with a computerized real estate investment model, identifies troubled properties in the selected neighborhood, analyzes current and projected financial operations, and works with AIP staff to create a plan to stabilize or upgrade the buildings.

Just breaking ground in NHS neighborhoods throughout the country, owner-built housing has contributed more than $11 million in local reinvestment and provided homes for families who could not otherwise have afforded them.

The neighborhood commercial management program is designed to renew the vitality of local shopping districts that have not kept pace with the enhanced quality of life in NHS neighborhoods. Not responsive to changing needs, these shopping areas often deteriorate, causing blight that adversely affects the confidence of their neighborhoods.

Urban Lender Program

Based on the NHS partnership approach, this unique program is designed for the staffs of savings institutions, commercial banks, and other organizations concerned with the issues of urban housing.

The content combines technical information and formal course work with diverse practical field experiences, which strengthen participants' understanding of urban lending and housing issues.

Successful completion of the academic and community service requirement results in certification by Neighborhood Reinvestment and credit from both the American Institute of Banking and the American Institute of Real Estate Appraisers.

Nationwide NHS Recognition

The partnership initiatives of NHSs across the country and their substantial contributions to an enhanced quality of neighborhood life have been recognized on a national level, as well as locally.

Citing NHS as "the largest network of partnerships ever stimulated by a federal initiative," the President's Task Force on Private Sector Initiatives highlighted NHS in its report, *Investing in America.*

Among other recognition nationwide, the Advertising Council is supporting the NHS network with a business press public service advertising campaign. With corporate leaders as spokespeople, case examples cite the effective role of NHS in creating healthy neighborhood impact throughout the country and spotlight corporate support for NHS activities in four cities: New York City, Philadelphia, Cleveland, and Oakland.

Federal Home Loan Mortgage Corporation

by Kenneth J. Thygerson, President and Chief Executive Officer

The Federal Home Loan Mortgage Corporation (Freddie Mac) in 1983 experienced its most successful year. The Corporation achieved record earnings and paid the Federal Home Loan Banks the highest dividend—$34.5 million—since the Corporation was established in 1970. The direct beneficiaries were the thrift institutions.

Even more important was Freddie Mac's performance in two major areas. First, the Corporation initiated new programs to help thrifts to restructure their portfolios, shorten asset maturities, and generally return to profitability. Second, Freddie Mac aggressively sought sources of capital among nontraditional investors, generating a steady infusion of large amounts of capital into the secondary mortgage markets.

The result of this activity was that Freddie Mac contributed substantially to the improving health of the savings institutions industry. Its activities, with those of the other federally sponsored agencies and private firms, demonstrate that the mechanism of the secondary mortgage markets is succeeding in attracting capital to the vital home mortgage market.

Sales of mortgage securities approached a record $85 billion in 1983, an increase of almost 60 percent over 1982. Conventional mortgage securities accounted for about $34 billion of the 1983 figure, and Freddie Mac sold almost two-thirds of that amount.

The principal mission of America's thrift institutions, in the wake of the Garn-St Germain Depository Institutions Act of 1982, is to provide housing finance. Freddie Mac increasingly plays a key role in helping thrifts to fulfill their mission. In 1983, Freddie Mac made three important moves that helped thrifts. First, the Corporation established programs for adjustable-rate mortgages (ARMs) that encouraged thrifts to price and market these promising new instruments aggressively. Second, Freddie Mac offered a discount collateralized mortgage obligation (CMO) that can help thrifts to divest themselves of underwater mortgages, at the best price obtainable. Finally, Freddie Mac undertook extensive training programs nationwide to help executives of savings institutions better understand the secondary mortgage markets and to improve their asset/liability management.

The Corporation also continued to strengthen its financial standing. It more than doubled retained earnings, increasing them from $96.0 million on December 31, 1982, to $221.2 million at the close of 1983. Freddie Mac increased loss reserves by 36 percent for the year; the loan-loss provision was $153.6 million on December 31, 1983, up from $113.0 million at the end of 1982.

Highlights of 1983

For Freddie Mac, 1983 was a year of vigorous effort and achievement. It was a year in which the Corporation set a number of important corporate records.

The nation's demand for mortgage credit continues to be strong. To meet that demand in 1983, Freddie Mac sought to satisfy the divergent needs of homebuyers, lenders, and investors through new ideas and new products. In doing so, Freddie Mac strengthened its leadership position in the secondary market and offered a wider range of services to market users. And Freddie Mac attracted large numbers of new investors to mortgage-related securities, providing a solid foundation for the continued expansion of the secondary market. In short, Freddie Mac achieved what it set out to do in 1983—and more.

Here are a few of the year's highlights. Freddie Mac:

- Developed new mortgage purchase products, including new ARMs, which gave the nation's lenders a wider range of options.
- Made it easier for lenders to sell loans to Freddie Mac.
- Increased the number of lenders that sell to Freddie Mac.
- Introduced a new mortgage security concept, the CMO, described by some on Wall Street as the year's most innovative structure in housing finance.
- Registered a 37 percent increase in Mortgage Participation Certificates (PCs) outstanding—$56.4 billion, compared with $41.2 billion at the end of 1982.

- Concluded its largest Guarantor transaction, a $1.6 billion trade in which a California savings and loan association exchanged mortgages for PCs representing interests in those mortgages. *Institutional Investor* ranked it among the outstanding financings of the year.
- Applied state-of-the-art processing technology, resulting in faster and more accurate transactions.

Based on its activities, Freddie Mac's net income reached a new high of $159.7 million, compared with $59.9 million—a previous record—in 1982.

The year also marked the first full year of the Corporation's new leadership. Therefore, from a management point of view, Freddie Mac's outstanding achievements are the work of Freddie Mac's exceptional employees. The record year is attributable to a number of elements, not the least of which is the nation's improved economic condition. Nonetheless, the range of Freddie Mac's accomplishments reflects the collective contributions of a talented, energetic staff that worked creatively and assiduously to make 1983 such a total success.

Interpreting the Year's Achievements

In 1983, Freddie Mac introduced more new products associated with the purchase of mortgage loans than in any other year of the Corporation's history. The new products helped both lenders and homebuyers cope with the realities of today's financial markets. As just one example, Freddie Mac's ARMs—the Corporation introduced new three- and five-year ARMs in April—contributed a measure of stability to an otherwise uncertain environment.

In the wake of the volatile interest rates of the early 1980s, portfolio lenders sought mortgage assets that were more sensitive to interest rate shifts than the standard fixed-rate, long-term home loans. But some 200 different types of variable-rate mortgages appeared, creating confusion in the industry. By concentrating program development efforts on three or four of the most popular types of ARMs, and by developing uniform documents for those products, Freddie Mac helped stimulate increased interest in ARMs from both lenders and homebuyers.

As part of those efforts, Freddie Mac surveyed Realtors®, lenders, and consumers during 1983 to obtain reliable information about ARMs usage and acceptance. A major finding was the need for consumer education about ARMs, which Freddie Mac will provide in 1984.

Throughout the year, Freddie Mac worked to make it easier for lenders to sell mortgages to it. The changes gave lenders increased flexibility in managing their portfolios. And the changes gave the Corporation increased business.

Freddie Mac streamlined purchase commitment procedure, putting it on a daily instead of a weekly basis. The new system means that lenders can get a daily quote and lock in that rate with a single telephone call. Freddie Mac also expanded the range of delivery schedules for the loans it purchases. Together, these changes give customers a much wider set of options with which to manage interest rate risks, restructure portfolios, and gain access to the secondary market.

Freddie Mac, as a matter of policy, sells most of the mortgage loans it buys in the form of mortgage-related securities. In 1983, the Corporation boosted its securities sales in ways that merit special attention.

One, of course, was introduction of the CMO, which added important investment incentives to mortgage-related securities, including greater predictability of payment flow, increased call protection, and tiered maturity structures. The new security's importance to mortgage finance was reflected in increased interest among investors generally considered to be outside housing-finance circles, such as pension funds. Of the $1.7 billion in CMOs Freddie Mac issued in 1983, pension funds were the largest single direct investor, obtaining nearly 30 percent. Commercial bank trust departments, many of which manage pension assets, were the next largest investor at 18 percent.

Freddie Mac generated increased sales of its pass-through security, the PC, through the Corporation's retail sales unit, which was expanded and upgraded to the Investor Marketing Department in 1983. By specializing in service to smaller thrift institutions and other investors, the retail sales unit reached a milestone for the year: its PC sales topped $1 billion for the first time.

Providing first-rate service is one of our top priorities. The Investor Marketing Department joins the Mortgage Marketing Department and five regional offices as Freddie Mac's front line in helping its customers.

The Growth of the Guarantor Program

Freddie Mac's net income for the year, $159.7 million, was partly attributable to the enthusiasm of lenders for Freddie Mac's Guarantor program, in which loans are exchanged for PCs representing interests in those same mortgages.

Guarantor was introduced in 1981 to help lenders, mostly thrift institutions, increase the liquidity of below-market-rate loans held in portfolios. As interest rates fell in 1982 and 1983, relieving some of the pressure on thrifts, Freddie Mac enhanced the Guarantor program to include newly originated mortgages. This year, new loans accounted for 45 percent of Guarantor volume.

With 1983's record income, Freddie Mac paid record dividends. The Corporation put $34.5 million into the savings institutions industry through cash dividends to the 12 Federal Home Loan Banks. The District Banks hold Freddie Mac's 100,000 shares of common stock.

The Corporation continued to strengthen its financial standing. Retained earnings more than doubled, increasing from $96.0 million on December 31, 1982, to $221.2 million at the close of 1983.

Freddie Mac increased loss reserves by 36 percent for the year. The loan-loss provision as of December 31, 1983, was $153.6 million, up from a year-end $113.0 million in 1982.

The Corporation reduced its reliance on commitment and other fees as a source of income. Fee income in 1983 totaled $4.6 million, compared with $10.0 million in 1982.

The quality of Freddie Mac's servicing portfolio remains high. The default rate for 1983 declined slightly from the year before, even though the total loan portfolio increased by more than 40 percent—from 1.2 million loans in 1982 to 1.7 million loans in 1983. The default rate in 1983 was 0.26 percent, compared with 0.27 percent in 1982. These rates compared favorably with the Mortgage Bankers Association's National Delinquency Survey default rates of 0.46 percent for 1983 and 0.39 percent for 1982.

Freddie Mac also reduced its risk exposure to interest-rate shifts in 1983 by significantly expanding its hedging program.

Dissemination of Information

One of Freddie Mac's continuing roles is to improve understanding of the secondary market and its rapidly changing dynamics. To fulfill that role, Freddie Mac increased its research into secondary market issues and disseminated those findings—as well as other information about mortgage finance—through publications aimed at secondary audiences. The burgeoning growth of trading in mortgages and mortgage-related securities, for example, makes it essential that deeper knowledge of mortgage life and yields be available. The rapid development of new mortgage forms and other changes in the traditional system of housing finance raises questions about the nature and extent of underwriting risk.

In 1984, Freddie Mac will study the effects of mortgage prepayment, delinquency, and default. The results will be published in *Secondary Mortgage Markets,* a quarterly magazine planned in 1983 and formally introduced in February 1984. It joins another publication started in 1983, *Freddie Mac Reports,* a monthly newsletter about the secondary mortgage market.

Part III Management and Administration

The growing role of automated technology was reflected in almost every aspect of the Federal Home Loan Bank Board's activities in 1983. The importance of the computer to modern management practices was nowhere more evident than in the Board's administrative offices, which greatly expanded their use of up-to-date automated systems to facilitate the execution of their traditional duties as well as the added responsibilities they assumed last year.

The Board's collective management includes the offices of Administration, the Secretariat, Personnel, Minority Affairs, and Internal Evaluation and Compliance. Their functions encompass the supervision of accounting and auditing systems, employee hiring and evaluation programs, buildings and equipment management, information systems, procurement, communications, and general management policy, as well as compliance with such current legislative or Presidential mandates as the Equal Employment Opportunity, Freedom of Information, and Paperwork Reduction Acts and the President's Reform '88 guidelines.

Administration Office. Like other agencies connected with the federal government, the Board's administrative offices work under directives from the government to emphasize improvement of their traditional twin goals of increased efficiency and production at reduced cost. In each of its branches, the Board's management and administrative offices sought to adopt or expand the use of modern technology to achieve those ends.

In addition to thoroughly automating its accounting system, for example, the Board joined other federal agencies in utilizing an intergovernment credit card for expenses, centralizing its payroll system, and expediting its payment of bills to avoid interest surcharges. Procurement policies were streamlined, building space was reduced, and further savings were achieved through contracting out procurement requirements. The research library expanded its services while lowering costs through the use of computers.

Automation allowed the Board's Information Systems Division to begin expanding its analytical and reporting functions by completing a new general accounting system for the Board, producing a new monthly survey of savings institution accounts, and establishing a new quarterly financial survey that will replace the semiannual and monthly reports now in circulation. The Budget Division redesigned the agency's new accounting system to report obligations along with expenses. The budget system was revamped further when Congress voted to allow the Board greater flexibility in redirecting its spending priorities.

Secretariat. The Office of the Secretariat, the Board's official coordinator and recordkeeper, took on major additional duties in 1983 when it absorbed responsibility for information services and technical affairs, which include requests through the Freedom of Information Act. The office in 1983 also took over the task of processing the Chairman's official incoming mail and scheduling meetings with the Board's executive staff. The Secretariat's coordination branch also began working more closely with executives of the Federal Home Loan Banks to develop plans to help in the recovery of the thrift industry, and automated its project tracking system and planning calendar.

Office of Personnel Management. As part of the governmentwide effort to evaluate federal job classification procedures, the Personnel Office conducted an extensive analysis of its overall merit promotion plan and of the accuracy of individual job descriptions in the Board's Washington, D.C., headquarters. The office also surveyed the Board's personnel security requirements and the requirements of the senior field examiner's position, issued standards-of-conduct guidelines for employees, and developed a statistical profile of the Board's work force and a standardized eligibility certificate for savings institution examiners. As training guides, the personnel unit issued a "Handbook of FHLBB In-House Training Courses" and a "New Field Managers Training Guide." The office continued to have active programs in labor relations and employee relations.

Office of Minority Affairs. The Minority Affairs Office is charged not only with complying with the Board's equal employment opportunity (EEO) program. In 1983, the office continued to see that fair hiring and promotion practices were observed. Statistical analysis of minority staffing revealed that the Board had met or exceeded affirmative action standards and applied equitable policy toward layoffs, promotions, and—with the help of the national recruitment program begun in 1982—hiring. Monitoring of EEO standards was facilitated through a new information system.

The Minority Affairs Office also conducted analyses of how complaints of discrimination are handled and held a training course for counselors in such complaints.

Internal Evaluation and Compliance Office. In response to presidential and congressional demands to reduce waste and fraud throughout the federal government, the Board's evaluation unit coordinated 10 audits in 1983 of various Board activities; four others were in progress at the end of the year. The audits are conducted by certified public accounting firms. The Investigation Division has provided a mechanism whereby employees can anonymously report suspicions of waste, fraud, and mismanagement.

Administration Office

by Richard L. Petrocci, Director

The priorities of the Administration Office for 1983 included data processing support for the development and implementation of the new quarterly financial survey, which will serve as the major source of financial data for the Federal Home Loan Bank Board from the insured members of the Bank System. In addition, all of the operating divisions in the office participated in the final development and implementation of the new financial accounting and reporting system, which both streamlines and automates the Board's previous semiautomated system. The office also has continued its efforts to provide cost-effective support to the management and employees of the Board in general administrative areas, including equipment and facilities and improved management procedures.

The management analysis staff continued its efforts to increase the agency's productivity and effective use of resources by conducting studies on organizational structures, policies and procedures, and equipment and manpower utilization. A year-long project culminated in the standardization of word processing equipment in the Washington offices. A study was completed which enabled the Board to better serve the public in the processing of Freedom of Information Act (FOIA) requests. Continued work in the area of records management resulted in the transfer of several hundred cubic feet of records to the National Archives and Records Center. The agency's activities with the Office of Management and Budget (OMB) to meet the goals of the Paperwork Reduction Act of 1980 were coordinated by the staff.

Controller's Division

On October 1, 1983, the Board installed an on-line, integrated, completely automated accounting system. The new system incorporates the latest state-of-the-art accounting features and internal controls. The system will meet the General Accounting Office's (GAO) and the Office of Management and Budget's approval criteria, and its features are responsive to the President's Reform '88 movement.

In addition to the above major undertaking, the Controller's Division made marked strides in further improving its services and cash management practices. The Controller, working with the U.S. Treasury, has reached an agreement to use that agency's nationwide lock box cash collection system, with service expected to begin in early 1984. The Board was one of only eight other government agencies working with the General Services Administration (GSA) to implement the use of a governmentwide credit card for payment of travel and transportation expenses.

Improvements in the agency's payroll system continue with all 12 district offices now directly connected to the headquarters payroll system. Each district office enters its own payroll data, which significantly reduces the lag time for maintaining employee leave records.

The division's other accomplishments for 1983 can be summarized as follows: actual dollar savings for work efficiencies totaled over $113,300 for the calendar year, a $26,400 increase over 1982 savings. Equally significant is the system efficiencies gained in bill payments. During the past year, 98 percent of the agency's bills were paid within 30 days, which further contributed to success in earning discounts and incurring virtually no interest penalties for late payments. The Board has paid only $911 in interest penalties since enactment of the Prompt Payment Act.

Administrative Services Division

As a result of operational improvements, 1983 was a year of major reductions in building operating costs and increased savings in the procurement of goods and services.

The Facility Management Branch purchased all telephone equipment in the headquarters building through GSA bulk-purchase agreements, resulting in savings in excess of $80,000. All Board field offices met GSA's goal for space reduction of 10 percent.

The building labor force was decreased, with some duties being contracted. Instead of staff laborers, contract laborers are called on an as-needed basis to work on several projects simultaneously. The fiscal year 1983 building management contract was completed at a cost of $400,000 under budget estimates.

During 1983, a number of procurement changes were effected which decentralized contracting and resulted in substantial benefits. Some examples of savings are $295,410 in word processing equipment and $953,570 in changing contracts from cost to fixed-price. The consolidated word processing procurement for the home office will result in a payback period of less than one year. In the awarding of contracts and small purchases under the small business preferential procurement program (Public Law 95-507), the Board exceeded its total objectives by 120 percent.

The Research Library provided extended circulation services to all Board personnel and increased by 10 percent the material circulated from the library, thus reducing the number of subscriptions and associated costs. The installation of the new circulation system streamlined the charge-out system and preparation of overdue notices. This resulted in man-hour savings in circulation service.

Federal Home Loan Bank Board: Comparative Summary of Expenses, Fiscal Year 1983
(in thousands of dollars)

	Budget Estimate			Actual Expense		
	Board and Staff Offices	Examinations and Supervision	Federal Savings and Loan Insurance Corp.	Board and Staff Offices	Examinations and Supervision	Federal Savings and Loan Insurance Corp.
Personnel Compensation	17,035	27,322	784	16,362	26,072	687
Personnel Benefits	1,803	3,000	76	1,900	2,924	72
Transportation of Persons	480	7,300	25	644	7,265	29
Transportation of Things	60	65	2	128	45	8
Rent, Communications, and Utilities	1,726	2,488	184	1,609	2,110	207
Printing and Reproduction	454	2	1	345	2	1
Other Services	1,987	653	73	1,859	689	70
Supplies and Materials	687	167	3	426	120	0
Equipment	778	83	2	762	108	15
Reimbursements	0	0	0	– 43	– 798	0
Total	25,010	41,080	1,150	23,992	38,537	1,089

Information Systems Division

During 1983, the Information Systems Division (ISD) continued to provide a wide variety of data processing services to the Board, its staff, the savings institutions industry, the financial community, selected government agencies, and the public.

Significant automated systems implemented or under development during 1983 included:

1. **Monthly Sample Survey of Selected Deposits.** ISD has developed a system for the Office of Policy and Economic Research to edit and provide output reports from a new monthly survey of selected deposits and other accounts from a sample (approximately 375) of insured savings and loan associations and savings banks.

2. **The Quarterly Financial Survey.** ISD will produce reports and time series data for the new quarterly financial survey. This survey will replace the current June/December semiannual financial report and the March/September semiannual report, and it will serve as the major source of financial data for the Board from the insured members of the Federal Home Loan Bank System. The report, which includes a statement of condition and operation, yield and maturity data, mortgage lending activity, and other information, will be used throughout the Board and the Bank System for economic analysis, policymaking, and examination and supervision purposes. The new quarterly report was implemented coincident with the first reporting period in March 1984.

3. **Financial Accounting and Reporting System.** As reported last year, ISD was in the process of implementing a new general purpose accounting system for the Board. All implementation dates were met and the system is fully operational. Considering the size of the system, the implementation proceeded very smoothly.

Budget Division

During 1983, the Budget Division worked on the funds control aspects of the agency's new accounting system. Specifically, procedures and reports have been developed to record financial transactions on the basis of obligations as well as actual expenses. This added feature has improved internal budget control and satisfies current General Accounting Office and Office of Management and Budget standards.

Office of the Secretariat, Planning, and Management

by John M. Buckley, Jr., Director

In general, the Office of the Secretariat, Planning, and Management Coordination assists the Federal Home Loan Bank Board in its decisionmaking process. In addition, the office serves as custodian of the official records of the Board, the former Home Owners' Loan Corporation, the former Federal Home Loan Bank Administration and its constituent agencies, and acts as liaison with the Office of the Federal Register.

In 1983, two additional areas of responsibility were added to the office: information services, which responds to both public and staff requests for information; and technical affairs, which maintains delegations by the Board and responds to information requests under the Freedom of Information Act.

Additionally, the office coordinates staff transmissions to the Board; schedules and arranges Board meetings; organizes the agenda; ensures that the Board complies with the provisions of the Government in the Sunshine Act; coordinates the release of information under the Privacy Act; prepares minutes on each Board meeting; records decisions; maintains liaison on unfinished business; and acts as adviser to the Board on procedural matters. The office also prepares, distributes, and records federal savings and loan association charters, insurance and bank membership certificates, and certifications of appointments and elections of directors of the Federal Home Loan Banks.

Further, the office is responsible for briefing new Board Members and office directors on Board operations and issues, and for providing management support services to the agency. These support services include developing and operating systems that assist in identifying and implementing agency priorities and goals and in coordinating, organizing, and documenting the agency's planning efforts. These functions serve to ensure effective interoffice coordination and teamwork. Finally, the office is responsible for assisting any agency special-issue advisory committees and for managing the activities of the Federal Savings and Loan Advisory Council.

Agenda and Minutes Branch

The Agenda and Minutes Branch organizes the agenda, coordinates staff transmissions to the Board, ensures that provisions of the Government in the Sunshine Act are complied with, coordinates with the Office of the General Counsel and other staff offices on the release of information under the Public Information Act and the Privacy Act, prepares minutes on each meeting, and records decisions made. This branch also handles the agency's briefing schedule; prepares, distributes, and records federal savings institution charters, insurance certificates, Bank membership certificates, and certifications of appointments and elections of directors of the Federal Home Loan Banks; and processes the Chairman's mail.

During 1983, the Board met 43 times on Federal Home Loan Bank Board business. During those meetings, the Board adopted 986 resolutions and recorded 123 minute entries. A total of 29 Chairman's Orders was issued, 22 proposed and 50 final regulations were published in the *Federal Register,* and 161 items were prepared for shipment to the *Federal Register.*

In addition, this branch was given the responsibility during the past year for processing all official business mail received by the Chairman, for setting up the agenda for weekly scheduling meetings for the executive staff director and office directors, and for the scheduling of all briefings.

Planning and Management Coordination

The year 1983 was one of transition for the Board, and the Planning and Management Coordination Branch played an important role in assuring a smooth transition by setting up several planning conferences and by implementing several new management systems.

In April 1983, the branch assisted in arranging and conducting a major planning conference, attended by outgoing Chairman Richard Pratt and incoming Chairman-designate Edwin J. Gray. The purpose of that meeting was to brief the incoming Chairman and his personal staff on the major issues facing the industry and on the initiatives underway to deal with those issues.

Chairman Gray decided early on to make greater use of the vast resources of the Federal Home Loan Bank System. A major conference was held in June 1983 that was designed to deal with the large number of FSLIC assistance cases. Then, in late July, the Board met in conjunction with the presidents of the Federal Home Loan Banks to explore various strategies that could be used to enable the thrift industry to restructure and recuperate from the nearly disastrous previous two years. In November, the planning staff assisted in organizing a conference for the Chairman and his staff to discuss plans for accomplishing the Chairman's goals. One of the most critical issues discussed at that meeting was the problem of the growing abuse of brokered funds in the industry.

In addition, the branch implemented a computerized project tracking system, as well as a computerized planning calendar. These new systems not only allow for immediate updates, but also allow the District Banks to have direct access to the information.

Finally, this branch staffed the 24-member Federal Savings and Loan Advisory Council by preparing documentation and assigning staff resource persons for plenary and subcommittee meetings, coordinating work between Board offices and the Council, and assisting in the development of agenda topics.

Information Services, Record Services and Micrographics Branch

The Information Services, Record Services and Micrographics Branch responds to and processes applications for information from the public in accordance with the Freedom of Information Act, handles all calls coming into the Board, maintains case files for federal- and state-chartered associations, maintains and services case files for service corporations and thrift industry holding companies, and is responsible for the loan, retrieval, and general security of the files. Further, the branch receives, classifies, and files documents, responds to requests for records, microfilms images, makes new 4″ × 6″ microfilm jackets, receives and files correspondence and reports, indexes resolutions and minute entries, receives and responds to requests to research the minutes and to provide copies of resolutions, and performs support functions for the various offices of the Board.

Over the past year, the branch's workload has increased significantly due to the merging of the information services section, and large number of new conversions, mergers, and other applications.

During 1983, the Information Services, Record Services and Micrographics Branch processed requests; received, classified, indexed, and filed 6,514 various thrift industry applications and 148,915 pieces of correspondence, and responded to 12,000 requests for information. It also maintained and serviced 7,131 thrift industry case files, 3,424 of which were active and 3,707 of which were inactive. The case files included 745 service corporations, stock reports for the Securities and Exchange Act of 1934, 126 stock associations, and 578 holding companies, 198 of which were active and 380 of which were inactive. The branch indexed 3,015 resolutions and minute entries, received 53 requests to research the minutes, and received 1,109 requests for copies of resolutions. The branch microfilmed 757,586 images and made 19,500 new 4″ × 6″ microfilm jackets, and performed support functions for various offices of the Board, such as researching and retrieving records and information.

During 1983, the information services section merged with the Record Services and Micrographics Branch. At that time, there was a six- to eight-month backlog of Freedom of Information Act (FOIA) requests due to limited staff and facilities. In order to remove the backlog, the staff was increased from 1½ man years to 6 man years, and the facilities were greatly expanded. This resulted in eradicating the backlog and made possible a response time of four weeks or less. All told, the branch responded to 536 FOIA requests.

Assistant Secretary—Technical Affairs

The assistant secretary for technical affairs is responsible for dealing with policy and legal issues related to the Freedom of Information Act, establishing and maintaining the official records of all Board delegations of authority, issuing letters of good standing, and processing Home Owners' Loan Corporation title clearance requests. The assistant secretary also keeps a record of all approved service corporation activities.

During 1983, the assistant secretary established the first official compilation of Board delegations to the Federal Home Loan District Banks and to various Board officers. In addition, the assistant secretary processed over 100 certificates of good standing.

Personnel Management Office

by Doris H. McGhee, Director

Increasingly, Federal Home Loan Bank Board managers are called upon to accomplish their demanding program objectives with fewer resources. With this in mind, the Personnel Management Office resolved to seek new, innovative ways to assist managers in meeting this challenge. To this end, this office conducted evaluations of current programs and projects and instituted new ones, while continuing a high level of service to both managers and employees.

Studies

The Personnel Management Office was involved in a number of significant studies affecting its operations. The scope and results of the studies are highlighted below.

The Board's merit promotion plan, as mandated by the Civil Service Reform Act, was selected as the first of the Personnel Management Office's programs to undergo an evaluation study. The primary objectives of this study were to determine: (1) compliance with the agency's merit promotion plan and operating procedures; (2) the administrative practicality of the plan and operating procedures; and (3) the timeliness and effectiveness of filling positions under the plan's provisions. The overall findings of the evaluation study indicated that the Board's merit promotion plan was functioning smoothly and with a minimum number of problems. However, there were several recommendations suggesting ways to improve the plan and operating procedures, which are being incorporated as appropriate.

The Board's annual review of positions was conducted during February and March 1983 and involved a classification review of all position descriptions in the Washington headquarters office. The objectives of this review were to ensure that position descriptions accurately reflect the duties and responsibilities being performed by employees and to determine the extent of misclassification. The review was completed with all corrective actions taken by the beginning of August.

The Board was randomly selected by the Office of Personnel Management (OPM) to participate in a nationwide study of computer-related positions covered by the recently issued computer specialist classification standard. The purpose of the study was to determine if federal agencies were applying the classification standard accurately and consistently. A team of auditors from OPM reviewed and evaluated several positions within the Board's computer group. In most cases, OPM found that the Board's positions are properly classified and that the incumbents were performing at their proper grade levels. The final results of the study are expected from OPM in the near future.

In the spring of 1983, OPM conducted an onsite review of the Board's security and suitability program. OPM recommended several improvements in the program, including (1) reviewing positions to assure appropriate security level designations, and (2) preparing written internal security procedures to assist in administering the program. As a result of our review of positions, we have increased by four times the number of positions designated as sensitive.

Because of the constantly changing environment in a deregulated savings institution industry, and the increased knowledge and technical ability required to examine complex financial institutions, representatives of the Personnel Management Office and various districts formed a task force to study and redefine the senior field examiner position. The objectives of the study were to accurately describe the duties, responsibilities, necessary skills, and role of the senior field examiner. As a result of the study, the Board was able to better define the senior field examiner position from a nationwide perspective and the importance that it would play in examining a fluctuating industry.

Another important accomplishment of the Personnel Management Office is the FHLBB work force profile, a statistical profile of the Board. It was developed to provide Board managers with ongoing and timely information regarding their organization. The profile includes demographics and general information on key personnel management programs within the Board. The profile is updated on a semiannual basis, and an annual report, issued in narrative format, will provide a much broader and more comprehensive analysis of the Board's personnel management program.

Examining Unit

In 1981, the Board received delegated authority from OPM to recruit, examine, and issue nationwide, competitive certificates of eligibles for savings and loan examiners, GS-570-5 and—7. Applications are received on a continual basis, screened for qualifications, and rated. Last year, 923 applications were received, 705 of which were found to be eligible. The examining unit has proved to be a very successful and efficient operation, continuing to save time and energy in recruiting quality candidates for thrift industry examiner positions.

Standards of Conduct

Realizing that the public has a right to expect honesty, integrity, and fairness from their government, numerous laws and regulations have been instituted over the years governing the conduct of government employees. This year, to supplement its earlier guidance, the Personnel Management Office issued a standards-of-conduct publication for Board employees. It summarizes the standards for employee behavior in simple language that is easily understood, so that Board employees may avoid the appearance, as well as actual instances of misconduct and conflicts of interest. This office was commended by OPM officials for the "excellent plain English" style of the handbook.

Training

The staff of the Personnel Management Office continued to provide a variety of training programs for employees at the Board. To ensure that all employees are aware of the training opportunities available, the "Handbook of FHLBB In-House Training Courses" was issued. This handbook provides course descriptions, dates, and application instructions. Some of the offerings include the employee relations and performance series; the human resources management series; advancement through self-development, secretarial and clerical techniques workshop, Upward Mobility: the Crossover Program; the art of negotiating; and computer literacy.

Also in the training area, the office issued the "New Field Managers Training Guide." The guide will be used by new field managers in identifying management training needs and planning appropriate strategies to fill them. It identifies 10 managerial competencies that represent key attributes of the field manager's job and lists formal courses keyed to each of the managerial competencies. The guide also includes information on preparing an individual development plan and lists publications relating to the 10 competencies.

Labor Relations

Labor relations activities continued at a high level. Bargaining agreements were negotiated in Cincinnati and Washington, D.C., during the year. No charges of unfair labor practices were filed by either labor or management during the year and only three negotiated grievance procedures were initiated. This is attributed to the generally positive relationship between management and union locals and their emphasis on informal discussions and joint problemsolving.

Employee Relations

The employee counseling services program provides counseling services to Board employees in an effort to resolve work and personal problems before they become performance or conduct problems. The program has achieved extremely positive results among the employees who have taken advantage of the services. The success can be attributed to several factors including: (1) the convenience and availability of the counselor and counseling office to headquarters office employees; (2) the constant advertisement and publicity of the program; (3) the employee awareness sessions conducted several times a year; (4) the support of the program by management and co-workers; and (5) the reputation of confidentiality that the program has established.

The Personnel Management Office also sponsored another open-season health fair in an effort to assist employees in making a choice from among the variety of health plans available. Representatives from 11 health plans attended the fair, giving a brief statement about the benefits of their plans. Approximately 125 employees and recent retirees attended the fair.

The retirement seminar sponsored by the Personnel Management Office was a new endeavor. The seminar included an overview of the federal retirement system and addressed planning for life after retirement. It covered such areas as financial planning and investments, careers after retirement, maintaining a healthy life style, and social security and medicare benefits. The seminar was well received by all participants. This office plans to present the seminar to field employees in 1984.

Awards

The year concluded with the Board's annual awards ceremony. The recipient of the Distinguished Service Award was Francis M. Dorer, of the Office of Examinations and Supervision, in recognition of his outstanding contributions to the Board. Debbie Shenk, of the Administration Office, received the Outstanding Secretary Award, which acknowledges the invaluable contributions secretaries make toward accomplishing the mission of the agency.

Minority Affairs Office

by Adean W. King, Director

The Minority Affairs Office (MAO) is responsible for developing, implementing, and monitoring the Federal Home Loan Bank Board's equal employment opportunity (EEO) program.

A primary MAO task is to advise the Chairman and Board Members on a broad range of policy matters relating to the multiple aspects of the EEO program. The MAO is also responsible for maintaining the EEO information system and for monitoring the minority and women's business enterprise programs, the federal equal opportunity recruitment program, and all personnel transactions at the agency. The major objectives of the EEO program are to ensure that Board programs and activities are free from discrimination and that minorities and women are used and advanced in their careers commensurate with their skills and abilities.

Affirmative Action

The total agency work force experienced an overall decline in 1983. This decline represents consistency with the reductions being experienced throughout the federal government. Of the positions terminated in 1983, 14.6 percent were minority and 85.4 percent were nonminority; 36.5 percent were women and 63.5 percent were males.

Statistically, overall reductions in the 1983 work force were proportionate to the overall percentages of minority, women, and nonminority employees represented in the 1982 work force. For example, in 1982, the minority work force represented 21 percent of the total agency work force and, in 1983, they still represented 21 percent; women represented 39 percent of the total agency work force in 1982 and, in 1983, they remained at 39 percent of the total work force. Again, these statistics show that while the size of the agency's work force decreased, no single employee group (minority, women, and nonminority) bore any disproportionate burden of the reduction.

Significant improvements have been made in the employment of women in all occupations. Out of 32 hires at the GS-9 level and above for the headquarters permanent staff, 37.5 percent were women. Of the 23 limited-term positions established to handle the heavy work load associated with the problems in the savings institutions industry, 30.4 percent were women. Within these same two hiring categories, 6 percent and 4.3 percent respectively were minority hires. Retention of minorities previously hired has been excellent, and overall improvement is continuing. The increases in female employment this year were particularly encouraging, since practically all hires were made in the legal and financial occupations, where women have been historically underrepresented both at the Board and in the general work force.

During the past year, the Board has seen an increase in the internal movement of its employees, indicating that the specialized skills and knowledge of current employees are recognized as a valuable resource by agency managers. Out of the 18 higher-level professional and administrative positions filled through internal selection procedures, 44.4 percent were females and 11.1 percent were minorities. Much of this internal movement has resulted in increased representation of females in higher level positions over the past year.

The Board has realized an increase in minority representation at all grade levels in headquarters from 29 percent in December 1981 to a current level of 32 percent. The Board is continuing to emphasize recruiting entry and mid-level female and minority candidates and providing increased opportunities for career progression.

The Board anticipates that the administration of its own staffing program for its most populous occupational field—thrift industry examining—would help it achieve a larger percentage of female and minority employees at all levels of the Board's work force in future years. The staffing program became fully operational in the summer of 1981. At that time, female and minority representation in the examiner occupation was 13.8 percent and 10.6 percent, respectively. Current figures reflect a significant increase in female representation to 27.4 percent and in minority representation to 15.6 percent.

Over the past few years, the Board has increased minority and female representation in the examiner occupation in grade levels 13 through 15. From 1981 to the present, female representation has increased from 0.5 percent to 1.6 percent. Minority representation has increased from 2.9 percent to 3.8 percent.

The national recruitment program (NRP), developed in 1982, was used again in 1983 to ensure that minority and women candidates were considered for vacant positions and to maintain an adequate flow of minority and women applicants for future employment consideration. In 1983, NRP recruitment teams visited four colleges and universities in the Miami, Florida, metropolitan area because of their high enrollments of Hispanic students. Other recruitment activities included participation in conferences and conventions that were sponsored by nationally recognized groups and organizations whose principal interests and concerns are civil rights and equal employment opportunity for all American citizens, and particularly for excluded minority, women, and handicapped individuals.

Complaints of Discrimination

Twelve district and four Washington headquarters' EEO counselors received formal training during 1983. The emphasis of the four-day training course was specifically oriented toward techniques for resolving EEO complaints at the informal stage and increasing counselor knowledge of federal personnel regulations and procedures.

Complaint processing activity during 1983 included handling 11 informal counseling inquiries from Board employees. Six were resolved at the informal stage, and five became formal complaints. In fact, there was activity on 12 formal complaints during the report period: three were based on sex, five on race, two on age, one on retaliation, and one on national origin. Processing activity included six complaint appeals to a higher authority of Board dispositions, one finding of no cause, one resolution, and four investigations.

Educational Programs

The Board, in conjunction with the Federal Home Loan Mortgage Corporation, sponsored a number of educational and cultural programs for its Washington area employees. These events began with the Black History Month observance. The theme was "The U.S. Constitution and the Black American." The program featured the Washington Theatre Arts Production Group of Howard University, Washington, D.C., which performed a dramatization of "I've Always Wanted To Be A Poet," depicting the Black American's struggle and experience.

The Board also sponsored programs in observance of National Professional Secretaries Week and National Hispanic Heritage Week.

Historically Black Colleges and Universities Program

The MAO assisted the Office of Policy and Economic Research (OPER) in disseminating to 105 historically black colleges and universities (HBCUs) information on grants that will be awarded to academicians in 1984. Also, the office provided to HBCUs information, literature, and application packets for entry-level examiner positions similar to that described above under the affirmative action subheading.

Internal Evaluation and Compliance Office

by Paul F. Gibbons, Director

The Internal Evaluation and Compliance Office provides the Chairman, Members of the Board, and top management with independent professional audits and investigations of the Federal Home Loan Bank Board and the Federal Savings and Loan Insurance Corporation (FSLIC). When requested by the Board, the office also conducts internal audits and investigations of the Federal Home Loan Banks, the Office of Finance, and the Neighborhood Reinvestment Corporation. The office's involvement in these activities is designed to promote economy, efficiency, and effectiveness in operations and to detect fraud and abuse.

The office provides guidance to the audit committees and the internal audit staffs of the Federal Home Loan Banks and coordinates the services of certified public accounting firms who perform the financial audits of these banks. In addition, the office serves as the Board's liaison with the U.S. General Accounting Office (GAO).

The President and the Congress have made the reduction of fraud and waste in the operation of all federal programs a major commitment and priority. The Chairman and Members of the Board have demonstrated their commitment to this goal through their strong support of the agency's internal audit and investigation activities.

The Audit Division focuses its efforts on identifying opportunities for improving operations, achieving greater economy and efficiency, and reducing the potential for waste and fraud. Audits are performed in accordance with generally accepted governmental auditing standards as set forth in the publication, *Standards for Audit of Governmental Organizations, Programs, Activities and Functions* published by the GAO. During 1983, the Audit Division completed 10 audits and audit surveys of various Board functions and activities.

The specific audits completed were the following:

1. Audit of Allied Maintenance contract,
2. Improvements needed to reduce FSLIC's financial obligations under the financial assistance,
3. Review of the Board's pension portability plan,
4. Operational survey—Office of Examination and Supervision,
5. Operational survey—Office of the General Counsel,
6. Operational survey—Office of Policy and Economic Research,
7. Operational survey—Information Systems Division,
8. Internal audit operations at the Federal Home Loan Banks of Seattle, Boston, San Francisco, and Topeka,
9. Board information security system needs improvement, and
10. Third District Office, Office of Examinations and Supervision.

The following is a listing of audits-in-progress as of December 31, 1983:

1. OES examiner training,
2. Rental income and expense,
3. Administration of receivership assets—Asset Management Division (FSLIC), and
4. Examination process and procedures.

The Internal Evaluation and Compliance Office coordinates the services of certified public accounting (CPA) firms, who perform the financial audits of the Federal Home Loan Banks. In 1983, the office awarded contracts to two firms—Peat, Marwick, Mitchell and Company (PMM) and Deloitte, Haskins and Sells (DHS). Seven District Banks are audited by DHS and five District Banks by PMM. These contracts are renewable through 1986. This year's audits were completed in March 1984. During the course of the year, the office held periodic discussions with the firms to ensure smooth and timely performance of the audits, as well as to identify and resolve issues that otherwise could affect the opinions of the CPA firms on the Federal Home Loan Banks' financial statements.

The Audit Division was also asked to use its expertise on a variety of other issues and special projects during 1983. Because of the Audit Division's auditing, accounting, and operational expertise and familiarity with the operations of the entire Board, the Internal Evaluation and Compliance Office is from time to time called on to perform special projects that are requested by the Chairman, Board Members, and Board management. In 1983, the Audit Division developed an agency-wide plan for implementing the provisions of the Federal Managers' Financial Integrity Act, conducted several special audits and reviews at management's request, and participated in the development of a new, automated financial and reporting accounting system.

The Investigation Division of the office performs investigations designed to combat fraud and abuse and to promote a positive environment in which managers may carry out the Board's activities. During the past year, the division conducted investigations that covered a wide range of potentially illegal or improper activities of a criminal and regulatory nature, including contract fraud, theft, and the submission of fraudulent claims and statements.

In instances where an investigation determines that there is reason to suppose that an act is criminal in its nature, the office is required by federal statute (Title 28, United States Code, Section 535) to inform the U.S. Department of Justice of the relevant facts. It then becomes the responsibility of the Department of Justice to consider whether the matter should be brought to the attention of the respective courts.

In addition to the preceding, the Investigation Division provides employees with a central location to which they may report suspected instances of waste, fraud, and abuse. In order to help employees' efforts in this regard, the division established a "hotline" telephone (202/377-6192) which allows an individual to preserve his/her anonymity when reporting a suspected offense.

The high professional standards established by the office for the conduct of its audits and investigations have been maintained through an extensive program of involvement by the staff in audit and investigative activities sponsored by professional organizations. Staff representation is maintained in the Institute of Internal Auditors, the American Institute of Certified Public Accountants, Association of Federal Investigators, National Association of Black Accountants, Association of Government Accountants, and the Association of Directors of Investigation. Staff members also keep abreast of new developments in the federal audit and investigative communities through participation in a number of interagency task forces, as well as through selected training courses.

The Internal Evaluation and Compliance Office anticipates continued support from the agency in carrying out its audit and investigative responsibilities. For 1984, the office has planned a number of audits that should further enhance the Board's ability to respond to the needs of the savings institutions industry. In the coming year, the office plans to conduct 12 audits to review: the FSLIC's Merger and Acquisition Division, the Board's merit pay system, the District Bank budget process, the Board's use of microcomputers, the security and backup of computer software, selected contracts, the Board's use and application of overtime pay, OES industry data collection practices, and District Bank internal audit departments (four banks).

In addition, in 1984 the office anticipates performing a number of special projects including coordinating: (1) a review of the Board's management systems, (2) vulnerability assessments of Board program activities (which are required by Office of Management and Budget Circular A-123), and (3) internal control reviews (which are required by the Federal Managers' Financial Integrity Act). Responsive investigative activity is planned to complement audit work and bring the Board in compliance with the mandate by Congress to all agencies to eliminate incidents of fraud and waste.

As significant changes continue to occur in the savings institutions industry, the office expects a continued high level of GAO activity designed to keep Congress informed of industry and Board activities, thus making a direct impact on the liaison activity of this office. The office will continue to monitor the activity of the two contract CPA firms performing the audits of the financial statements of the Federal Home Loan Banks. In addition, the office plans to increase its interaction with the internal auditors and audit committees of the Federal Home Loan Banks. Finally, special projects will continue to be carried out at the request of the Chairman, Board Members, and Board management personnel.

Appendix

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

May 30, 1984

B-206830

To the Board of Directors
Federal Home Loan Bank Board

We have examined the statements of condition of the Federal Home Loan Bank Board and the Federal Savings and Loan Insurance Corporation as of December 31, 1983 and 1982, and the related statements of income and expenses and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Federal Home Loan Bank Board and the Federal Savings and Loan Insurance Corporation as of December 31, 1983 and 1982, and the results of their operations and the changes in their financial positions for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Charles A. Bowsher
Comptroller General
of the United States

Federal Home Loan Bank Board Comparative Statement of Condition (December 31, 1983 and 1982)*

	1983	1982
Assets		
Cash with U.S. Treasury	$ 1,216,273	$ 1,040,136
Accounts Receivable	12,558,209	10,922,669
Land and Building (Note 1)	46,079,996	46,763,917
Furniture, Fixtures, and Equipment (Note 1)	4,010,858	3,897,307
Other	351,155	262,557
Total Assets	**$64,216,491**	**$62,886,586**
Liabilities and Capital		
Accounts Payable and Accrued Liabilities	$ 6,634,407	$ 5,975,488
Employees Accrued Annual Leave	3,307,842	3,341,464
Total Liabilities	**$ 9,942,249**	**$ 9,316,952**
Retained Earnings (Notes 4 & 5)	$ 9,689,962	$ 8,985,354
Paid in Capital—FHLBB Quarters (Note 3)	44,584,280	44,584,280
Total Capital (Notes 4 & 5)	**$54,274,242**	**$53,569,634**
Total Liabilities and Capital	**$64,216,491**	**$62,886,586**

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

Federal Home Loan Bank Board Comparative Statement of Income and Expenses* (for the years ended December 31, 1983 and 1982)

	1983	1982
Income		
Examination Fees from Savings Institutions	$16,171,990	$13,286,880
Assessments:		
Federal Home Loan Banks	11,196,442	9,879,993
Federal Savings and Loan Insurance Corporation	30,276,418	36,446,645
Savings Institutions	8,395,488	2,613,909
Rent and Miscellaneous Other	2,242,709	2,168,351
Total Income	**$68,283,047**	**$64,395,778**
Expenses		
Personnel Compensation	$42,610,772	$41,957,576
Personnel Benefits	5,040,114	3,980,474
Travel and Transportation	8,313,093	7,022,615
Rent, Communication, and Utilities	4,506,866	4,599,963
Depreciation:		
Furniture, Fixtures, and Equipment	714,478	667,318
Building	859,698	958,579
Building Maintenance and Other Services	5,533,418	5,565,163
Total Expenses	**$67,578,439**	**$64,751,688**
Net Income (Loss)	**$ 704,608**	**$ (355,910)**

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

Federal Home Loan Bank Board Comparative Statement of Changes in Financial Position* (for the years ended December 31, 1983 and 1982)

	1983	1982
Source of Funds		
Net Income	$ 704,608	$ (355,910)
Adjustment for Noncash Items:		
Depreciation	1,574,176	1,625,897
Prior Year Adjustment (Note 4)	-0-	304,926
Decrease in Paid in Capital (Note 3)	-0-	(415,720)
Decrease (Increase) in:		
Accrued Annual Leave	(33,622)	70,334
Funds Provided from Operations	**2,245,162**	**1,229,527**
Increase (Decrease) in:		
Accounts Payable and Accrued Liabilities	658,919	(371,851)
Total Funds Provided	**2,904,081**	**857,676**
Application of Funds		
Acquisition of:		
Capital Assets	1,003,806	1,439,558
Other Assets (Decrease)	88,598	(73,044)
Increase (Decrease) in:		
Accounts Receivable	1,635,540	(285,726)
Total Funds Applied	**2,727,944**	**1,080,788**
Increase (Decrease) in Cash	**$ 176,137**	**$ (223,112)**

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

Federal Home Loan Bank Board: Notes to Financial Statements (December 31, 1983 and 1982)

1. Summary of significant accounting policies:

a) Furniture, fixtures, and equipment—These assets are at cost less accumulated depreciation of $4,124,364 and $3,436,909 at December 31, 1983 and 1982, respectively. Depreciation is computed on the straight-line method based on an 11-year useful life.

b) Land and building—These assets are recorded at cost less accumulated depreciation for the building. Cost of land was $10,165,227. Building costs at December 31, 1983 and 1982, were $40,871,896 and $40,696,119, less accumulated depreciation of $4,957,127 and $4,097,429, respectively. Depreciation for the building is computed on the straight-line method over 50 years.

c) The 1982 statement of changes in financial position was reclassified to be comparable with the 1983 format.

2. Related party transactions—The twelve District Federal Home Loan Banks (FHLBanks), together with their member institutions, comprise the FHLBank System. The FHLBank System is governed and regulated by the Federal Home Loan Bank Board (Board), which is an independent federal agency in the executive branch of government. The Board is the chartering and regulatory authority for the federal savings and loan associations and federal mutual savings banks. Further, the Board, through the Federal Savings and Loan Insurance Corporation (FSLIC), governs the insurance of accounts in savings and loan associations and mutual savings banks. Board expenses are met through assessments from the FHLBanks and the FSLIC and from member institutions for examinations. Accounts receivable as of December 31, 1983 and 1982 for these assessments were: FHLBanks $7,014,333 and $6,065,539; FSLIC $893,286 and $2,106,059; and member institutions $4,090,546 and $2,312,365, respectively.

3. In 1974, the Board assessed the Federal Home Loan Banks $40 million and, in 1977, another $5 million for the total estimated cost to construct the Federal Home Loan Bank Board building located in Washington, D.C. Of the $45 million assessed and classified as paid-in-capital, $44,584,280 has been paid to the Board by the Banks. The General Services Administration has turned the building over to the Board. Therefore, the unpaid assessment of $415,720 will not be required. Accordingly, the receivable was cancelled and paid-in-capital was reduced by this amount.

4. In October 1983, the Board implemented a new accounting system which enabled it to improve its practice of expensing some purchase orders before invoices had been received. Under its new system, the Board obligates purchase orders as they are issued and records expenses when invoices are received. In addition, the Board adjusted some 1982 expenses that had resulted from an inability to recognize intergovernmental billings in the year in which such expenses were incurred. The financial statements previously issued for 1982 have been restated as follows:

	Previously Reported	*Restated*
Other assets	$ 373,580	$ 262,557
Accounts payable and accrued liabilities	6,154,987	5,975,488
Retained earnings	8,916,878	8,985,354
Building maintenance and other services	5,328,713	5,565,163
Net (loss)	(119,460)	(355,910)

5. The following is a summary of the Board's capital:

	1983	*1982*
Retained earnings at beginning of year		
As previously reported	$ 8,916,878	$ 9,036,338
Adjustments (Note 4)	68,476	304,926
As restated	8,985,354	9,341,264
Net income (loss)	704,608	(355,910)
Retained earnings at end of year	9,689,962	8,985,354
Paid-in-capital at beginning of year	44,584,280	45,000,000
Assessment cancellation (Note 3)	-0-	(415,720)
Paid-in-capital at end of year	44,584,280	44,584,280
Total capital at end of year	$54,274,242	$53,569,634

Federal Savings and Loan Insurance Corporation
Comparative Statement of Condition
(December 31, 1983 and 1982)*

	1983	1982
Assets		
Cash	$ 1,160,313	$ 202,632
Accounts Receivable	46,336,719	22,941,411
Investments (Notes 1 and 2)	6,799,195,381	6,378,530,259
Interest Receivable on Investments	70,840,669	82,422,387
Loans to Insured Institutions	208,749,278	338,142,476
Interest Receivable on Loans to Insured Institutions	3,433,918	8,280,094
Subrogated Accounts in Insured Institutions	351,876,053	98,448,431
Less Allowance for Possible Future Losses (Note 3)	108,800,000	-0-
Net Subrogated Accounts	243,076,053	98,448,431
Income Capital and Net Worth Certificates	850,100,000	441,800,000
Dividends Receivable on Net Worth Certificates	260,572	-0-
Less Allowance for Possible Future Losses	101,500,000	169,900,000
Net Certificates (Note 5)	748,860,572	271,900,000
Mortgage Loans and Other Assets	253,277,765	375,417,897
Less Allowance for Possible Future Losses	27,638,989	40,440,587
Net Mortgage Loans and Other Assets (Note 1)	225,638,776	334,977,310
Total Assets	**$8,347,291,679**	**$7,535,845,000**
Liabilities and Reserves		
Accounts Payable and Other Liabilities	$ 33,358,958	$ 25,381,027
Notes Payable to Insured Institutions (Note 6)	842,603,148	456,503,030
Accrued Interest on Notes Payable	38,325,995	17,759,699
Allowance for Possible Future Losses Under Contribution Agreements (Note 4)	1,007,582,054	705,358,127
Primary Reserve (Notes 7 & 10)	5,764,260,686	5,717,193,461
Secondary Reserve (Note 7)	661,160,838	613,649,656
Total Liabilities and Reserves	**$8,347,291,679**	**$7,535,845,000**

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

FSLIC: Comparative Statement of Changes in Financial Position
(for the years ended December 31, 1983 and 1982)*

	1983	1982
Source of Funds:		
Net Income	$ 47,067,225	$ 124,482,928
Add (Deduct) Items Not Requiring, or Generating Cash:		
Depreciation of Furniture and Equipment	16,559	12,903
Provision for Losses on:		
Mortgage Loans	5,000,000	56,883,388
Certificates	(68,400,000)	169,900,000
Contributions	895,178,263	596,718,914
Subrogated Accounts	108,800,000	-0-
Return on Secondary Reserve	47,758,026	50,189,475
Transfer from Secondary Reserve	(189,802)	(35,691,577)
Amortization Income	(96,597,810)	(32,068,507)
Funds Provided from Operations	938,632,461	930,427,524
Increase (Decrease) in:		
Notes Payable and Accrued Interest	406,666,414	387,530,427
Accounts Payable and Other Liabilities	7,977,931	(11,256,550)
Decrease in:		
Loans to Insured Institutions and Interest Receivable	134,239,374	43,567,946
Mortgage Loans and Other Assets	105,807,758	43,271,567
Total	**$1,593,323,938**	**$1,393,540,914**
Application of Funds:		
Increase in:		
Subrogated Accounts	$ 253,427,622	$ 30,217,609
Income Capital and Net Worth Certificates	408,300,000	357,800,000
Investments and Interest Receivable	313,971,377	503,537,254
Accounts and Dividends Receivable	23,655,880	232,339
Amount Paid Under Contribution Agreements	592,954,336	503,877,673
Refund of Secondary Reserve	57,042	109,619
Total	**$1,592,366,257**	**$1,395,774,494**
Increase (Decrease) in Cash	**$ 957,681**	**$ (2,233,580)**

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

FSLIC: Comparative Statement of Income and Expense
(for the years ended December 31, 1983 and 1982)*

	1983	1982
Income		
Insurance Premiums (Note 1)	$ 508,491,095	$ 426,988,298
Interest on Investments	604,655,968	591,278,444
Interest on Loans to Insured Institutions	20,200,094	33,982,328
Income on Mortgage Loans	28,194,774	24,183,608
Other Income	931,050	1,351,148
Total Income	**1,162,472,981**	**1,077,783,826**
Expenses		
Administrative Expenses	1,076,727	1,013,549
Net Loss on Sale of Securities	17,887,091	306,253
Services Rendered by the Federal Home Loan Bank Board (Note 8)	30,276,417	36,446,645
Insurance Settlement and Other Expenses	83,590,983	41,842,674
Provision for Possible Future Losses:		
Contribution Agreements (Note 4)	895,178,263	596,718,914
Mortgage Loans and Other Assets	5,000,000	56,883,388
Certificates	(68,400,000)	169,900,000
Subrogated Accounts (Net) (Note 3)	103,038,249	-0-
Total Expenses	**1,067,647,730**	**903,111,423**
Net Income from Operations	**$ 94,825,251**	**$ 174,672,403**
Interest Applied to the Secondary Reserve (Note 7)	47,758,026	50,189,475
Net Income	**$ 47,067,225**	**$ 124,482,928**

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

FSLIC Notes to Financial Statements (December 31, 1983 and 1982)

1. Summary of significant accounting policies:

a) Investments—Investment securities are stated at cost, adjusted for amortization of premiums and accretion of discounts. Such amortization and accretion are computed on the level yield method at rates based upon the lives of the related securities. Both amortization and accretions are recognized as an adjustment to Interest on Investments.

b) Furniture and equipment—These assets are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over eleven years. The net balance of this account is insignificant and is included in other assets.

c) Income recognition—Insurance premium income is recognized as earned when member institutions are assessed.

d) The 1982 statement of changes in financial position was reclassified to be comparable with the 1983 format.

e) Generally the Provision for Possible Future Losses is recorded when a default prevention action is taken.

2. Investments—The investments at December 31, 1983 and 1982, are:

	1983 Book Value	1983 Market Value	1982 Book Value	1982 Market Value
	(in thousands)		(in thousands)	
U.S. Treasury obligations	$5,927,154	$5,548,621	$5,297,882	$4,961,138
Federal agency obligations	863,023	796,708	1,087,280	1,077,406
Other investments	9,018	6,096	33,368	28,706
Total	$6,799,195	$6,351,425	$6,378,530	$6,067,250

3. As required by statute, the FSLIC liquidates institutions only when there is no default prevention measure that would be less costly than liquidation. In these cases, FSLIC settles insurance claims either by cash payout of insured accounts or by transferring insured accounts to another insured institution. In either case, insurance payment is made in exchange for the accountholders' claims against the assets of the defaulted institution. Subrogated accounts represent the total of these outstanding claims. An allowance for possible future losses on subrogated accounts has been established in the amount of $108 million at December 31, 1983. The related provision of $103,038,249 is the net amount of the loss allowance less $5,761,751 in discounts earned on subrogated accounts required during 1983. As of December 31, 1982, no allowance for losses had been established.

4. The Federal Savings and Loan Insurance Corporation makes contribution agreements to prevent default of an insured institution. Under some of these agreements, the Corporation agrees to make, or commits itself to make, certain contributions over time. The changes in the allowance for possible future losses under contribution agreements for the years ended December 31, 1983 and 1982, are:

	1983	1982
	(in thousands)	
Allowance for possible future losses:		
Balance, beginning of year	$ 705,358	$612,517
Add: provision charged to expense	895,178	596,719
Less: contributions paid	592,954	503,878
Balance, end of year	$1,007,582	$705,358

5. Since 1981 the FSLIC has purchased income capital certificates (ICCs) from insured institutions. The FSLIC records the ICCs at cost. The ICCs earn annual income payments based on the United States Treasury Bill rates. The annual income payments and principal are redeemable upon the issuing institution's having profitable operations and attaining a specified net worth level. The changes in the ICCs for the years ended December 31, 1983 and 1982, are:

	1983	1982
	(in thousands)	
Balance beginning of year	$404,300	$ 84,000
Add: net purchases during year	368,900	320,300
	773,200	404,300
Less: Allowance for possible future losses	92,750	151,150
Balance, end of year	$680,450	$253,150

In addition, since 1982 the FSLIC has purchased net worth certificates (NWCs) from insured institutions as part of its default prevention activities. NWCs earn annual income payments based on the cost of Federal Home Loan Bank System obligations plus ¼ of one percent. Annual income and principal payments are redeemable upon the issuing institution's having profitable operations and attaining a specified net worth level. Such payments have been accrued for institutions meeting these requirements. The changes in the NWCs for the years ended December 31, 1983 and 1982, are:

	1983	1982
	(in thousands)	
Balance, beginning of year	$37,500	$ —
Add: purchases during year	39,400	37,500
dividends receivable	261	—
	77,161	37,500
Less: allowance for possible future losses	8,750	18,750
Balance, end of year	$68,411	$18,750

6. The FSLIC has issued negotiable notes to purchase ICCs and promissory notes to purchase NWCs in the amount of $776 million. 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 to 10 years. In addition to issuing notes to purchase ICCs and NWCs, the FSLIC has also issued other negotiable notes to carry out its default prevention activities in the amount of $65,703,148.

7. The FSLIC's total reserves available for losses consist of the primary and secondary reserves. The secondary reserve is the equity of certain institutions in FSLIC based on premium prepayments and related interest not yet paid to these institutions. It is available for losses, but may also be paid back to the institutions depending on FSLIC's financial condition and management's anticipation of losses. Interest is credited to the secondary reserve based on the yield of FSLIC's investment portfolio. The primary reserve is the cumulative net income of the FSLIC since its inception less the interest applied to the secondary reserve.

8. Related party transactions—The Federal Home Loan Bank Board is an independent federal agency in the executive branch of government and governs the Federal Savings and Loan Insurance Corporation (FSLIC). The Board assesses the FSLIC for services rendered. The principal function of the FSLIC is to insure accounts in savings and loan associations and federal mutual savings banks. In addition, the FSLIC may guarantee repayment of Federal Home Loan Bank advances that were made to certain insured institutions from time to time in its default prevention activities. These guarantees are typically granted on a short-term basis, generally covering advances that are totally secured. The amount of these advances as of December 31, 1983, totaled $558.5 million and $523.5 million at December 31, 1982. The FSLIC considers the likelihood of ever incurring losses under these arrangements to be very remote. In the unlikely event that it would be called upon to honor these guarantees, the FSLIC would have claim against any assets pledged as collateral to secure such advances.

9. During 1983, the FSLIC changed its method of amortization of GNMA premiums and discounts from the sum of the years digits to the level yield method. In addition, a new accounting system was implemented which enabled it to improve the long-standing accounting practice of expensing some purchase orders before invoices had been received. Under the new system, purchase orders are obligated when issued and invoices are expensed when received. Furthermore, accrued interest on notes payable is reported as a separate line item in the 1983 financial statement. In 1982 it was classified as part of accounts payable and other liabilities. The financial statements previously issued for 1982 have been restated as follows:

	Previously Reported	Restated
Investments	$6,354,939,104	$6,378,530,259
Accounts payable and other liabilities	43,073,295	25,381,027
Accrued interest on notes payable	-0-	17,759,699
Primary reserve	5,693,669,737	5,717,193,461
Interest on investments	603,591,599	591,278,444
Insurance settlement and other expenses	41,775,243	41,842,674
Net income	136,863,514	124,482,928

10. The following is a summary of the FSLIC's primary reserve:

	1983	1982
Primary reserve at beginning of year		
As previously reported	$5,693,669,737	$5,556,806,223
Prior period adjustments	23,523,724	35,904,310
As restated	5,717,193,461	5,592,710,533
Net income	47,067,225	124,482,928
Primary reserve at end of year	$5,764,260,686	$5,717,193,461

11. Subsequent event—On January 20, 1984, the FSLIC executed contribution agreements to facilitate the rehabilitation of certain institutions. These agreements will necessitate the cancelling of $125 million in income capital certificates and $102 million in notes payable to purchase income capital certificates. The remaining $23 million will be applied against allowance for possible future losses under contributions.

12. Given the state of the economy and present condition of the industry, it is possible that FSLIC could sustain additional losses in subsequent accounting periods due to its default prevention actions. Because many of the causes for default are beyond management's control, the amount of these losses cannot be determined. However, the Corporation believes that its resources, including the right to increase insurance premiums, are sufficient to absorb any such losses over the foreseeable future.

Federal Home Loan Banks: Statement of Condition, December 31, 1983, and December 31, 1982
(in thousands)

	Combined		Boston		New York		Pittsburgh		Atlanta		Cin
	1983	1982	1983	1982	1983	1982	1983	1982	1983	1982	1983
ASSETS											
Cash	$555,722	$358,475	$2,763	$5,816	$85,365	$26,832	$44,911	$20,826	$8,908	$8,604	$37,287
Investments at cost	9,841,425	12,575,112	530,367	503,910	284,690	461,793	392,397	973,582	1,178,403	2,130,823	1,209,800
Advances to members	58,978,006	66,000,777	1,350,579	1,474,871	5,552,511	5,801,287	1,401,118	1,661,984	7,254,769	8,710,008	3,283,566
Other loans:											
Guaranteed by AID, net	82,536	84,635	29,329	30,665	53,207	53,970	....	....	....	....	....
Other FHLBanks	2,228,593	400,000	3,000	....	260,000	250,000	201,000	....	....	....	....
Total other loans	2,311,129	484,635	32,329	30,665	313,207	303,970	201,000	....	....	....	....
Accrued interest receivable	512,721	581,932	16,587	14,456	56,214	64,168	18,304	23,082	3,413	8,677	33,331
Bank premises and equipment	47,613	31,722	558	560	4,187	2,636	879	698	3,294	1,859	4,493
Less: depreciation and amortization	(13,882)	(11,310)	(250)	(285)	(1,463)	(1,133)	(541)	(489)	(1,164)	(897)	(2,552)
Net book value	33,731	20,412	308	275	2,724	1,503	338	209	2,130	962	1,941
Other assets:											
Stock and debenture—FHLMC	150,000	150,000	7,350	7,350	17,550	17,550	9,150	9,150	21,300	21,300	13,950
Concessions and discount on COs—Bonds	50,037	46,399	1,800	1,515	3,791	3,974	873	1,170	4,094	5,441	2,700
Deferred charges—FHLBB cost of quarters	33,919	35,702	1,349	1,420	3,796	3,993	1,609	1,695	5,390	5,674	2,810
Assessment—FHLBB operating expenses	....	....	....	....	....	....	....	....	....	....	....
Deferred charge—FHLBB capital expenditures	....	3	....	....	....	....	....	....	....	....	....
Other	23,159	8,452	556	142	1,291	1,845	164	253	2,209	578	1,520
Total other assets	257,115	240,556	11,055	10,427	26,428	27,362	11,796	12,268	32,993	32,993	20,980
Total assets	72,489,849	80,261,899	1,943,988	2,040,420	6,321,139	6,686,915	2,069,864	2,691,951	8,480,616	10,892,067	4,586,905
LIABILITIES AND CAPITAL											
Liabilities											
Deposits and borrowings:											
Members—time	$9,690,083	$12,598,116	$359,873	$489,176	$659,290	$754,031	$6,840	$40,425	$1,842,635	$2,754,179	$787,725
Members—demand	2,183,071	2,134,237	....	....	73,013	29,222	595,189	860,163	2,151	1,239	343,899
Other FHLBanks	2,228,593	400,000	28,000	....	135,000	....	....	....	....	....	....
Other borrowings	51,595	23,102	234	1,427	....	....	....	....	35,326	....	16,035
Total deposits and borrowings	14,153,342	15,155,455	388,107	490,603	867,303	783,253	602,029	900,588	1,880,112	2,755,418	1,147,659
Accrued interest payable	1,389,316	1,572,297	31,848	34,118	116,798	145,837	33,425	43,899	123,126	158,438	72,627
Consolidated obligations											
Bonds	45,776,756	50,955,598	1,227,390	1,196,493	5,810,000	7,219,000	868,000	1,254,000	4,043,000	5,115,000	2,438,500
Discount notes	5,443,837	7,901,478	....	51,307	808,618	515,333	292,434	212,694	1,259,917	1,710,860	391,801
Less: passthroughs to FHLMC	(2,290,000)	(2,890,000)	....	....	(2,290,000)	(2,890,000)	....	....	....	....	....
FHLB's participations	48,930,593	55,967,076	1,227,390	1,247,800	4,328,618	4,844,333	1,160,434	1,466,694	5,302,917	6,825,860	2,830,301
Other liabilities:											
Accounts payable	11,558	11,697	156	126	2,005	806	173	6	249	354	376
Accounts payable—FHLBB operating expenses	2,705	2,509	162	104	413	334	109	100	460	400	210
Other	268,009	139,337	231	1,739	10,483	8,784	1,860	108	66,063	50,101	5,513
Total other liabilities	282,272	153,543	549	1,969	12,901	9,924	2,142	214	66,772	50,855	6,099
Total liabilities	64,755,523	72,848,371	1,647,894	1,774,490	5,325,620	5,783,347	1,798,030	2,411,395	7,372,927	9,790,571	4,056,686
Capital											
Capital stock outstanding	6,394,522	6,269,223	264,509	239,413	854,655	782,268	216,765	230,137	924,312	918,554	419,490
Retained earnings:											
Legal reserve	1,026,216	879,958	27,598	23,340	120,182	102,119	45,297	41,329	140,159	119,095	83,757
Dividend stabilization reserve	166,023	116,781	1,029	219	9,169	7,668	2,838	2,155	26,618	47,247	6,759
Undivided profits	147,565	147,566	2,958	2,958	11,513	11,513	6,934	6,935	16,600	16,600	20,213
Total retained earnings	1,339,804	1,144,305	31,585	26,517	140,864	121,300	55,069	50,419	183,377	182,942	110,729
Total capital	7,734,326	7,413,528	296,094	265,930	995,519	903,568	271,834	280,556	1,107,689	1,101,496	530,219
Total liabilities and capital	72,489,849	80,261,899	1,943,988	2,040,420	6,321,139	6,686,915	2,069,864	2,691,951	8,480,616	10,892,067	4,586,905
Contractual commitments for advances	1,469,759	4,155,769	....	6,595	157,125	321,448	2,600	59,170	128,925	262,921	143,541
DEF hedge (gains) losses netted in total of:											
Investment at cost	....	....	....	....	....	....	....	....	....	....	....
Advances to members	1,444	(9,895)	1,004	287	(1,959)	(2,085)	....	....	1,109	(3,531)	....
Deposits and borrowings	....	....	....	....	....	....	....	....	....	....	....
Consolidated obligations—bonds	11,491	(5,102)	390	543	....	....	....	....	....	....	....
Consolidated obligations—discount notes	25	....	....	....	....	....	....	....	....	....	....

cinnati	Indianapolis		Chicago		Des Moines		Dallas		Topeka		San Francisco		Seattle	
1982	1983	1982	1983	1982	1983	1982	1983	1982	1983	1982	1983	1982	1983	1982
$10,760	$49,349	$3,782	$15,280	$5,386	$55,550	$68,163	$55,214	$20,578	$9,133	$10,345	$158,321	$137,163	$33,641	$40,220
1,358,887	454,851	260,589	1,256,929	723,979	299,269	426,281	1,803,619	1,002,963	291,223	505,718	1,151,440	2,834,447	988,437	1,392,140
3,806,898	3,751,043	2,764,102	2,765,769	3,519,606	3,096,980	4,205,054	3,812,696	3,988,064	3,587,839	3,574,906	17,582,811	20,585,646	5,538,325	5,908,351
....	....	....	....	....	....	....	....	....	....	....	....	....	....	....
....	4,593	....	....	....	75,000	30,000	180,000	....	....	....	1,465,000	120,000	40,000	....
....	4,593	....	....	....	75,000	30,000	180,000	....	....	....	1,465,000	120,000	40,000	....
40,989	19,391	14,479	32,450	37,021	1,454	411	63,968	53,993	33,420	34,725	175,789	227,458	58,400	62,473
4,256	1,075	984	2,660	2,043	3,266	2,974	11,430	1,221	632	376	12,991	12,366	2,148	1,749
(2,266)	(393)	(329)	(1,265)	(1,063)	(1,532)	(1,118)	(698)	(589)	(180)	(127)	(2,680)	(2,050)	(1,164)	(964)
1,990	682	655	1,395	980	1,734	1,856	10,732	632	452	249	10,311	10,316	984	785
13,950	7,350	7,350	15,450	15,450	9,150	9,150	10,200	10,200	5,850	5,850	26,850	26,850	5,850	5,850
2,864	4,751	2,411	1,914	1,988	1,951	2,968	3,092	2,467	3,205	2,877	15,878	14,020	5,988	4,704
2,958	1,479	1,557	3,266	3,437	2,078	2,187	2,191	2,306	1,616	1,701	6,981	7,348	1,354	1,426
....	....	....	....	....	....	....	....	....	....	....	....	....	....	....
....	....	....	....	2	....	....	....	....	....	....	....	....	....	1
569	1,008	300	479	533	5,417	772	1,605	394	900	455	7,932	2,172	78	439
20,341	14,588	11,618	21,109	21,410	18,596	15,077	17,088	15,367	11,571	10,883	57,641	50,390	13,270	12,420
5,239,865	4,294,497	3,055,225	4,092,932	4,308,382	3,548,583	4,746,842	5,943,317	5,081,597	3,933,638	4,136,826	20,601,313	23,965,420	6,673,057	7,416,389
$949,750	$350,953	$304,067	$1,287,914	$1,099,004	$464,152	$647,712	$840,508	$838,335	$254,075	$339,650	$2,096,900	$3,014,211	$739,218	$1,367,576
372,374	145,306	89,931	(1)	(24)	259,438	232,159	236,230	190,163	125,221	64,779	239,034	248,117	163,591	46,114
....	423,000	200,000	170,000	30,000	190,000	140,000	704,593	....	165,000	30,000	273,000	....	140,000	....
....	....	....	....	....	....	....	....	....	....	20,250	....	....	....	1,425
1,322,124	919,259	593,998	1,457,913	1,128,980	913,590	1,019,871	1,781,331	1,028,498	544,296	454,679	2,608,934	3,262,328	1,042,809	1,415,115
93,878	76,031	55,240	77,904	77,448	61,093	80,842	93,463	95,362	84,721	95,665	482,873	573,503	135,407	118,067
2,874,500	2,616,844	1,877,000	1,772,309	2,105,000	2,133,500	2,945,500	2,601,000	2,883,000	2,851,000	2,975,000	15,253,416	16,900,750	4,161,797	3,610,355
416,626	284,089	210,005	174,918	406,558	12,714	296,270	832,114	533,681	83,876	272,466	461,325	1,437,082	842,031	1,838,596
....	....	....	....	....	....	....	....	....	....	....	....	....	....	....
3,291,126	2,900,933	2,087,005	1,947,227	2,511,558	2,146,214	3,241,770	3,433,114	3,416,681	2,934,876	3,247,466	15,714,741	18,337,832	5,003,828	5,448,951
1,754	1,415	303	357	113	27	81	1,342	10	4,005	6,134	1,452	2,010	1	....
184	192	146	243	209	172	144	....	190	137	87	607	611	....	....
4,108	476	158	5,781	4,467	829	239	33,843	9,148	5,883	2,827	116,663	51,779	20,384	5,879
6,046	2,083	607	6,381	4,789	1,028	464	35,185	9,348	10,025	9,048	118,722	54,400	20,385	5,879
4,713,174	3,898,306	2,736,850	3,489,425	3,722,775	3,121,925	4,342,947	5,343,093	4,549,889	3,573,918	3,806,858	18,925,270	22,228,063	6,202,429	6,988,012
424,239	332,782	274,507	485,299	481,569	347,139	339,163	472,661	438,810	287,031	268,277	1,411,264	1,508,490	378,615	363,796
75,707	46,690	35,717	102,788	89,076	62,339	51,874	82,391	65,315	52,056	44,093	201,108	185,527	61,851	46,766
6,532	12,469	3,901	3,286	2,828	7,180	2,858	35,172	17,583	11,435	8,400	29,017	8,686	21,051	8,704
20,213	4,250	4,250	12,134	12,134	10,000	10,000	10,000	10,000	9,198	9,198	34,654	34,654	9,111	9,111
102,452	63,409	43,868	118,208	104,038	79,519	64,732	127,563	92,898	72,689	61,691	264,779	228,867	92,013	64,581
526,691	396,191	318,375	603,507	585,607	426,858	403,895	600,224	531,708	359,720	329,968	1,676,043	1,737,357	470,628	428,377
5,239,865	4,294,497	3,055,225	4,092,932	4,308,382	3,548,583	4,746,842	5,943,317	5,081,597	3,933,638	4,136,826	20,601,313	23,965,420	6,673,057	7,416,389
331,078	....	....	299,800	317,827	151,200	172,289	274,326	646,743	115,350	371,342	163,109	1,358,375	33,783	307,981
....	....	....	....	....	....	....	....	....	....	....	....	....	....	....
....	(841)	(343)	(779)	(646)	1,470	1,355	(1,085)	(2,264)	(1,072)	(2,668)	3,597	....	....	....
....	....	....	....	....	....	....	....	....	....	....	....	....	....	....
....	(156)	....	1,309	....	....	....	....	....	....	....	15,151	....	(5,203)	(5,645)
....	25	....	....	....	....	....	....	....	....	....	....	....	....	....

Federal Home Loan Banks: Statement of Income for the Twelve Months Ending December 31, 1983, and December 31, 1982
(In thousands)

	Combined		Boston		New York		Pittsburgh		Atlanta		Cin
	1983	1982	1983	1982	1983	1982	1983	1982	1983	1982	1983
INCOME											
Interest on advances to members	$6,754,428	$8,701,842	$162,830	$157,201	$636,772	$825,652	$163,906	$237,262	$841,856	$1,227,520	$379,282
Income from investments	1,257,151	1,266,801	50,715	45,641	49,989	105,474	79,318	52,929	182,789	161,747	142,256
Interest and fees on AID loans	7,000	7,145	2,327	2,418	4,673	4,727	....	....	....	....	....
Earned commitment fees	34,593	42,254	131	142	2,425	2,083	643	33	660	1,011	1,161
Income from services to members	35,259	22,032	119	114	1,683	854	3,336	763	4,728	2,797	3,313
Income from services—other FHLBanks	1,524	506	....	....	171	3	....	....	....	....	3
Other income	378,055	43,061	3,511	978	48,731	10,571	12,189	45	26,074	3,295	10,148
Total income	8,468,010	10,083,641	219,633	206,494	744,444	949,364	259,392	291,032	1,056,107	1,396,370	536,163
EXPENSES											
Interest and other costs:											
Interest and concessions—consolidated obligations	6,207,276	7,394,852	155,469	140,062	576,713	751,792	154,866	181,122	685,337	957,765	364,455
Assessments—FHLBB:											
Operating expenses	11,023	9,843	441	394	1,443	1,272	384	383	1,711	1,530	790
Amortization of capital expenditures	4	364	....	16	....	44	....	17	....	57	....
Amortization of cost of quarters	1,784	1,783	71	71	196	196	86	86	285	284	148
Assessments—Office of Finance	4,468	4,593	211	246	514	521	215	244	605	579	358
Interest on deposits	1,381,987	1,597,429	38,650	45,927	60,558	93,717	78,742	77,549	248,193	276,273	116,509
Other interest	7,426	18,363	112	98	480	826	....	....	3,775	3,593	1,250
Total interest and other costs	7,613,968	9,027,227	194,954	186,814	639,904	848,368	234,293	259,401	939,906	1,240,081	483,510
Other operating expenses											
Salaries and benefits	62,633	50,146	1,795	1,618	7,795	5,721	2,474	2,137	6,284	5,482	6,150
Fees and professional services	5,113	4,302	193	165	620	390	144	173	343	298	218
Travel expense	3,891	2,829	216	152	314	237	172	158	428	370	315
Telephone and telegraph	4,623	3,412	86	58	445	248	129	103	697	530	680
Stationery and supplies	10,036	8,760	132	115	1,663	1,491	212	645	668	652	1,709
Cost of quarters	10,303	7,715	311	291	1,493	985	310	304	880	727	1,171
Depreciation—furniture and equipment	1,730	1,296	47	18	104	80	58	46	359	168	114
Equipment expense	11,372	9,268	61	55	1,020	590	68	61	558	718	1,297
Other contractual services	7,805	2,628	369	277	312	338	1,558	742	190	106	326
Inter-FHLBank service charges	802	277	....	....	....	....	....	....	....	....	....
Other	4,448	3,677	178	150	459	513	135	93	474	427	424
Total other operating expenses	122,756	94,310	3,388	2,899	14,225	10,593	5,260	4,462	10,881	9,478	12,404
Total expenses	7,736,724	9,121,537	198,342	189,713	654,129	858,961	239,553	263,863	950,787	1,249,559	495,914
Net income	$731,286	$962,104	$21,291	$16,781	$90,315	$90,403	$19,839	$27,169	$105,320	$146,811	$40,249

Federal Home Loan Banks: Notes to Financial Statements, (December 31, 1983 and 1982)

Organization and Related Agencies

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

The FHLBanks are instrumentalities of the federal government; they are owned by and serve as central credit banks for member institutions. A principal source of funds for the FHLBanks is 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 Banks' members, and member deposits.

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

1. Summary of Significant Accounting Policies

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

(a) Investments—Investment securities are stated at cost, adjusted for amortization of premiums and accretion of discounts. Gains and losses on sales of securities are included in income from investments.

(b) Advances to Federal Home Loan Mortgage Corporation—Proceeds from certain consolidated obligations have been advanced to the Mortgage Corporation at the same interest rates and maturities as the related consolidated obligations. The Mortgage Corporation is effectively reimbursing the FHLBanks for interest; accordingly, the advances, related consolidated obligations, interest expense, and interest income have been offset and are not reflected in the accompanying financial statements.

(c) Bank premises, furniture and equipment, and leasehold improvements—These assets are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed on the straight-line method over the estimated useful lives of the property or life of the lease.

(d) Federal Home Loan Bank Board assessments—The FHLBanks expense their *pro rata* share of the Board assessment for operating expenses during the year in which the assessment is levied.

The Board has assessed the FHLBanks for its portion of the cost of the Board's office building in Washington, DC. These payments are treated as a deferred charge and amortization is computed using the straight-line method for a period of twenty-five years.

The Board also assesses the FHLBanks for their portion of the cost of capital expenditures for furniture, equipment, and furnishings for the Board's building. Payments against these assessments are treated as a deferred charge and amortization is computed using the straight-line method for a 5-year period.

(e) FHLBanks' Office of Finance assessments—The FHLBanks' Office of Finance manages the consolidated securities fund, the sale of consolidated obligations, and certain accounting functions for the twelve FHLBanks as a group. Assessment for the Office's operating costs are charged directly to expense when billed.

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

(g) Discount on consolidated obligations (discount notes)—The discounts from the issue of consolidated obligation discount notes are amortized to expense using the straight-line method to the maturity of the related notes.

(h) Hedging—The FHLBanks are engaged in an asset/liability management program that includes the use of hedges in the cash and financial futures markets. Gains and losses on hedge transactions are deferred and amortized using the level-yield method over the term to maturity of the related hedged asset or liability. Deferred gains and losses are reflected as an adjustment of the carrying value of hedged assets or liabilities.

(i) Unearned commitment fees—Advance commitment fees are initially set up as a deferred credit when received. Nonrefundable fees of less than $1,000 are taken into income immediately and fees of $1,000 or more are amortized to income over the period of the commitment on a straight-line basis. Refundable fees are deferred until the commitment expires or the advance is made.

cinnati	Indianapolis		Chicago		Des Moines		Dallas		Topeka		San Francisco		Seattle	
1982	1983	1982	1983	1982	1983	1982	1983	1982	1983	1982	1983	1982	1983	1982
$517,910	$386,977	$275,723	$356,226	$480,059	$427,865	$482,166	$434,392	$565,857	$403,333	$456,015	$1,910,860	$2,790,978	$650,129	$685,499
122,741	32,489	26,875	115,311	87,587	34,172	44,501	165,982	125,212	38,724	46,902	247,499	318,463	117,907	128,729
....	....	....	....	....	....	....	....	....	....	....	....	....	....	....
1,428	4,302	3,574	622	712	3,746	3,786	4,326	5,735	3,347	2,954	10,863	13,773	2,367	7,023
2,424	2,855	1,986	2,965	2,017	....	1,960	4,220	3,254	1,921	1,412	8,949	4,016	1,170	435
....	....	....	715	262	623	234	....	....	....	....	12	7	....	....
1,998	8,255	1,687	9,188	2,186	13,634	1,398	34,265	1,247	11,432	598	179,239	12,529	21,389	6,529
646,501	434,878	309,845	485,027	572,823	480,040	534,045	643,185	701,305	458,757	507,881	2,357,422	3,139,766	792,962	828,215
435,675	305,980	218,356	268,655	366,954	346,543	378,387	402,423	505,663	370,491	412,649	1,980,824	2,445,770	595,520	600,657
706	488	420	858	802	633	540	676	709	533	441	2,432	2,161	634	485
30	1	16	2	34	....	23	....	25	....	17	....	69	1	16
148	77	78	172	172	109	109	116	115	85	85	367	367	72	72
385	223	273	354	335	240	281	333	361	208	266	896	780	311	322
125,091	67,000	54,046	138,157	121,327	68,873	100,186	140,596	87,605	43,868	39,303	264,508	425,204	116,333	151,201
3,670	151	389	69	1,403	....	13	32	847	66	2,298	1,269	3,453	222	1,773
565,705	373,920	273,578	408,267	491,027	416,398	479,539	544,176	595,325	415,251	455,059	2,250,296	2,877,804	713,093	754,526
5,262	3,150	2,754	4,601	3,788	5,234	4,075	6,446	4,663	1,850	1,504	14,400	11,007	2,454	2,135
219	206	125	204	131	183	114	438	255	126	92	2,272	2,227	166	113
270	172	125	221	173	270	201	759	411	207	141	613	404	204	187
570	200	136	200	153	277	343	603	431	156	119	938	530	212	191
1,576	437	273	347	281	1,348	964	1,431	1,036	325	269	1,518	1,130	246	328
1,195	450	428	748	647	1,054	903	1,232	433	219	187	2,063	1,314	372	301
93	73	70	124	119	234	165	190	132	33	26	251	209	143	170
1.003	660	694	537	457	1,736	1,149	887	683	463	385	3,804	3,278	281	195
186	494	264	255	140	695	306	1,082	121	171	79	2,262	....	91	69
....	22	10	601	226	....	....	....	....	18	3	161	38	....	....
361	229	193	363	331	285	301	565	318	123	130	941	668	272	192
10,735	6,093	5,072	8,201	6,446	11,316	8,521	13,633	8,483	3,691	2,935	29,223	20,805	4,441	3,881
576,440	380,013	278,650	416,468	497,473	427,714	488,060	557,809	603,808	418,942	457,994	2,279,519	2,898,609	717,534	758,407
$70,061	$54,865	$31,195	$68,559	$75,350	$52,326	$45,985	$85,376	$97,497	$39,815	$49,887	$77,903	$241,157	$75,428	$69,808

2. Cash Balances

Compensating balances—The FHLBanks have agreed to maintain average collected cash balances with various commercial banks in consideration for certain services. These arrangements are informal and there are no legal restrictions as to the withdrawal of funds. The average compensating balances were approximately $56,485,000 and $44,525,000 at December 31, 1983 and 1982, respectively.

Passthrough Deposit Reserves—The Depository Institutions Deregulation and Monetary Control Act of 1980 authorizes FHLBanks to act as passthrough correspondents for member institutions required to deposit reserves with the Federal Reserve. The amount shown as cash includes $209,506,000 and $75,792,000 at December 31, 1983 and 1982, respectively, of passthrough reserves deposited with Federal Reserve offices. Member deposit reserves are included under Other Liabilities.

3. Investments

A comparison of the book value and market value follows:

	December 31, 1983	
	Book Value	Market Value
	(in thousands)	
US Treasury obligations	$ 1,109,451	$ 1,107,290
US gov't agencies	39,328	39,128
Federal funds sold	4,852,670	4,852,670
Term funds sold	687,000	687,000
Bankers acceptances	634,443	634,303
Certificates of deposit—domestic	192,956	192,978
Certificates of deposit—Eurodollars	302,472	302,646
Participation in the FHLBanks' consolidated securities fund	2,023,106	2,023,822
	$ 9,841,426	$ 9,839,837

	December 31, 1982	
	Book Value	Market Value
	(In thousands)	
US Treasury obligations	$ 1,115,385	$ 1,119,561
US gov't. agencies	197,222	197,398
Federal funds sold	5,220,200	5,220,200
Term funds sold	1,160,200	1,160,200
Bankers acceptances	386,758	386,868
Certificates of deposit—domestic	288,165	288,548
Certificates of deposit—Eurodollars	578,626	579,243
Securities held under resale agreement	1,059,931	1,059,931
Participation in the FHLBanks' consolidated securities fund	2,568,628	2,570,666
	$12,575,115	$12,582,615

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

4. Advances to Members

At December 31, 1983 and 1982, the FHLBanks had advances outstanding to members at interest rates ranging from 7.25 to 17.50 percent and from 6.62 to 17.85 percent, respectively, with maturities and average rates as follows:

	December 31, 1983	
Years of Maturity	Amount (in thousands)	Weighted Average Interest Rate (percent)
1984	25,107,784	10.79
1985	8,464,335	11.30
1986	6,442,627	11.77
1987	4,520,613	11.79
1988	4,292,446	11.08
1989–1993	10,148,757	11.37
	$58,976,562	11.17
Deferred net loss from hedging transactions	1,444	
	$58,978,006	

Federal Home Loan Banks: Statement of Changes in Financial Position for the Twelve Months Ending December 31, 1983, and December
(in thousands)

	Combined		Boston		New York		Pittsburgh		Atlanta		Cin
	1983	1982	1983	1982	1983	1982	1983	1982	1983	1982	1983
Financial Resources Were Provided From:											
Operations:											
Net income	$731,286	$962,105	$21,291	$16,781	$90,315	$90,403	$19,839	$27,169	$105,320	$146,811	$40,249
Noncash charges/(credit) to income											
Depreciation and amortization of fixed assets	3,292	2,543	66	35	369	222	78	65	465	227	285
Amortization of concessions on C/O bonds	23,094	25,416	562	520	1,900	2,756	509	658	2,364	2,780	1,240
Amortization of discount on C/O discount notes	405,999	1,136,933	1,995	12,523	57,471	91,416	17,830	24,029	24,920	67,158	31,750
Amortization of FHLBB assessments	1,787	2,145	71	87	196	240	86	103	285	340	148
Other	(7)	101	64	1	(1)	....	2	1	7	....	....
Total from operations	1,165,451	2,129,243	24,049	29,947	150,250	185,037	38,344	52,025	133,361	217,316	73,672
Net proceeds from issuance of C/O:											
Bonds	11,120,975	19,727,287	364,154	637,724	733,284	1,645,364	69,788	497,182	438,983	2,353,025	443,925
Discount notes	10,643,188	15,656,936	19,698	102,755	1,737,413	884,165	696,809	431,266	1,920,237	3,414,480	731,131
Advances repaid	51,752,009	52,927,684	1,454,256	1,427,847	4,202,847	2,304,235	1,354,302	1,917,088	3,938,927	2,834,607	1,331,023
Proceeds from sale of capital stock	609,185	516,869	32,637	21,480	94,301	77,539	9,968	12,218	43,615	54,937	10,809
Net deposits (advances) between other FHLBanks	....	....	25,000	....	125,000	(200,000)	(201,000)	....	....	....	....
Increase (decrease) in deposits	(2,868,317)	2,820,053	(130,496)	181,100	(50,950)	(85,049)	(298,558)	274,340	(910,632)	1,044,820	(190,500)
Increase (decrease) in securities sold under agreements to repurchase	31,111	(199,501)	....	....	....	....	....	....	35,326	(92,669)	16,035
Increase (decrease) in accrued interest payable	(182,981)	112,857	(2,269)	9,309	(29,039)	(8,930)	(10,475)	4,093	(35,312)	(2,087)	(21,251)
Increase (decrease) in other liabilities	128,470	49,779	(1,549)	2,298	2,977	2,025	1,928	(121)	15,917	7,100	52
Total	$72,399,091	$93,741,207	$1,785,480	$2,412,460	$6,966,083	$4,804,386	$1,661,106	$3,188,091	$5,580,422	$9,831,529	$2,394,896
Financial Resources Used For:											
Payments on Maturing C/O:											
Bonds	15,725,415	14,625,015	330,950	241,000	1,544,000	1,745,000	456,000	340,000	1,512,000	1,847,000	881,000
Discount notes	13,506,856	20,092,672	73,000	242,321	1,501,600	1,405,150	634,900	419,850	2,396,100	4,647,800	787,706
Advances made	44,724,164	53,737,893	1,329,247	1,673,882	3,953,946	2,138,393	1,093,437	1,585,235	2,483,696	2,027,990	807,691
Redemption of capital stock	525,870	289,414	7,542	9,596	21,914	41,766	23,340	4,871	37,857	20,066	15,558
Cash dividends on capital stock	493,805	576,729	16,223	15,280	70,751	80,219	15,188	23,019	104,885	91,583	31,972
Net additions to Bank premises and equipment	16,609	4,217	96	161	1,589	43	209	47	1,633	186	237
Increase (decrease) in investments	(2,734,772)	4,417,980	26,457	228,175	(177,103)	(613,968)	(581,185)	826,086	(952,420)	1,192,868	(149,086)
Increase (decrease) in accrued interest receivable	(69,212)	35,200	2,131	890	(7,954)	(5,859)	(4,778)	2,457	(5,264)	3,478	(7,658)
Increase (decrease) in other assets	13,044	(1,087)	(113)	(589)	(1,193)	(1,035)	(89)	108	1,630	194	949
Increase (decrease) in cash	197,312	(36,826)	(3,053)	1,744	58,533	14,677	24,084)	(13,582)	305	364	26,527
Total	$72,399,091	$93,741,207	$1,785,480	$2,412,460	$6,966,083	$4,804,386	$1,661,106	$3,188,091	$5,580,422	$9,831,529	$2,394,896

	December 31, 1981	
Years of Maturity	Amount (in thousands)	Weighted Average Interest Rate (percent)
1983	$32,409,428	11.50
1984	13,531,278	12.20
1985	7,566,336	12.34
1986	4,021,177	13.19
1987	3,172,359	12.41
1988-1992	5,311,737	12.65
	$66,012,315	11.98

Outstanding advances aggregating $58,683,347,000 at December 31, 1983, and $65,579,215,000 at December 31, 1982, were collateralized by pledged investment securities and first mortgage loans. The capital stock of the FHLBanks owned by borrowing members is also pledged as additional collateral for outstanding advances. FHLBank regulations permit a borrowing member to physically retain mortgage collateral assigned to a FHLBank and, in such circumstances, the member executes a written security agreement which describes the type of collateral and agrees to hold such collateral for the benefit and subject to the direction and control of the FHLBanks.

The FHLBanks are participating in a community investment fund, a 5-year advances program initiated in June 1978. The program provides funds to members meeting eligibility criteria for active involvement in preserving and revitalizing older communities. As of December 31, 1983, advances of $1,979,785,000 were outstanding under this program for an average maturity of 1.5 years at rates ranging from 7.80 to 16.50 percent. These rates are one-half of 1 percent below the estimated cost of issuing consolidated obligations of comparable maturities at the time the commitments to advance funds were made. The net interest cost of this program, if consolidated obligations had actually been issued at the time the commitments to advance funds were made, would have amounted to approximately $14,503,000 for 1983 and $24,757,000 for 1982.

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 US 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 $352,876,000 and $366,748,000 at December 31, 1983 and 1982, respectively. The December 31, 1983, loan balances mature between 1990 and 2008.

The FHLBanks receive service fees for these loans, against which direct expenses associated with the financing arrangements are netted. The balance is deferred and amortized into income at one percent of the unamortized balance per month.

6. Investment in the Federal Home Loan Mortgage Corporation (Mortgage Corporation)

The investment in the Mortgage Corporation is stated at cost and consists of 100,000 shares of nonvoting capital stock and a $50 million subordinated capital debenture, due June 20, 1987. The shares of capital stock represent 100 percent of the capital stock outstanding, and had an underlying book value of approximately $421 million and $296.058 million at December 31, 1983 and 1982, respectively. The Mortgage Corporation paid a dividend of $34 million in 1983 and $14 million in 1982. On June 20, 1980, a $50 million dividend was paid to the Banks on their investment in the Mortgage Corporation capital stock and the Banks purchased a subordinated capital debenture of the same amount. The subordinated capital debenture issued on June 20, 1980, bears an interest rate of 11.50 percent *per annum*, payable semi-annually; may not be sold, transferred, exchanged, or pledged without the express written consent of the Mortgage Corporation; is subordinated in right of payment to the prior payment in full of all other obligations and indebtedness of the Mortgage Corporation; and may be redeemed in whole or in part on or after June 20, 1985, at specified redemption prices at the option of the Mortgage Corporation.

7. Consolidated Obligations

Consolidated FHLBank obligations are the joint and several obligations of all twelve FHLBanks. The outstanding obligations of the FHLBanks, including the passthroughs to the Mortgage Corporation (see Note 1), at December 31, 1983 and 1982, were $51,220,593,000 and $58,857,076,000, 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, secured advances, and federally insured or guaranteed mortgages. The FHLBanks were in compliance with this requirement at December 31, 1983 and 1982.

cinnati	Indianapolis		Chicago		Des Moines		Dallas		Topeka		San Francisco		Seattle	
1982	1983	1982	1983	1982	1983	1982	1983	1982	1983	1982	1983	1982	1983	1982
$70,061	$54,865	$31,195	$68,559	$75,351	$52,326	$45,985	$85,376	$97,497	$39,815	$49,887	$77,904	$241,157	$75,427	$69,808
302	111	105	232	256	431	349	359	143	54	43	641	551	201	245
1,474	1,073	712	979	1,129	1,314	1,364	2,385	1,601	1,347	1,571	7,657	9,285	1,764	1,566
76,272	13,907	49,362	16,762	99,234	13,809	52,314	57,714	122,892	14,998	39,774	64,512	294,468	90,331	207,491
178	78	94	173	205	109	132	116	140	85	102	367	436	73	88
....	....	....	(82)	2	3	66	....	....	....	(2)	....	33	....	....
148,287	70,034	81,468	86,623	176,177	67,992	100,210	145,950	222,273	56,299	91,375	151,081	545,930	167,796	279,198
1,069,581	1,301,587	1,293,678	378,404	894,566	159,703	1,512,159	973,990	1,087,353	793,325	1,180,045	4,181,458	5,615,027	1,282,374	1,941,583
824,819	451,702	543,457	308,598	891,867	226,785	527,624	1,588,769	1,571,164	244,513	453,472	1,229,230	2,947,099	1,488,303	3,064,768
1,528,788	1,214,826	607,035	1,556,760	1,805,274	3,195,157	3,115,195	5,087,623	6,513,486	1,111,780	919,530	23,402,440	27,198,859	3,902,068	2,755,740
16,521	63,294	31,423	12,462	18,341	17,195	29,676	77,481	47,653	22,870	12,443	191,058	109,628	33,495	85,010
....	218,407	150,000	140,000	30,000	5,000	110,000	524,593	....	135,000	30,000	(1,072,000)	(120,000)	100,000	....
391,785	102,261	86,904	188,933	294,719	(156,282)	(58,320)	41,675	322,687	(25,068)	112,293	(926,394)	(40,883)	(512,306)	295,657
(104,224)	....	....	....	....	....	....	....	(22,858)	(20,250)	20,250	....	....	....	....
(9,166)	20,791	27,486	456	1,895	(19,749)	11,246	(1,899)	(3,944)	(10,944)	4,773	(90,630)	58,316	17,340	19,866
5,057	1,345	(1,263)	1,592	2,508	565	(556)	25,838	5,623	977	5,840	64,322	19,220	14,506	2,048
$3,871,448	$3,444,247	$2,820,188	$2,673,828	$4,115,347	$3,496,366	$5,347,234	$8,464,020	$9,743,437	$2,308,502	$2,830,021	$27,130,565	$36,333,196	$6,493,576	$8,443,870
996,000	565,000	280,000	712,000	934,000	972,000	779,000	1,259,000	1,070,000	919,000	972,000	5,837,486	4,524,000	733,979	897,015
1,002,800	391,550	825,250	557,000	1,458,200	524,150	901,450	1,348,050	2,303,900	448,100	546,300	2,269,500	3,678,101	2,575,200	2,661,550
1,304,422	2,202,265	1,593,298	802,846	1,565,169	2,087,081	3,534,315	4,906,775	6,144,641	1,124,713	1,022,449	20,400,425	27,210,299	3,532,042	3,937,800
14,928	5,019	1,518	8,731	7,745	9,219	13,347	43,630	18,937	4,117	16,237	330,267	120,723	18,676	19,680
56,590	35,324	26,051	54,390	65,822	37,539	39,901	50,712	75,014	28,817	41,362	9	28	47,995	61,860
1,217	138	67	641	209	313	557	10,459	298	258	47	636	1,304	400	81
493,339	194,262	93,026	532,951	92,095	(127,013)	68,273	799,570	114,628	(214,495)	229,475	(1,683,007)	858,803	(403,703)	835,180
(3,314)	4,912	5,478	(4,571)	(3,161)	1,042	282	9,975	3,256	(1,305)	(395)	(51,669)	23,626	(4,073)	8,462
179	210	(726)	(54)	(423)	4,648	934	1,213	(2,104)	444	33	5,780	1,946	(361)	396
5,287	45,567	(3,774)	9,894	(4,309)	(12,613)	9,175	34,636	14,867	(1,147)	2,513	21,158	(85,634)	(6,579)	21,846
$3,871,448	$3,444,247	$2,820,188	$2,673,828	$4,115,347	$3,496,366	$5,347,234	$8,464,020	$9,743,437	$2,308,502	$2,830,021	$27,130,565	$36,333,196	$6,493,576	$8,443,870

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

		December 31, 1983	
Years of Maturity	Range of Coupon Rates	Bonds Weighted Average Coupon Rate	Outstanding
1984	7.38-16.40	12.79	$12,544,641
1985	7.38-15.05	12.66	8,125,299
1986	9.55-16.44	13.75	6,100,039
1987	7.60-11.35	10.40	4,085,041
1988	10.15-14.20	11.18	3,550,040
1989-1993	10.60-15.10	11.84	9,070,205
		12.35	$43,475,265
Deferred gain from hedging transactions			11,491
			$43,486,756

	Discount Notes	
	Book Value	Par Value
Due within one year	$5,443,838	$5,580,700

		December 31, 1982	
Years of Maturity	Range of Coupon Rates	Bonds Weighted Average Coupon Rate	Outstanding
1983	7.30-16.50	12.95	$15,460,737
1984	7.38-16.46	12.80	12,550,042
1985	7.38-15.05	12.60	8,210,046
1986	9.55-16.44	14.13	5,400,052
1987	7.60-11.32	9.75	2,400,057
1988-1992	10.85-15.33	12.74	4,050,309
		12.81	$48,071,243

	Discount Notes	
	Book Value	Par Value
Due within one year	$7,901,478	$8,070,850

The FHLBanks' participation, as shown above, is reported net of advances to the Mortgage Corporation in the form of passthroughs of the proceeds of certain consolidated obligations.

The following is a summary of the passthroughs (thousands of dollars):

		December 31, 1983	
Years of Maturity	Range of Coupon Rates	Bonds Weighted Average Coupon Rate	Outstanding
1984	8.75-13.85	10.37	$500,000
1985	7.38- 9.35	8.27	640,000
1986	9.55-11.30	9.90	250,000
1987	11.10	11.10	200,000
1988-1997	7.38- 7.88	7.59	700,000
		8.95	$2,290,000

		December 31, 1982	
Years of Maturity	Range of Coupon Rates	Bonds Weighted Average Coupon Rate	Outstanding
1983	9.30-14.05	11.87	600,000
1984	8.75-13.85	10.37	500,000
1985	7.38- 9.35	8.26	640,000
1986	9.55-11.30	9.90	250,000
1987	11.10	11.10	200,000
1988-1997	7.38- 7.88	7.59	700,000
		9.55	$2,890,000

8. Borrowings from the US 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 billion; the terms, conditions and interest rate to be determined by the Secretary. There were no outstanding borrowings from the US Treasury during the two-year period ended December 31, 1983.

Federal Home Loan Banks: Statement of Retained Earnings, December 31, 1983, and December 31, 1982
(in thousands)

	Combined		Boston		New York		Pittsburgh		Atlanta		Cin
	1983	1982	1983	1982	1983	1982	1983	1982	1983	1982	1983
LEGAL RESERVES											
Balance, January 1	$879,958	$794,317	$23,340	$22,059	$102,119	$94,028	$41,329	$39,275	$119,095	$108,284	$75,707
Add: Statutory transfer of net income	146,258	85,641	4,258	1,281	18,063	8,091	3,968	2,054	21,064	10,811	8,050
Balance, December 31	1,026,216	879,958	27,598	23,340	120,182	102,119	45,297	41,329	140,159	119,095	83,757
DIVIDEND STABILIZATION RESERVE											
Balance, January 1	116,781	32,305	219	....	7,668	5,575	2,155	59	47,247	2,830	6,532
Add: Transfer from net income	69,871	87,106	810	608	1,501	2,093	683	2,096	....	46,564	227
Subtotal	186,652	119,411	1,029	608	9,169	7,668	2,838	2,155	47,247	49,394	6,759
Deduction: Dividend paid on capital stock	20,629	2,630	....	389	....	....	....	....	20,629	2,147	....
Balance, December 31	166,023	116,781	1,029	219	9,169	7,668	2,838	2,155	26,618	47,247	6,759
UNDIVIDED PROFITS											
Balance, January 1	147,566	146,962	2,958	2,958	11,513	11,513	6,935	6,934	16,600	16,600	20,213
Add: Net income	731,286	962,104	21,291	16,781	90,315	90,403	19,839	27,169	105,320	146,811	40,249
Subtotal	878,852	1,109,066	24,249	19,739	101,828	101,916	26,774	34,103	121,920	163,411	60,462
Deductions:											
Statutory transfer of net income	146,258	85,641	4,258	1,281	18,063	8,091	3,968	2,054	21,064	10,811	8,050
Dividend paid on capital stock	535,787	791,382	16,223	15,280	70,751	80,219	15,188	23,019	104,885	91,583	31,972
Transfer to dividend stabilization reserve	49,242	84,476	810	219	1,501	2,093	683	2,096	(20,627)	44,417	227
Total deductions	731,287	961,499	21,291	16,781	90,315	90,403	19,839	27,169	105,322	146,811	40,249
Balance, December 31	147,565	147,566	2,958	2,958	11,513	11,513	6,934	6,935	16,600	16,600	20,213

Note: Because of rounding minor differences may occur on some totals.

9. Capital

The capital stock of the FHLBanks has a par value of $100 per share. Capital stock held by members in excess of their statutory requirement can be redeemed at par value by the FHLBanks or sold to other Bank members at par value, provided the resulting stock transfer is recorded on the books of the FHLBanks.

Retained earnings of the FHLBanks consist of undivided profits, a legal reserve, and a dividend stabilization reserve (DSR). The FHLBanks must transfer 20 percent of their net income to the legal reserve semiannually until the reserve equals the capital stock amount. Thereafter, 5 percent of the FHLBanks net income must be allocated for this purpose. The Bank Board suspended the legal reserve transfer requirement for the semiannual period ended December 31, 1982. In 1983 and 1982, dividends were permitted only to the extent of current year's net income and the DSR and were authorized to be paid either annually or semiannually. The FHLBanks were requested to set aside in the DSR for future years that portion of prepayment fee income which, if allocated on a *pro rata* basis over the maturity of the prepaid advances, would be allocated to future dividend periods. Dividends may be paid in the form of capital stock, if authorized by the board of directors.

Stock dividends totaling $41,983,000 were paid in 1983, compared with $214,662,000 in 1982. Cash dividends declared by FHLBanks totaled $493,805,000 in 1983 and $576,719,000 in 1982.

10. Employee Retirement Plan

The FHLBanks are participants in the Financial Institutions Retirement Fund (FIRF) and substantially all of their officers and employees are covered by the plan. The FHLBanks' contributions are determined by the FIRF. Pension costs charged to operating expenses were $3,556,000 in 1983 and $2,999,202 in 1982.

11. Commitments

Rental expense of $15,541,000 in 1983 and $11,439,049 in 1982 for premises and equipment has been charged to expense. Minimum rentals for each of the next five years are as follows:

	Minimum Rentals
1984	$11,756
1985	11,297
1986	7,457
1987	5,641
1988	4,294
	$40,445

The FHLBanks' premise lease agreements provide for increases in basic rentals from increased property taxes and maintenance expense. Commitments for advances to members and to foreign borrowers under guaranteed loans totaled $1,469,759,000 and $4,155,769,000, at December 31, 1983 and 1982, respectively.

12. Contingencies

As provided for in Section 306(c) of the Federal Home Loan Mortgage Corporation Act, the Board has provided for the guarantee by the FHLBanks of certain borrowings of the Mortgage Corporation from the Federal Home Loan Bank of New York. Each of the FHLBanks participates in the guarantee in proportion to its investment in the capital stock of the Mortgage Corporation. (See Note 6.) On December 31, 1983, the Banks have guaranteed $2 billion of the Mortgage Corporation's borrowings from the Federal Home Loan Bank of New York in the form of passthroughs of the proceeds of certain consolidated obligations.

cinnati	Indianapolis		Chicago		Des Moines		Dallas		Topeka		San Francisco		Seattle	
1982	1983	1982	1983	1982	1983	1982	1983	1982	1983	1982	1983	1982	1983	1982
$69,371	$35,717	$33,664	$89,076	$82,340	$51,874	$47,872	$65,315	$56,158	$44,093	$38,447	$185,527	$161,474	$46,766	$41,345
6,336	10,973	2,053	13,712	6,736	10,465	4,002	17,075	9,157	7,963	5,646	15,581	24,053	15,086	5,421
75,707	46,690	35,717	102,788	89,076	62,339	51,874	82,391	65,315	52,056	44,093	201,108	185,527	61,851	46,766
....	3,901	810	2,828	36	2,858	777	17,583	4,258	8,400	5,520	8,686	6,263	8,704	6,177
6,532	8,568	3,091	458	2,792	4,322	2,081	17,589	13,325	3,035	2,880	20,331	2,517	12,347	2,527
6,532	12,469	3,901	3,286	2,828	7,180	2,858	35,172	17,583	11,435	8,400	29,017	8,780	21,051	8,704
....	....	....	....	....	....	....	....	....	....	....	....	94	....	....
6,532	12,469	3,901	3,286	2,828	7,180	2,858	35,172	17,583	11,435	8,400	29,017	8,686	21,051	8,704
19,610	4,250	4,250	12,134	12,134	10,000	10,000	10,000	10,000	9,198	9,198	34,654	34,654	9,111	9,111
70,061	54,865	31,195	68,559	75,350	52,326	45,985	85,376	97,497	39,815	49,887	77,903	241,157	75,428	69,808
89,671	59,115	35,445	80,693	87,484	62,326	55,985	95,376	107,497	49,013	59,085	112,557	275,811	84,539	78,919
6,336	10,973	2,053	13,712	6,736	10,465	4,002	17,075	9,157	7,963	5,646	15,581	24,053	15,086	5,421
56,590	35,324	26,051	54,390	65,822	37,539	39,901	50,712	75,014	28,817	41,362	41,992	214,680	47,995	61,860
6,532	8,568	3,091	458	2,792	4,322	2,081	17,589	13,325	3,035	2,880	20,331	2,423	12,347	2,527
69,458	54,865	31,195	68,560	75,350	52,326	45,985	85,376	97,496	39,815	49,888	77,904	241,156	75,428	69,808
20,213	4,250	4,250	12,134	12,134	10,000	10,000	10,000	10,000	9,198	9,198	34,654	34,654	9,111	9,111

Guide to Locating Tables in the Statistical Series

Notice

The Federal Home Loan Bank Board Journal *has been discontinued. Below is a chart that will help you locate statistics that were carried in the* Journal. *For information on a new publication entitled* Federal Home Loan Bank System Outlook, *contact Lyman Coddington, Editor, Federal Home Loan Bank System Outlook, Suite 510, 655 15th Street, N.W., Washington, D.C. 20005.*

Table S.1.1.—Security Yields and Rates
The data shown in the first eight columns are published in the *Federal Reserve Bulletin,* sold by Publication Services, Board of Governors of the Federal Reserve System, Washington, D.C. 20551. Data shown in the last two columns are published in a monthly press release titled Conventional Home Mortgage Interest Rates, available from the Office of Communications, Federal Home Loan Bank Board, Washington, D.C. 20552.

Table S.1.2—Measures of Money Stock and Time and Savings Accounts
Data are published in the *Federal Reserve Bulletin,* available as indicated above.

Table S.1.3—Selected Types of Savings
Data on savings and loan associations are published in a monthly press release titled Thrift Institution Activity, available from Office of Communications, Federal Home Loan Bank Board, Washington, D.C. 20552. Data on mutual savings banks are available from the Department of Research and Economics, National Council of Savings Institutions, 1101 Fifteenth Street N.W., Washington, D.C. 20005. Data on savings bonds are available from the *Treasury Bulletin,* sold by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

Table S.2.1—Federal Home Loan Mortgage Corporation: Operational Data
Data are available from the Public Relations Department, Federal Home Loan Mortgage Corporation, 1776 "G" Street, N.W., Washington, D.C. 20006.

Table S.2.2—Federal Home Loan Mortgage Corporation: Weekly Market Survey
Data are published in a weekly press release titled Primary Mortgage Market Survey, available from the Federal Home Loan Mortgage Corporation, Post Office Box 37248, Washington, D.C. 20013.

Table S.3.1—Federal Home Loan Banks: Combined Statement of Condition
Data are to be published in a monthly press release, Federal Home Loan Banks Statistical Series, available from the Office of Communications, Federal Home Loan Bank Board, Washington, D.C. 20552.

Table S.3.2—Federal Home Loan Banks: Selected Operating Factors
Same as S.3.1.

Table S.3.3—Federal Home Loan Banks: Number of Members **by Type**
Same as S.3.1.

Table S.3.4—Federal Home Loan Bank Advances Outstanding, by Bank
Same as S.3.1.

Table S.3.5—Federal Home Loan Bank Advances Made and Repaid
Same as S.3.1.

Table S.3.6—Consolidated Federal Home Loan Bank Obligations Outstanding—Bonds
Same as S.3.1.

Table S.4.1—All Operating Savings and Loan Associations: Balance Sheet Data and Commitments
Data are published in a monthly press release titled Thrift Institution Activity, available from the Office of Communications, Federal Home Loan Bank Board, Washington, D.C. 20552.

Table S.4.2—Savings Activity at Savings and Loan Associations
Data are available as indicated for Table S.4.1, above.

Table S.4.3—Net Savings Inflow at Savings and Loan Associations
National data are published in a monthly press release titled Thrift Institution Activity, available from the Office of Communications, Federal Home Loan Bank Board, Washington, D.C. 20552. Data by Federal Home Loan Bank District are available from the Statistics and Analysis Division, Office of Policy and Economic Research, Federal Home Loan Bank Board, Washington, D.C. 20552.

Table S.4.4—Net New Savings Received by FSLIC-Insured Savings and Loan Associations
Data are available as indicated for Table S.4.3, above.

Table S.4.5—Mortgage Loan Activity of Savings and Loan Associations
Data are published in a monthly press release titled, Thrift Institution Activity, available from the Office of Communications, Federal Home Loan Bank Board, Washington, D.C. 20552.

Table S.4.6—Mortgage Loans Closed by Savings and Loan Associations
Data are available as indicated for Table S.4.3, above.

Table S.4.7—Mortgage Debt Held by All Operating Savings and Loan Associations by Type of Property and Mortgage
Data are available from the Statistics and Analysis Division, Office of Policy and Economic Research, Federal Home Loan Bank Board, Washington, D.C. 20552.

Table S.4.8—Average Cost of Funds for FSLIC-Insured Institutions by Bank District
Data are published in a quarterly press release titled, Thrift Institution Earnings, available from the Office of Communications, Federal Home Loan Bank Board, Washington, D.C. 20552.

Table S.4.9—Effective Interest/Dividend Rates Paid by FSLIC-Insured Institutions by Bank District
Data are available as indicated for Table S.4.8, above.

Table S.4.10—Interest Return on Mortgages Held by FSLIC-Insured Institutions by Bank District
Data are available as indicated for Table S.4.8, above.

Table S.4.11—Minimum Ratio of Liquid Assets to Liquidity Base Required of Members of the Federal Home Loan Bank System
Data are available from the Office of Communications, Federal Home Loan Bank Board, Washington, D.C. 20552.

Table S.4.12—Maximum Rates of Return Payable on Savings Accounts of FHLB Members
Data are available from the Office of Communications, Federal Home Loan Bank Board, Washington, D.C. 20552.

Table S.4.13—Adjustable Rate Mortgage (ARM) Index Rates Computed Monthly by the Federal Home Loan Bank Board
Data are published in a monthly press release titled ARM Index Rates, available from the Office of Communications, Federal Home Loan Bank Board, Washington, D.C. 20552.

Table S.5.1—Terms on Conventional Home Mortgage Loans Made: National Average for All Major Types of Lenders
Data are published in a monthly press release titled Conventional Home Mortgage Interest Rates, available from the Office of Communications, Federal Home Loan Bank Board, Washington, D.C. 20552.

Table S.5.2—Commitment Rates and Lending Policy on Conventional Home Mortgage Loans with 25-Year Maturity: National Average for All Major Types of Lenders
Data are available as indicated for Table S.5.1.

Table S.5.3—Commitment Rates, Lending Policy, and Terms on Conventional Home Mortgage Loans: National Averages for Savings and Loan Associations
Data are available as indicated for Table S.5.1.

Table S.5.4—Mortgage Debt Outstanding, by Type of Property and Mortgage
Data are published in the *Federal Reserve Bulletin,* sold by Publications Services, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

Table S.5.5—Mortgage Debt Outstanding on One-to-Four Family Non-Farm Properties by Type of Holder
Data are available as indicated for Table S.5.4.

Table S.5.6—Mortgage Debt Outstanding on Non-Farm Residential Property with Five or More Units by Type of Holder
Data are available as indicated for Table S.5.4.

Table S.5.7—Foreclosures by FSLIC-insured Institution Classified by Type of Mortgage
Data are available from the Statistics and Analysis Division, Office of Policy and Economic Research, Federal Home Loan Bank Board, Washington, D.C. 20552.

Table S.6.1—Indicators for Housing Activity
Data shown on private housing units started (columns 1-8) and private housing units authorized (column 11) are published monthly in the U.S. Bureau of the Census Release C20, which can be ordered by calling the Data Users Services Division on 301-763-4100. Data shown on FHA starts (column 9) are published monthly in the Federal Housing Administration's release titled Statistical Highlights, which can be obtained by calling 202-755-6190. Data shown on VA starts (column 10) are published monthly in the Veterans Administration release titled Loan Guarantee Highlights, which can be obtained by calling 202-389-2425. Data shown on new homes sold (column 12) are published monthly in the U.S. Bureau of the Census Release C25, which can be ordered by calling the Data Users Service Division on 301-763-4100. Data shown on new construction put in place (column 13) are published monthly in the U.S. Bureau of the Census Release C30, which can be ordered by calling the Data Users Services Division on 301-763-4100.

Table S.6.2—Inventory of Unsold Homes
Data are published monthly by the U.S. Bureau of the Census in Construction Reports Series C25 *New One-Family Houses Sold and For Sale,* sold by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

Table S.6.3—Rental Vacancy Rates for the United States and Major Regions
Data are published quarterly by the U.S. Bureau of the Census in Current Housing Reports Series H-111 *Housing Vacancies,* sold by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

Federal Home Loan Bank Districts

1. **Federal Home Loan Bank of Boston**
   Raymond H. Elliott, President
   Post Office Box 2196
   Boston, Massachusetts 02106
   Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont
   District Director-Examinations: Charles E. Seaman

2. **Federal Home Loan Bank of New York**
   Bryce Curry, President
   One World Trade Center, Floor 103
   New York, New York 10048
   New Jersey, New York, Puerto Rico, and Virgin Islands
   District Director-Examinations: Leonard Nightingale

3. **Federal Home Loan Bank of Pittsburgh***
   Eugene M. Calnan, President
   11 Stanwix St., 4th Floor, Gateway Center
   Pittsburgh, Pennsylvania 15222
   Delaware, Pennsylvania, and West Virginia
   District Director-Examinations: Norman L. Giancola

4. **Federal Home Loan Bank of Atlanta**
   Carl O. Kamp, Jr., President
   Post Office Box 56527
   Atlanta, Georgia 30343
   Alabama, District of Columbia, Florida, Georgia, Maryland, North Carolina, South Carolina, and Virginia
   District Director-Examinations: Lamar Heath

5. **Federal Home Loan Bank of Cincinnati**
   Charles Lee Thiemann, President
   Post Office Box 598
   Cincinnati, Ohio 45201
   Kentucky, Ohio, and Tennessee
   District Director-Examinations: John F. Saalman

6. **Federal Home Loan Bank of Indianapolis**
   Ronald R. Morphew, President-Secretary
   1350 Merchants Plaza, South Tower
   115 West Washington Street
   P.O. Box 60
   Indianapolis, Indiana 46206
   Indiana and Michigan
   District Director-Examinations: Ervin Berlinger

7. **Federal Home Loan Bank of Chicago**
   Leo B. Blaber, Jr., President
   111 East Wacker Drive
   Chicago, Illinois 60601
   Illinois and Wisconsin
   District Director-Examinations: John P. Valek

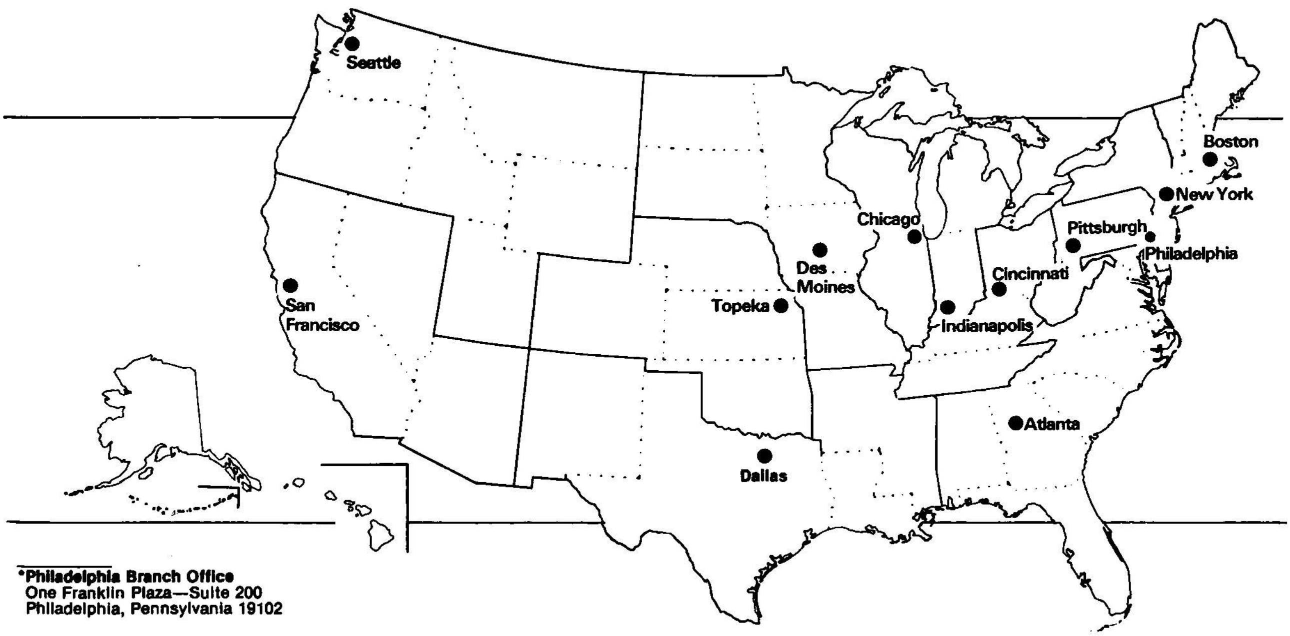
8. **Federal Home Loan Bank of Des Moines**
   Donald F. Roby, President
   907 Walnut Street
   Des Moines, Iowa 50309
   Iowa, Minnesota, Missouri, North Dakota, and South Dakota
   District Director-Examinations: Bernard C. Zimmer

9. **Federal Home Loan Bank of Dallas**
   Roy G. Green, President
   P.O. Box 619026
   Dallas/Fort Worth, Texas 75261-9026
   Arkansas, Louisiana, Mississippi, New Mexico, and Texas
   District Director-Examinations: Bud Vanerio

10. **Federal Home Loan Bank of Topeka**
    Kermit L. Mowbray, President
    Post Office Box 176
    Topeka, Kansas 66601
    Colorado, Kansas, Nebraska, and Oklahoma
    District Director-Examinations: Max L. Johnson

11. **Federal Home Loan Bank of San Francisco**
    James M. Cirona, President
    Post Office Box 7948
    San Francisco, California 94120
    Arizona, Nevada, and California
    District Director-Examinations: Paul F. Bowman

12. **Federal Home Loan Bank of Seattle**
    James R. Faulstich, President
    600 Stewart Street
    Seattle, Washington 98101
    Alaska, Hawaii and Guam, Idaho, Montana, Oregon, Utah, Washington, and Wyoming
    District Director-Examinations: Charles Galindo



***Philadelphia Branch Office**
One Franklin Plaza—Suite 200
Philadelphia, Pennsylvania 19102

Federal Home Loan Bank Board
Washington, D.C. 20552

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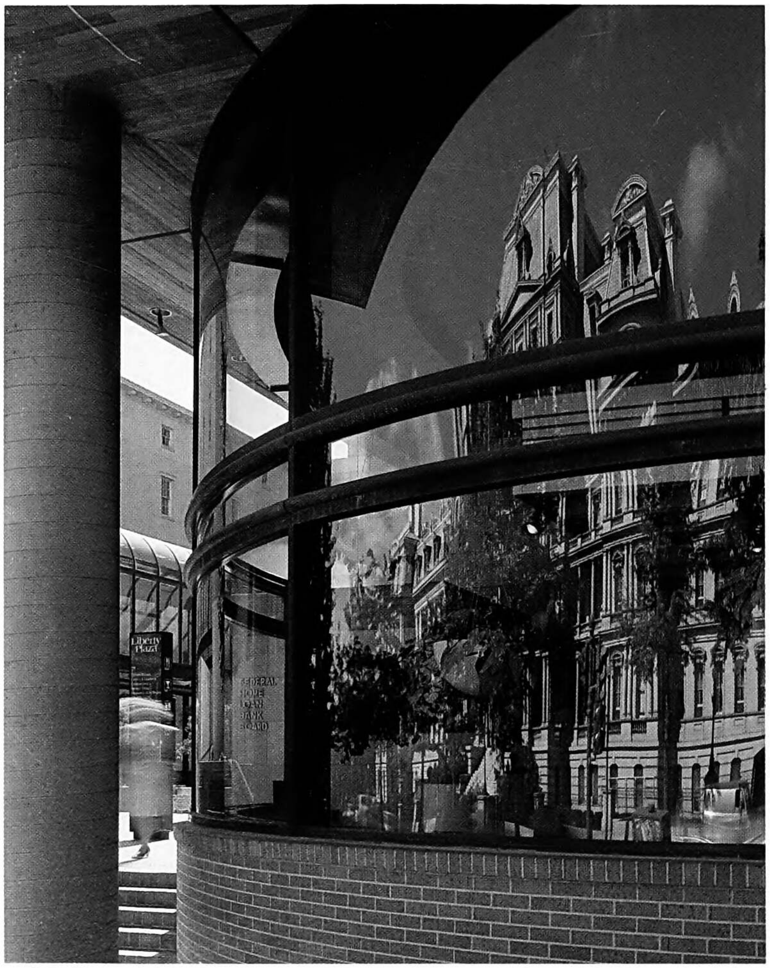

Federal Home Loan Bank Board